Country Assistance Program Evaluation

Pakistan: 2002–2012

Continuing Development Challenges

Independent Evaluation ADB

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November 2013

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NOTES

(i) The fiscal year (FY) of the government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2013 ends on 30 June 2013.

(ii) In this report, "$" refers to US dollars.

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The guidelines formally adopted by the Independent Evaluation Department on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. T. Ueda, team leader, recused himself from the review of the Southern Punjab Basic Urban Services Project because he had been involved in the processing of this project in 2003. To the knowledge of the management of Independent Evaluation Department, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

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Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CAPE	–	country assistance program evaluation
COBP	–	country operations business plan
CPRM	–	country portfolio review mission
CPS	–	country partnership strategy
CSP	–	country strategy and program
CWRD	–	Central and West Asia Department
DFID	–	United Kingdom's Department for International Development
DMC	–	developing member country
DSSP	–	Devolved Social Services Program
GDP	–	gross domestic product
ICT	–	information and communications technology
IED	–	Independent Evaluation Department
IMF	–	International Monetary Fund
IPP	–	independent power producer
KESC	–	Karachi Electric Supply Company
LGO	–	Local Government Ordinance
MDG	–	Millennium Development Goal
MFF	–	multitranche financing facility
MOF	–	Ministry of Finance
MTDF	–	Medium-Term Development Framework
NHA	–	National Highway Authority
OCR	–	ordinary capital resources
ODA	–	official development assistance
OECD	–	Organisation for Economic Co-operation and Development
PCR	–	project/program completion report
PGEIP	–	Punjab Government Efficiency Improvement Program
PPER	–	project/program performance evaluation report
PPP	–	Pakistan People's Party
PRM	–	Pakistan Resident Mission
PRSP	–	Poverty Reduction Strategy Paper
PSD	–	private sector development
PSM	–	public sector management
RMP	–	resource management program
SME	–	small and medium enterprise
TA	–	technical assistance
TFP	–	Trade Finance Program
UNDP	–	United Nations Development Programme
USAID	–	United States Agency for International Development

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Acknowledgments

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Our gratitude lastly goes to other development partners in the country. Their feedback was very important in preparing this evaluation.

IED retains full responsibility for this report.

Foreword

This second independent evaluation of the ADB program in Pakistan (the first was in 2007) covers operations and policy dialogue during 2002–2012. The focus is on the results of two country strategies, one covering 2002–2006 and the other 2009–2013. One hundred and sixteen loans and grants, totalling $11.5 billion, are assessed, including 10 private sector loans. The evaluation also considers the major portfolio restructuring in 2007–2009.

Previous work has identified an unusually high number of projects and programs in Pakistan that were rated *less than successful* or *unsuccessful*. While the evaluation tries to delineate the causes, the answers remain in part elusive. The program's performance was in the lower mid-range of ADB's client countries before the evaluation period. This reflects the rather difficult country context for operations, with special challenges from a weak fiscal and governance position, problematic federal–provincial–local government relations, and a large gap between ADB procurement and safeguards practices and those of the country.

The evaluation points to a confluence of factors, from a sharp rise in lending, particularly program lending at the start of the period, leading to some weak lending choices and program design; to government fatigue with the conditionality of program lending; to policy reversals that reduced outcomes of several program loans; and to the difficult security situation over the decade, which led to cancellations of components in inaccessible areas.

The Pakistan program may also have been affected more than others by the reorganizations in ADB in 2002 and 2006 and concomitant staff changes. ADB's resident mission in Pakistan was too small for the many loans in the first half of the decade. Changes in strategies over the years meant that there was an increased focus on particular types of programs. This may have hurt continuity. Rightful and gradually increasing attention to safeguard compliance in the infrastructure portfolio may have led to slower implementation and some cancellations. ADB's support for International Monetary Fund (IMF) programs led to some ADB-supported reform programs being discontinued, as the 2009 IMF standby credit agreement went off-track in 2010.

The evaluation presents a number of positives and more recent operational improvements. It finds that ADB's country strategies matched Pakistan's priorities well, and that ADB has retained the trust of the government. ADB is furthermore regarded as a lead partner in energy and to some extent in roads, especially in highways and regional corridors. ADB has done relatively well in responding to some natural disasters, and in private sector operations. Due to a more manageable portfolio in 2013, and the recent democratic election of a government with a clear mandate, the outlook should be positive. As reflected in this evaluation, the program in Pakistan going forward can be closely aligned with ADB's support for inclusive and environmentally sustainable growth.

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Director General
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Executive Summary

The Asian Development Bank (ADB) is one of Pakistan's long-standing development partners, and has provided significant concessional and nonconcessional lending since 1968, as well as grants for technical assistance (TA), including from the Japan Fund for Poverty Reduction. Between 2002 and 2008, ADB was Pakistan's largest provider of development support at $1.2 billion a year on average; since 2009, it has provided around $0.8 billion a year on average. ADB has been a trusted partner of Pakistan in its support of many areas of the public sector, but also has a growing portfolio of loans for private sector led operations. ADB's support is organized through its country strategies, prepared in close collaboration with the government. This country assistance program evaluation (CAPE) follows one that the Independent Evaluation Department (IED) issued in 2007, and covers the period 2002–2012. The evaluation assesses the performance of ADB operations, and provides lessons and recommendations for ADB's new country partnership strategy (CPS), scheduled for approval in 2014.

Context

The onset of a new government in 1999 headed by General Pervez Musharraf was accompanied by a period of accelerating economic growth up to the mid-2000s, which initially gave rise to some optimism about the economic future of the country. However, in 2008 and 2009, economic growth fell sharply, partly as a result of the global financial crisis but partly due to internal factors. Pakistan is struggling to return to the levels of economic growth experienced between 2000 and 2007.

The Musharraf government initiated major governance reforms. In July 2001, the government promulgated the Local Government Ordinance to shift responsibilities for public services at the local and district levels, while reducing responsibilities at the provincial level. Because of the lack of specificity, capacity, and conviction at the provincial and local levels, the reforms did not improve service delivery. The government began to lose popularity towards 2007 and new general elections were held in February 2008. The Musharraf government resigned in October 2008. During this time, most of the new local government jurisdictions were returned to the provincial governments.

Despite a turbulent sociopolitical situation in much of the 2000s, some human development indicators have improved. Extreme poverty fell from 31% in 2002 to 21% in 2008 (unfortunately, more recent data are not available). Gross national income (GNI) per capita increased by over 40% from $1,826 in 2000 to $2,566 in 2012 (constant 2005 prices, purchasing power parity). Life expectancy at birth improved, and so did the expected years of schooling. The government has instituted a social safety net program (the Benazir Income Support Program) since 2008, but this remains insufficient to fully deal with the poverty situation. Despite some improvements, gender inequalities remain a serious issue in education, health, and employment.

Country Strategies and Programs

ADB issued two country strategies and various updates to these strategies between 2002 and 2012. Pakistan's country strategy and program (CSP) for 2002–2006 had three official updates, which covered the period up to 2008. ADB's original agenda had three main objectives: the promotion of good governance, sustainable pro-poor growth, and inclusive human development. These wide-ranging objectives were the basis for ADB's support for a range of sector programs including agriculture and natural resources, health and education, water supply and municipal services, transport, energy, and finance sector development. As a result of the governance changes initiated by the Musharraf government, ADB's portfolio included major initiatives in public sector management (PSM) and governance, such as support for reforms in the judicial sector and police services; devolution of social services and decentralization; and public resource management programs, including budget support and technical assistance (TA) for the provinces of Punjab and Balochistan.

CSP updates completed between 2004 and 2008 shifted the emphasis to the pursuit of higher sustained growth, rather than human development. Higher priority was given to improving economic infrastructure in power, large-scale irrigation, national highways and corridors, as well as in urban development. Also in line with its own corporate strategy, ADB expanded its private sector operations (particularly with independent power producers). Impossible to foresee was the need for a major earthquake emergency assistance project in 2005, and later a program in 2007 to restore the livelihoods of earthquake displaced people.

ADB's CPS 2009–2013 condensed the earlier wide range of interventions and focused on four main areas: (i) investment and reforms in energy and infrastructure (for energy security and efficiency, irrigation, and a national trade corridor program); (ii) reforms to promote structural transformation to address market distortions and institutional bottlenecks, provide better financial resources, and develop the private sector; (iii) development of basic urban services; and (iv) more effective implementation of operations and capacity building. This differed from the previous CPS, which highlighted support for social sectors and financial sector development. In the same period, World Bank and other bilateral partners (e.g., United Kingdom's Department for International Development and Canadian International Development Agency) continued engaging in education and health sectors. Despite the experience of the 2005 earthquake and the consequences for the portfolio, the CPS 2009–2013 did not put much emphasis on the need to support integrated disaster management.

After 2011, four sector programs received the bulk of ADB support: energy, agriculture and irrigation, transport, and urban services. Since 2011, there have been no more active program loans, and PSM loan operations have ceased. The country operations business plan (COBP) 2013–2014 accords the highest priority to energy operations, as the country suffers from increasingly serious power shortages during peak hours. It also stresses the need for investment in urban services, and reforms in infrastructure and finance including the strengthening of targeted social protection measures.

Scope of this Evaluation

The evaluation covers all 116 loans (including multitranche financing facility [MFF] tranches) and grants approved from 2002 to 2012, for a value of $11.46 billion, of which 69% was nonconcessional loan financing, 27% concessional loan financing (funded by the Asian Development Fund [ADF]), and 4% grant financing obtained from

other sources such as the Japan Fund for Poverty Reduction. The sovereign portfolio included 60 project loans, 33 program loans, and 13 grants. In addition, ADB approved 10 private sector loans for $620 million.

The largest sector of operations in the sovereign portfolio was PSM (23% of total loan approvals). Emergency support after an earthquake and several floods ranked next at 16%, closely followed by energy operations and finance sector development at 14% each, with transport operations at 11%. Nonsovereign loans at 5% of the portfolio were extended mainly to power companies, but also to investment funds and medium-sized enterprises.

Performance of ADB Operations

Based on the ratings given in the project/program completion reports (PCRs), the performance of ADB-supported operations has been poor. Of the 61 programs and projects, supported with 93 loans approved between 2002 and 2012, 43 have been completed, and PCRs are available for 34 of them. IED validated 18 of the PCRs. When validation ratings are considered, ten (29%) of the programs and projects are *successful* or better, eleven (32%) *less than successful,* and thirteen (38%) *unsuccessful.* This compares with Pakistan's success rate of around 55% during the earlier periods of lending to the country. Although most sector programs had low success rates, the completed emergency assistance has received a good rating. PCRs are still to be prepared for the significantly smaller portfolio of more recent projects.

Projects have been more successful than program loans, at 38% versus 15%. MFFs, now 70% of lending and 50% of all operations, have had one PCR, which was rated *successful*. In fact, some very important program loans that completed disbursements several years ago have no PCRs yet. The absence of such essential self-assessments has made it more difficult to fully evaluate the program over the last 10 years.

This evaluation finds that the weak performance is partly due to the key changes that happened in the ADB portfolio after 2001, in terms of modality and sector focus. In particular, ADB supported a huge governance agenda through a large number of complex program loans in a difficult political context, and also various projects that were weak in design. Significant course changes in the portfolio over the period may have had some effect as well. Program loans were widely adopted, but successor tranches or loans that could have helped to deepen the reform or capacity development were not released in many cases due to slow progress, and in some cases, request from the government. Policy based lending often requires a series of consecutive loans for reforms to become firmly established. When the IMF program went off-track and ADB's program lending was discontinued as per standing agreements, there was limited effort to continue the reform agenda through other modalities such as the project modality. ADB's support to PSM stalled. Shifts in strategy and perceptions, partly driven by crises in Pakistan or lack of support for program conditions, but also partly by ADB's shift in sector priorities, were the causes of such stops and starts.

Because of reorganizations in ADB, which moved the Pakistan program to a new department, it encountered numerous staff changes. Staffing in the resident mission was insufficient, particularly in the first half of the decade when there were many projects to administer. Although the provisions for staffing improved in the second half, several important staff positions were left unfilled for a considerable time. Furthermore, the deteriorating security situation in both rural and urban areas

restricted the involvement of international staff and consultants, and rendered the scheduling of field activities and supervision difficult. The security situation also made surveys more difficult. Lastly there were two major natural disasters and one financial crisis over the period. Pakistan has always had lower than average project success rates, when compared to the historical ADB average (68%). This is indicative of a difficult country context for project implementation, with problematic federal-provincial-local government coordination, stakeholder discord, unpredictable crises, and procurement, land acquisition, and safeguard implementation issues.

Spring Cleaning of the Portfolio, 2007–2010

As a result of a large and scattered portfolio in the mid-2000s that was slow moving and poorly performing, ADB decided in 2007 on a thorough restructuring and rationalization of the portfolio, or *spring cleaning*. The exercise lasted more than 3 years and was accompanied by an action plan focusing on loan cancellations, restructuring, improved processing and implementation arrangements, and a "no extension" approach to delayed projects with low probability of success (later a "no automatic extension" approach).

The spring cleaning led to a substantial surge of loan cancellations and loan closures. Loan closures increased from 3 in 2006 to 23 in 2007 (many of these concerned loans that had started before 2002 and hence fell outside the scope of this evaluation). The number increased to 31 in 2009 but then dropped to about 10 in 2010 and 2011. The spring cleaning led to a significant slimming of the loan portfolio, with the number of active loans falling from 80 in 2006 to 42 in 2009 and 27 in 2012. The average size of ADB's loans increased from $80 million in 2006 to $140 million in 2011, and then decreased to $136 million in 2012. By comparison, the World Bank had 30 active loans in 2012 with an average size of $167 million, in education and infrastructure.

ADB's spring cleaning weeded out many operations with poor prospects, and led to a leaner loan portfolio that was less dispersed and could be supervised better. This evaluation however saw some indications that spring cleaning may have prematurely cut some development effectiveness results that could have materialized had ADB continued its support in some cases. Several executing agencies contended that the exercise had been insufficiently discussed with them and objected to the decisions made. Cancellation of many projects and partial achievement of the original project objectives led to lower PCR rating. Had the projects been continued and used up their full loan amount, and had this been done relatively successfully, then the chance of a better PCR rating would have increased. But in reality, this perhaps would not be by much, as the guiding thought of the spring cleaning was to cut projects that were unlikely to succeed (mainly determined by disbursement speed and physical output indicators), even with full disbursement of the loan. The evaluation encountered a few projects for which ADB had decided to withdraw its lending, but that were continued with the government's own funds (or with those of other development partners). Some provincial road agencies, in particular, were critical of ADB's decision to cut its funding from various projects.

Sector Program Assessments

This evaluation conducted assessments of the eight main sector programs and also of the private sector operations.

a. Public Sector Management, Social Sectors, and Finance and Private Sectors

PSM operations partially achieved their goals and a few reforms made some headway. However, some PSM operations did not enjoy full ownership and commitment, or reforms agenda were overly ambitious to achieve the intended results. The most important result was that various PSM program loans created fiscal space, and retired some high interest debt. Some success was also seen in the provincial level programs such as the Punjab government's effort to pilot the medium-term budgetary framework. Government pension funds were also better managed. Other initiatives led to some modest progress in tax reform, infrastructure for the judiciary, and civil service reform. In addition to the lack of follow-through, other reasons for the low success of PSM interventions are: (i) designs that were overly complex and out of tune with the capacities and real priorities of the provinces; and (ii) ADB not enforcing compliance with the policy matrixes and changing its priorities.

The Accelerating Economic Transformation Program (AETP), approved on 30 September 2008, with an envelope of $1.8 billion, dominated the PSM program in the latter half of the evaluation period. This cluster program eventually became part of an IMF-led crisis response package of fiscal support, to which the World Bank also contributed (stand-alone loan). The AETP was to be disbursed through four single tranche subprograms, to support reforms in various areas and provide immediate fiscal relief through subprograms 1 and 2 at a time of global and national economic crisis (particularly a fuel and food price crisis in 2008). AETP's reform objectives were to address short-term policy distortions, specifically by reducing and abolishing electricity subsidies, promoting market prices for wheat, and targeting social safety nets to benefit the poor; deepen financial intermediation and increase financial sector stability; and help to diversify the Pakistan economy and increase the share of industry.

The IMF stand-by arrangement went off-track in 2010, because Pakistan failed to observe several performance criteria. ADB's policy to fall in line with IMF prevented it from providing additional program loans. Thus, the economic transformation initiative ended when the two remaining AETP tranches were abandoned without further support through other modalities. Reform results from the first two tranches are unclear. Distortions in the energy and agriculture sectors remain. ADB support in a time of crisis may have helped ensure continued funding for the social safety net program created for the poor. The first two tranches ($1 billion) contributed to the government's financing plan for which budget support was needed. ADB's role in this was small as the IMF had a program of $7.6 billion that was later extended to $11.3 billion.

In social sector operations such as in education and health, performance was not much better. There was a wide mixture of interventions, some largely governance and decentralization oriented, others dealing with vocational education and training. Again, the institutional outputs and policy reforms generally failed to materialize, such as new health systems (health insurance), devolved delivery of social services, and increased autonomy of technical and vocational education institutions. The operations department has yet to gauge the success of the Punjab Millennium Development Goals Program, concluded in 2010, the last major social sector activity in the ADB portfolio.

This evaluation provisionally concludes that it generally improved the minimum service delivery standards, despite little progress against health indicators.

The performance of finance sector operations was less than satisfactory. ADB's rural finance development program contributed little to sector improvement. The SME and capital markets programs had mixed results. Many of the economic benefits that justified the cost of the programs at the beginning of the evaluation period did not materialize. The Capital Market Development Program contributed to the growth of the mutual fund and voluntary pension fund industries, but debt markets continue to be undeveloped and the share of the nonbank financial sector in financial sector assets has declined. The microfinance sector has been going through a significant restructuring process that will hopefully enable it to achieve its objectives of greater outreach and self-sustainability without requiring public resources.

It is too early to assess the outcome of many private sector operations in infrastructure because they are not yet operational. However, the power projects that have already started commercial operations are helping to alleviate power shortages and are demonstrative in nature. ADB's participation in many power projects was useful to mobilize private resources. ADB's large Trade Finance Program is also likely to be successful in Pakistan. It has not experienced any losses to date, and can be seen as an appropriate crisis response instrument (IED will evaluate this program ADB-wide in 2014). ADB is likely to experience losses on one private sector investment fund and one guarantee facility.

b. Infrastructure Support

ADB has a long-term relationship with the government in support of the energy sector. Other development partners in this field recognize ADB as the lead development partner. ADB's $355 million Energy Sector Restructuring Program (ESRP) in the first half of the decade helped to relieve Pakistan's immediate balance-of-payments crisis, but the program was less effective in restructuring the sector.

During the second half of the decade, ADB increased its support for the energy sector through investment lending, approving four large MFFs covering power transmission, power distribution, alternative energy, and energy efficiency. For the transmission and distribution MFFs, this evaluation considers it likely that the entire amount under the MFF umbrella will be utilized and a good result will be achieved. On the other hand, the renewable energy MFF will not exhaust the $500 million investment support component with the three tranches approved thus far—and no further tranches are planned. Tranche 1 of the energy efficiency MFF experienced delays, although it has not suffered cost over-runs. Although no other tranche had been approved as of May 2013, another tranche for the rehabilitation of some thermal power plants is under preparation, together with an ADF loan. The problem of insufficient progress with reforms remains, however. In 2013, the main issues impeding progress in the sector remain the unsustainable subsidization of electricity tariffs, the lack of tariff collection from industry and consumers, and the incomplete unbundling of the Water and Power Development Authority. ADB needs to see whether to further continue with multiple MFFs for energy efficiency and renewable energy, or should focus on other areas, such as small scale hydropower and natural gas pipelines.

Compared to the energy sector, other infrastructure sectors are experiencing less of a crisis, although they also suffer from underinvestment as well as lack of budget for maintenance. ADB has focused on road transport improvement. Critical challenges have

been to create smooth flowing major transport corridors and the conditions for good road system sustainability. While progress on the former is weak, progress on the latter differs by agency. The National Highway Authority is relatively good technically, although its revenue base remains insufficient. The provincial road administrations, on the other hand, lack asset management systems, sustainable means of revenue generation, contract management skills, needs-based allocations of funds, focus on maintenance, and compliance with international practice on safeguards. ADB has not engaged much with such administrations after 2007, and has been focusing on the National Highway Authority.

Pakistan's agriculture sector has not performed well over the period. Irrigation systems, although extensive, are inefficient, and many require rehabilitation. Inefficient and inequitable allocation of water in a drought-prone region further hinders the sector. ADB supported a large variety of operations, including integrated rural development projects, agriculture projects, irrigation rehabilitation projects, and some program lending. Overall, the program approved after 2001 has been less than successful, with the exception of several community-level development projects that show tangible poverty reduction results. ADB's support, going forward, should focus on a continuation and replication of projects addressing community needs.

In ADB's program in water supply and municipal services, a few projects have achieved in delivering water supply to communities. Some early projects were suspended or closed, as those projects were slow moving, mainly due to problems over safeguards compliance, an area in which ADB tightened supervision over the period. Until 2005, the government's implementation of the devolution policy limited project success. The new administrations were given additional responsibilities, but were not provided with additional staff, resources, power, and a positive regulatory environment. After 2005, ADB increased the size of individual interventions, and sought long-term engagements with larger cities. Several more years will be needed to judge whether this will yield better results. ADB should not abandon its tried and tested community-based approaches, which, in several cases, have led to sustainable results in poverty alleviation that are visible many years after project completion.

ADB's natural disaster lending in Pakistan has focused on disaster recovery and to a lesser extent on disaster prevention and preparedness. The response to the two main disasters over the period, the 2005 earthquake in the northeast of the country, and the widespread floods of 2010 (followed by floods again in 2011 and 2012) has by and large been successful, although many issues were encountered. However, ADB could increase and improve its support for an integrated disaster prevention and long-term preparedness, given the increasing frequency of floods.

Overall Assessment

Based largely on the various sector program assessments undertaken, this evaluation rates the program over the period as *less than successful*. The context in Pakistan in the 2000s for efficient project implementation was generally adverse. Moreover, ADB took some questionable decisions in retrospect: its major focus on PSM operations in the early 2000s, some poor program lending design in several other sectors, some too drastic loan cancellations as a result of a portfolio restructuring initiative, and the economic transformation program. ADB made the most significant difference in its energy work, emergency assistance, and in some transport and community development projects. This evaluation assesses ADB's ongoing private sector operations program, mostly in energy but also in the finance sector, as likely successful.

Recommendations for ADB

(i) Given the current situation in Pakistan in regard to human development, public services provision and governance, and the risks of natural disasters, ADB's portfolio needs to include significant investments in pursuing a visible development impact on the poor, and reduce vulnerability to disasters. This is in line with ADB's corporate agenda of inclusive and environmentally sustainable growth. Reforms and capacity development in several sectors remain highly necessary, but ADB should prepare any program lending or TA for these very carefully and with a long-term perspective, given the difficult experience of the recent past.

(ii) ADB must pursue structural reforms through sector-specific initiatives using a programmatic approach. Reforms in various sectors should not be lumped together into one large program. This was the case with many PSM loans during the review period. Budgetary support needs to be designed as a countercyclical support facility in times of crisis. The programmatic approach requires an extended timeframe and considerable staff resources. Policy conditionalities need to be carefully selected in dialogue with the government and key stakeholders through a transparent process that strengthens accountability. As the Operations Manual has consistently prescribed since 2003, implementation experience with past program loans needs to be carefully reviewed. Given repeated cases where structural reform tranches were not pursued or cancelled, ADB should also look into other modalities to pursue reforms in sectors.

(iii) While cancellations of loans may be required if they are slow moving or the situation has changed, comprehensive spring cleaning of portfolios across the board may inadvertently lead to cutting the potential effectiveness of some project loans that are prematurely closed. Efforts to improve disbursement efficiency and instil more discipline in implementation should be accompanied by extensive consultation with clients at various levels and by careful assessment of the gains versus the losses (i.e., the costs of incomplete outcomes). Given the planning and implementation environment in Pakistan, long project startup and implementation periods should be taken as a given.

(iv) ADB's energy strategy in Pakistan and its reform achievements need to be reviewed to determine whether a course change is required. Assuming that the current investment program will yield good results, ADB needs to take advantage of the political will demonstrated by the new government and intensify efforts to improve the power sector's financial situation.

(v) As part of its infrastructure support, ADB has to consider expanding its work in urban and municipal services and social protection, given their direct effect on human development indicators, which are still poor in Pakistan. Municipal and social sectors interventions should generally be blended with community-level engagement. ADB's recent approval of a social protection project is a good development. Social protection systems need special attention and close monitoring of impact on the eligible poor.

(vi) ADB could help strengthen Pakistan's disaster response capability by, for example, increasing its support for the National Disaster Management Authority. ADB also needs to strengthen risk analysis in its projects in this area and further mainstream disaster risk mitigation measures in infrastructure projects.

Management Response

On 26 November 2013, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate the country assistance program evaluation (CAPE) for Pakistan. The CAPE provides a comprehensive review of ADB's past operations and its efforts to respond to the country's development needs.

2. The CAPE covers two distinctive country strategy program (CSP) and country partnership strategy (CPS) periods: (i) 2002–2008 (including CSP extensions); and (ii) 2009–2013. Most of the CAPE findings relate to the CSP 2002–2008 period. There has been a significant shift in the CPS 2009–2013 period, taking into account the findings and recommendations of the earlier 2007 CAPE. Most of the projects approved under the CPS 2009–2013 are still under implementation and not yet formally evaluated. Many of the findings and recommendations in the CAPE are thus based on the analysis of the earlier operations period, including the spring cleaning exercise undertaken in 2007–2009. ADB has since then sharpened its focus on a more manageable portfolio, and early indications based on real-time portfolio monitoring criteria point to improved performance.

3. The CAPE correctly points out the complex external environment, including political instability and a volatile security situation, as well as internal realignments that had a significant impact on ADB's operations in Pakistan.

4. The CAPE critically discusses the spring cleaning exercise. It is important to further emphasize that this exercise, jointly conducted by the Government of Pakistan and ADB at the government's request, has created a foundation for improvements in future portfolio performance. ADB's 2009 Development Effectiveness Review Report notes "Pakistan's successful portfolio realignment was underpinned by (i) full understanding, ownership, and commitment from the central government; (ii) consensus among key federal agencies; (iii) political will and commitment from provincial governments to cancel nonperforming operations; (iv) a sound communications strategy with all stakeholders; (v) constant dialogue between ADB and the Government; and (vi) workable alternatives under the future program of assistance and return of savings to the country."

5. We acknowledge the overall evaluation rating of less than successful. However, we do not agree with the less than successful rating for the transport sector. This conclusion is drawn mainly from the less than effective rating of the sector, which is based on the cancellation of loans in a small sample, accounting for about 50% of the total loan amounts. A large portion of the loan cancellation was driven by natural disasters, peace-and-order problems, and force majeure incidents. Further, the project completion reports, which are available for 5 transport projects, rated 3 projects as

effective and 2 projects as less than effective. The CAPE acknowledges that despite such loan cancellations, some 'good traffic outcomes' were achieved and also that the aggregate picture in the transport sector was not clear to the evaluation. As such, the effectiveness rating in the CAPE is based on insufficient information, inadequate consultation, and limited analysis. A change in the effectiveness rating would have led to an overall successful rating for the transport sector.

6. The CAPE highlights the importance of public sector management and governance. ADB has actively maintained policy dialogue with the government, in particular in the energy and water sectors, as well as in public management and financial sector reform, including social protection. ADB has also closely coordinated with other development partners, including the International Monetary Fund and the World Bank, on macroeconomic stability and structural reforms. This is an ongoing process that so far has not been backed by new policy-based lending operations since June 2010, and as such is not adequately reflected in the CAPE. Going forward, it is expected that any new policy-based lending will be more focused on the country's priority and ADB's core expertise, and will be supported with appropriate TA for institutional reform. This will also entail internal arrangements that ensure closer cooperation between CWRD and support departments, as well as between headquarters and PRM.

II. Comments on Specific Recommendations

7. **Recommendation (1): Given Pakistan's current situation in regard to human development, public services provision and governance, and the risk of natural disasters, ADB's portfolio needs to include significant investments in pursuing a visible development impact on the poor, and reduce vulnerability to disasters**. We agree that support for human development, governance, and natural disaster is a priority for Pakistan. ADB's current operations cover these areas. For example, ADB has recently approved a $430 million loan to Pakistan for the social protection project. Pending successful midterm review, this project can be replicated or expanded. Appropriate support in the recommended areas will be further discussed during the upcoming CPS formulation. With regard to reducing vulnerability to disasters, Pakistan has made some progress in recent years, following the devastating earthquake in 2005 and floods in 2010 and 2011, with a broad-based support from many donors. As such, ADB's role is yet to be defined further in the broad context of donor community's role.

8. **Recommendation (2): ADB must pursue structural reforms through sector-specific initiatives using a programmatic approach.** We agree. This is already reflected in ADB's ongoing energy sector operations for example, which envisage both a long-term program cluster and a series of integrated project loans, complemented by private sector investments.

9. **Recommendation (3): While cancellations of loans may be beneficial if they are slow moving or the situation has changed, comprehensive spring cleaning of portfolio across the board may inadvertently lead to cutting the potential effectiveness of some project loans that are prematurely closed**. We concur that efforts to improve disbursement efficiency and instill more discipline in project implementation should be accompanied by extensive consultations with clients at various levels and careful assessment of gains versus losses, with decisions to be taken on a case-by-case basis under specific circumstances. ADB's current portfolio in the country is much more streamlined and no comprehensive spring cleaning is envisaged in the foreseeable future.

10. **Recommendation (4): ADB's energy strategy in Pakistan and its reform achievements need to be reviewed to determine whether a course change is required**. We agree in principle. As the lead development partner in the energy sector, ADB has been in continuous policy dialogue with the government, to move forward with a reform agenda developed in close consultation with the government and other development partners through the Friends of Democratic Pakistan Energy Task Force forum. We believe various projects, which have been recently completed, contributed to the stability of the transmission and distribution systems in Pakistan. However, these investments may not be sustainable without the government's commitment to undertaking further reforms. ADB will continue to pursue necessary analysis, policy dialogue and aid coordination to ensure that appropriate policy measures and effective investment projects are put in place together to achieve energy security and sustainability in the country. The scope of ADB assistance may be adjusted to match the dynamic evolution of sector needs, as appropriate.

11. **Recommendation (5): As part of its infrastructure support, ADB has to consider expanding its work in urban and municipal services and social protection, given their direct effect on human development indicators, which are still poor in Pakistan.** We agree. This recommendation reflects the government's priority, and ADB's operational strategy for Pakistan. The government has prioritized investments in urban areas to provide basic infrastructure and services, and to improve the livelihood of the population of the cities. Community-level engagement is a useful approach to connect ADB assistance to those needing help the most. Such approaches have been used in collaboration with client/customer groups in city-based interventions, whereas in larger cities other institutional approaches such as those involving corporate entities and management contracts are required as the primary intervention.

12. **Recommendation (6): ADB could help strengthen Pakistan's disaster response capability by, for example, increasing its support for the National Disaster Management Authority. ADB also needs to strengthen risk analysis in its projects in this area and further mainstream disaster risk mitigation measures in infrastructure projects.** We agree in principle. Given the multi-dimensional nature of disaster mitigation and management, however, ADB's role in this area needs to be carefully devised in consultation with other development partners. Pakistan has made considerable progress in disaster management in recent years; the fact that the 2013 floods did not have as devastating an impact as earlier floods is testimony to this. Nevertheless, Pakistan is one of the world's most natural disaster prone countries, and disaster management is thus high on the strategic agenda by both ADB and the government. In this context, ADB is examining the feasibility of introducing international and regional disaster risk insurance in the country. With its infrastructure investment projects, ADB will also continue to apply appropriate standards and make efforts to ensure quality of constructions to mitigate probable disaster risks.

Chair's Summary: Development Effectiveness Committee

The Development Effectiveness Committee considered the Independent Evaluation Department report, Country Assistance Program Evaluation Pakistan, 2002–2012 (IN. 381-13) on 4 December 2013. The following is the Chair's summary of the Committee discussion:

DEC discussed the Country Assistance Program Evaluation for Pakistan which covered the country program and strategy 2002–2008 and the subsequent country partnership strategy (CPS) 2009–2013, during which over 11 billion USD worth of loans were approved. The evaluation rated ADB's overall performance less than successful, with project operations having been more successful than program loans. The report also considered the spring cleaning exercise that took place in 2007–2011 and concluded that it had resulted in a leaner portfolio, although it may have also undercut some development results in the short run. Taking into account Pakistan's challenging context, IED recommendations for the ADB program going forward included the need for: (i) inclusion of significant investments in pursuing a visible development impact on the poor, and reducing vulnerability to disasters, (ii) the pursuit of structural reforms through sector-specific initiatives using a programmatic approach, (iii) a careful approach relying on extensive client consultation when considering comprehensive portfolio restructurings, (iv) a review of ADB's energy strategy to determine whether a change of course is needed and a more intensive effort to improve the power sector's financial situation, (v) expansion of ADB's work in urban services and social protection, and (vi) strengthening Pakistan's disaster response capability. Below are highlights of the DEC discussion.

1. **Portfolio "spring cleaning"**. Some DEC members agreed with Management that the spring cleaning exercise was crucial in restructuring Pakistan's portfolio to ensure efficient and effective use of ADB resources. However, a member noted that some projects which were discontinued as part of the spring cleaning were picked up by other donors and were deemed successful. It was noted that the spring cleaning was motivated by a number of challenges affecting portfolio performance, including: (i) complex project designs, (ii) the ongoing devolution process affecting various ongoing projects, (iii) project implementation delays resulting from ADB reorganization, (iv) changes in ADB staff due to ADB reorganizations, and the effects on continuity in project supervision, (v) political instability, (vi) natural disasters and other external shocks, and (vii) the introduction of multitranche financing facility (MFF) projects in the portfolio. Management indicated that a leaner portfolio will be easier to monitor and supervise. Based on current data, disbursement has increased compared to the previous year and at present, only a few projects are encountering implementation challenges.

2. **Policy based lending**. DEC noted that there are many lessons to be learned from the Pakistan CAPE regarding policy based lending (PBL). A member remarked that while ADB has been very responsive despite changing government priorities, the response needs to be balanced by consistency in approach, and asked whether PBL is a successful approach for introducing reforms. Another DEC member was concerned that while poverty and other indicators are improving, the success rates for PBL have remained low, including gender inequality which remains a serious issue, thereby raising questions about its impact on Pakistan's development agenda. Management clarified that there are a number of modalities it explores to generate better results than those derived from PBL, including: sector based lending, performance based lending, and cluster loan modality. DEC emphasized the importance of establishing the link between policy dialogue and project implementation in order to perform better in Pakistan. Management mentioned that Pakistan is preparing its next five year plan and has expressed interest to engage with ADB on capacity development.

3. **Cofinancing and lending level**. DEC asked whether there was scope for ADB to increase its level of cofinancing with partners and asked about the constraints. Management mentioned that one of the reasons behind low levels of cofinancing achieved so far was that bilateral partners tend to work more in social sectors and in provinces which are active in non infrastructure sectors. Management assured that a cofinancing strategy will be included in the next CPS and that there are ongoing discussions both with public and private sectors to mobilize more cofinancing. With regard to a suitable lending level for Pakistan, it was mentioned that it is currently estimated at around 2 billion USD (combined ordinary capital resources and Asian Development Fund), less than what Pakistan could absorb but prudent given the country risk.

4. **Future direction of the energy program**. DEC noted IED's recommendation to review ADB's energy strategy in the country, given that the structural problems in the power sector were still not close to resolution even after many years of support. Management explained that ADB is involved in all facets of the energy sector and works closely with IMF on the policy side. Despite being well structured, gaps remain and ADB is working on additional measures such as tariff setting, fuel mix, service delivery and baseload generation. ADB has had substantial success but found challenges related to constitutional changes and government transitions. Management indicated that no change of course is necessary at the moment but stressed the importance of focusing on implementation. IED remarked that it scored the energy program high on strategic positioning but the government was not implementing the crux of the reforms agreed to. Given the new government, Management indicated that it is observing whether the early conditions of the IMF program will be implemented before undertaking possible program facility for the energy sector.

5. **Diversifying sector spread of programs**. Some DEC members agreed with IED's view that ADB should do more on disaster risk management, social protection, urban and municipal services, and small, community based projects that are poverty oriented. Other members were of the view that ADB should remain focused in areas where it has comparative advantage and sufficient experience, such as infrastructure, and budgetary support to mitigate risks and counter future financial crises. A member stressed that there is a need to raise project success rates first before diversifying the portfolio. Management mentioned that it does not envisage taking on integrated disaster risk management as a core area for the upcoming CPS, but would coordinate with other donors to calibrate ADB's approach. While the focus has been mainly on infrastructure in Pakistan, it was noted that there is room to take on other interventions, which must

first be presented and discussed with the government. It was mentioned that ADB is already involved in some community based projects targeting the poor without necessarily broadening the sector spread for the next CPS.

6. **Constraints to CAPE preparation and disagreement on the transport sector rating**. DEC asked both IED and Management to elaborate on the constraints encountered during the evaluation process including the lack of project completion reports (PCRs), consultation process and access to data. Management explained that only completed projects were evaluated, and that some projects are supported by several loans. As such, the number of loans completed would not correspond with the number of PCRs. Management also disagreed with the less than successful rating for the transport sector, stressing that it was based on a small loan sample, and arguing that it had provided data on traffic volumes. Management added that the majority of cancellations in that sample were due to natural disasters, unrest and order problems and force majeure situations. IED mentioned that the quantitative data provided was not convincing enough and did not offset the effects of frequent cancellations of portions of the transport loans, and that CWRD is primarily responsible for monitoring and implementing the surveys needed to serve as basis for IED to make an assessment. IED explained that the current CAPE guidelines follow three criteria to determine sector effectiveness (physical achievement, institutional achievement, and sector-wide outcome). The transport sector had the largest share of cancellations among all sector programs, and the capacity of provincial road departments to implement projects remained low. There was also disagreement on whether there had been adequate time for consultation. Management mentioned a need for IED team to formulate a solid methodology in assessing capacity development and government reform components, and acknowledged that there are differing views. Management intends to continue to work in the transport field and focus on operation and maintenance, network connectivity (both regional and country contexts), and procurement and safeguard systems. Management stressed that it will continue to be involved in Pakistan's transport sector both in policy reform and investment programs.

7. **Staffing issues**. DEC inquired whether resident mission (RM) staffing is adequate, and whether there is a need to design an incentive mechanism to encourage staff to accept RM posting in light of the security challenges. Management stressed that the size of the portfolio remained the same and that current staff levels remain essential to effectively monitor and implement projects under the new CPS. Management underscored that it is implementing a regional hub / joint venture approach in regard to staffing, stressing the need for flexibility in deploying staff resources.

8. **Donor coordination**. DEC appreciated ADB's efforts in coordination given the challenging context, noting that ADB chairs the monthly heads of agencies roundtable and serves as secretariat of the energy and water task forces which were instrumental in shaping the reform agenda in both sectors. Staff mentioned that coordination has become more challenging lately due to high turnover of government staff involved in donor coordination, and due to decentralization of services in Pakistan, for example health and education services. IED staff reported that one high level forum for donor-government coordination that existed before has been discontinued in recent years. Despite this, ADB participates in some theme-based donor sub-groups on disaster management, education, energy and governance, apart from engaging in informal interactions with other development partners periodically.

9. **Project design for high risk countries**. A DEC member inquired whether CWRD makes specific arrangements or implements specific measures when designing and implementing projects in countries with special security considerations. Management clarified that it considers design features which can accommodate security considerations. For instance, contracting may include the funding of special security measures as part of the financing plan.

10. **Closing remarks**. DEC commended IED for a thorough and well researched CAPE, and thanked Management for clarifying issues raised. DEC emphasized the imperative for ADB as a regional institution to have a deeper understanding of the local context in Pakistan. Members cited the important lessons provided by the CAPE in regard to working in conflict affected countries. Management expressed confidence that the portfolio will continue to improve barring external factors. DEC flagged the relatively better performance of ADB's nonsovereign operations in Pakistan and encouraged Management to explore the reasons behind this.

CHAPTER 1
Introduction

1. The objective of this country assistance program evaluation (CAPE) report is to provide a basis for sound decisions on future development support by the Asian Development Bank (ADB) to the Islamic Republic of Pakistan. In order to do so, it aims to provide a credible, independent assessment and rating of the performance of ADB's support from 2002 to 2012.[1] It also draws lessons from the analysis and makes recommendations as an input to the new country partnership strategy (CPS) to be finalized in 2014, for a 4-year period.

A. Approach, Scope, and Limitations

2. This evaluation assesses the relevance and results of the two major country strategy documents that have guided ADB's operations in Pakistan during the review period, 2002–2012; one covered the period 2002–2006 and the other 2009–2013. It also takes into account the three updates to ADB's Pakistan Country Strategy Program (CSP) 2002–2006, which were issued between 2004 and 2008. The CPS 2009–2013 did not have an update document, but has been followed by a Country Operations Business Plan (COBP) 2013–2014, which is taken into account to some extent, although it falls outside the evaluation period. All 116 loans and grants (totalling $11.46 billion) approved between 2002 and 2012 are assessed, including 10 private sector loans amounting to $619.5 million; in addition, some programs and projects approved just before 2002 are included.[2] Special attention will be paid to ADB's major portfolio restructuring exercise undertaken from 2007 to 2009.

3. The report draws on multiple sources of information including several visits to Pakistan by evaluation specialists and consultants of the Independent Evaluation Department (IED) in March 2013 and later in May 2013, after the national elections. Separate teams conducted project/program performance evaluations, for three transport projects and a transport program,[3] as well as an energy program,[4] which fed into the transport and energy assessments of the CAPE. A last – limited – consultation mission on a draft of the evaluation was undertaken in October 2013. The evaluation is

[1] For certain sectors (e.g., agriculture and natural resources, energy, public sector management and transport), some large program loans approved before 2002 are included in the sector analysis to assess the impact of the modality. A list of these loans and technical assistance (TA) projects is in Appendix 1, Linked Document A.

[2] These large size programs and projects were approved in December 2001 and became effective and implemented (as core loans in those respective sectors) during the CAPE period. These special case programs and projects that are included in this CAPE exercise are listed in Table A.5 of Appendix 1, Linked Document A.

[3] Forthcoming project/program performance evaluation reports (PPER) for ADB's (i) Punjab Road Development Sector Project, (ii) Road Sector Development Program, (iii) Provincial Sector Development Project Component, and (iv) Provincial Sector Reform Project Component. Loans for Road Sector Development Program (items [ii] to [iv]) were approved in 2001.

[4] Forthcoming PPER for ADB's Energy Sector Restructuring Program, approved in 2000 for $355.0 million.

based on standard evaluation criteria as laid out in IED's 2010 guidelines for CAPEs[5] and involved an extensive review of documents and analysis of databases, interviews of ADB staff involved, field visits and parallel project and program evaluations undertaken in Pakistan over the year, and discussions with representatives of relevant government departments and agencies, development partners and other stakeholders. Formal government comments on a draft were not received before the completion of this report, but these may be added to the report at a later stage or put on IED's website, if the government so wishes.

B. Structure of the Report

4. The report has six chapters, including this introduction, and two appendixes. The appendix contains a list of linked documents referred to in various places of this evaluation, with their hyperlinks, so that they can be accessed via the internet. Linked Document A of the Appendix lists all the loans, grants, and advisory technical assistance (TA) projects covered by this CAPE. Chapter 2 provides the country context, briefly covering some relevant facts about Pakistan's recent history, politics, and social dimensions. Chapter 3 outlines the strategies of the government and ADB, and discusses ADB's portfolio funding, size, and trends. The chapter also gives an overview of the support given by Pakistan's key development partners. Chapter 4 discusses program implementation, with special attention being given to ADB's restructuring of the portfolio, starting in 2007.

5. Chapter 5 summarizes the main assessments of ADB's program in the country. It does this by weighing progress and achievements against the six standard evaluation criteria always applied in IED's country assistance evaluations: (i) strategic positioning, (ii) relevance, (iii) efficiency, (iv) effectiveness, (v) sustainability, and (vi) impact. The chapter synthesizes the findings of eight separate program assessments and one private sector operations assessment. The eight individual assessments cover the ADB programs over the decade in (i) public sector management (PSM), (ii) energy, (iii) social sectors, (iv) finance sector development, (v) transport, (vi) agriculture and natural resources (ANR), (vii) water supply and other municipal services (WOMIS), and (viii) natural disaster management. The assessment of ADB's private sector operations, also in the linked document, follows slightly different evaluation criteria. Chapter 6 briefly discusses the findings of an earlier CAPE that IED conducted in 2007, and presents lessons and recommendations.

[5] ADB. 2010. *Guidelines for the Preparation of Country Program Assistance Evaluation Reports*. Manila.

CHAPTER 2

Country Context

6. The Islamic Republic of Pakistan is the world's sixth most populous nation with a population of 180.7 million (2012).[6] It is a federal republic consisting of four provinces and four other territories.

A. Recent History

1. Historical and Political Context

7. Pakistan's post-independence history has included periods of military rule, political uncertainty, and conflicts along its border. The country has faced and continues to face major challenges, from poverty and illiteracy to corruption and terrorism (Appendix 1, Linked Document B: Governance Indicators). Pakistan is classified as a low-income country, with a per-capita gross national income of $1,260 (2012, Atlas method) (footnote 6). It has received much international geopolitical attention because of its importance to the United States (US) and other countries in the war against terrorism. Because of its perceived internal instability, its status as a nuclear power, and its geographical location on the Arabian Sea close to Central Asia, and bordering Afghanistan, it is seen as the frontline against international terrorism, especially after the 11 September 2001 attacks on the US. Seen as a frontline state in the war on terror at that time, Pakistan obtained large increases in its official development assistance (ODA) in the last decade, including from ADB.

8. The early and mid-2000s also stand out as a period of increasingly strong economic growth, which gave rise to some optimism regarding Pakistan's longer term development. Lastly, this period is characterized by its particular governance situation.

9. The government was led at this time by General Pervez Musharraf, who had attained power through a military takeover in October 1999. Musharraf subsequently became the President in June 2001. A month later, he created a new legal framework for the development of a devolved system of local government with the passage of the Local Government Ordinance (LGO). Local government elections were held up to September 2001 and resulted in the installation of approximately 200,000 new officials, including a large number of women through a system of reserved seats. The new LGO was also designed to reduce the urban-rural divide, because new arrangements were made for the governance of city districts and towns. Although the reforms were progressive in some respects, they were essentially imposed without much public discussion and introduced largely by issuance of Presidential Ordinances rather than Parliamentary Acts.

[6] ADB. 2013. *Key Indicators 2013.* Manila.

10. The 2001 LGO was partially implemented, but proved unsustainable. The initiative came to an end in 2008 after President Musharraf's resignation, and local government jurisdiction was returned to the provinces; federally imposed frameworks were dismantled, and service delivery units in the field became de-centralized units of the province, until new local government frameworks could be put in place. In 2010, Pakistan's 18th Constitutional Amendment was signed into law. It effectively restored the role of provincial governments,[7] and new LGOs defining provincial-local government relations differed for each province. In addition, it reversed the 17th Amendment issued by the Musharraf government in 2002, which had led to further centralization by increasing the powers of the President. The 18th Amendment re-empowered the country's provinces by (i) transferring some federal-level resources and responsibilities, such as the transfer of 17 federal ministries to the provinces;[8] and (ii) obligating the provinces to set up local government structures, such as holding local government elections and approving local government laws.

11. Two weeks before the intended January 2008 national elections, the security situation deteriorated sharply with the assassination of Benazir Bhutto, Pakistan's former Prime Minister and PPP leader, on 27 December 2007. A state of emergency was declared which, though brief, damaged the perceptions of investors and development partners alike. Political uncertainty continued after the elections (postponed to February 2008). Following various allegations, including the failure to provide sufficient security for Prime Minister Bhutto, President Musharraf resigned under threat of impeachment in August 2008. Elections for a new president were held the following month, which brought President Asif Zardari into office. In 2010, the 18th Constitutional Amendment transferred key presidential powers to the Prime Minister. This was an important step to build democracy but, as in many other countries, the transition has been difficult. While the judiciary and the press have become more independent, the military is perceived to retain considerable political influence.[9]

12. As mentioned, after the 11 September 2001 attacks in the US, Pakistan received renewed support from several development partners. However, support from some partners faded after a few years. Internal stability became significantly worse in 2007 and 2008 when new political turmoil, combined with a strongly deteriorating economic outlook triggered by the global financial crisis, resulted in a loss of public sector revenues, increasing indebtedness, a downgrading of Pakistan's credit ratings,[10] a withdrawal of foreign investment, and a return to more anemic economic growth. Meanwhile, military expenses remained high, as Pakistani forces struggled to maintain control over the turbulent tribal regions along the Afghan border and the Swat area in northern Pakistan. Another worrying feature has been the ever deteriorating electricity situation, with increasing numbers of power cuts affecting the country year round.

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[7] Prior to the 18th amendment another key development was the National Finance Commission Award approved in 2009, which actually increased the share of federal resource transfer to provinces.

[8] However, some of the responsibilities of the devolved agencies remained with the federal government, contributing to a complex situation. The Ministry of Food and Agriculture was devolved; some of its responsibilities were shifted to the provinces, while others shifted to the Planning Commission and the federal Ministry of Science and Technology. Within 3 months of the devolution, a new Ministry of Food Security and National Research was created, which still exists. Similarly, the Ministry of Environment was devolved, but a new Ministry of Climate Change was created, with the same mandate as the Ministry of Environment. The National Economic Council, which coordinates development and economic planning at the national level, has become more effective following its expansion and reconstitution, under the 18th Amendment, to include provincial chief ministers.

[9] International Monetary Fund. 2012. *IMF Country Report: Pakistan, No. 12/35 (Feb).* Washington, DC.

[10] In 2012, Pakistan's sovereign credit rating was downgraded further into junk status (Bloomberg, 6th October 2012). On 13 July 2012, Moody's downgraded Pakistan's foreign and local currency bond rating to CAA1 from B3. However, Standard & Poor's rated Pakistan as B-.

13. Nevertheless, more recently, there are signs of improvement, as the country achieved a smooth transition of power in the general election held on 11 May 2013. Nawaz Sharif of the Pakistan Muslim League returned as the new head of a government that enjoys majority support in Parliament. It took over from the PPP-headed coalition government installed in 2008, which completed its full term in 2013. The new government has already announced it will give top priority to tackling the energy crisis and restoring macroeconomic stability and growth.

2. Social Context

14. Despite the turbulent sociopolitical situation in much of the 2000s, some indicators of human development have improved in Pakistan over the years. Gross national income (GNI) per capita in constant 2005 purchasing power parity has increased by over 40% from $1,826 in 2000 to $2,566 in 2012.[11] Life expectancy at birth has improved from 63.1 years in 2000 to 65.7 years in 2012. Although the Gini coefficient, measuring the extent of income inequality, has deteriorated slightly in recent years, at 30.02 it still compares favorably across the region, with Bangladesh at 32.1, India at 33.9, Thailand at 39.4, Sri Lanka at 36.4, and Malaysia at 46.2.[12] Remittances from overseas workers, averaging about $1 billion a month since March 2011, remain a bright spot for Pakistan and have helped stem the number of people living in poverty.[13] As of 2008, 21% of the population was living below the international poverty line ($1.25 a day per capita),[14] down from 31% in 2002. The figures for the $2 a day poverty line are 83% in 1997 and 60% in 2008.[15] However significant these improvements are, Pakistan remains in the low human development category. It ranked 146th out of 187 countries in 2012.

15. Expected years of schooling, which had remained unchanged between 1980 and 2000, improved from 4.4 years in 2000 to 7.3 years in 2012. The primary education completion rate also improved from 61% in 2005 to 67% in 2011. While the increase for boys was modest (from 72% to 74%), the completion rate among girls increased from 51% in 2005 to 59% in 2011. However, funding for schools, which was 2.5% of the gross domestic product (GDP) in 2005 was reduced to 1.5% in 2011, and is less than what the national airline receives in subsidies.[16]

16. Public expenditure on health care has remained almost unchanged at less than 1% of GDP from 2002 to 2011, but improvements in some indicators have been achieved. For example, the maternal mortality ratio declined from 310 per 100,000 live births in 2005 to 260 in 2010, and the infant mortality rate also declined from 73 in 2002 to 59 in 2011 (more economic and social indicators can be found in Appendix 1, Linked Document C). However, the progress suggests that the 2015 Millennium Development Goal (MDG) targets of 140 for the maternal mortality ratio and 40 for the infant mortality rate may be difficult to attain (Appendix 1, Linked Document D). Access to improved water supply increased from 64% in 2001 to 91% of the total population in 2011, while the proportion of the population with improved sanitation facilities increased from 39% in 2002 to 47% in 2011. Nevertheless, this is still far below the 2015 MDG target of 90%.

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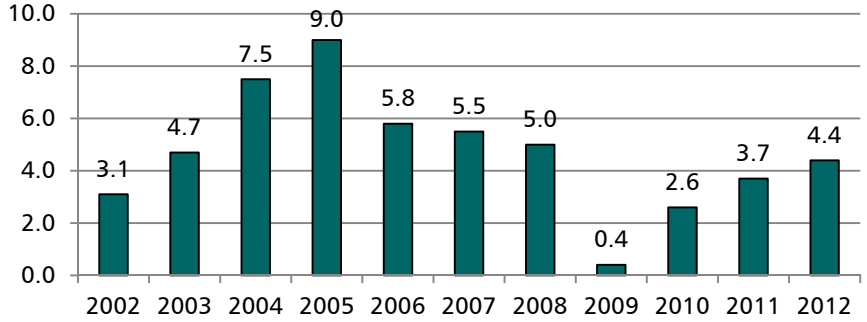
[11] United Nations Development Programme (UNDP). 2013. *Human Development Report 2013*. New York.
[12] Available at http://data.worldbank.org
[13] Index Mundi Pakistan Economy Profile 2013. http://www.indexmundi.com/pakistan/economy_profile.html
[14] World Development Indicators 2013. World Bank, http://data.worldbank.org/indicators/SI.POV.2DAY
[15] ADB. 2013. *Key Indicators*. Manila. Table 1.14.
[16] Available at www.bbc.co.uk/news/world-south-asia-12691844

17. Despite some improvements, gender inequalities remain a significant issue in education, health, and employment.[17] A review of gender issues in Pakistan highlights the lack of economic opportunities in combination with cultural and social norms that determine outcomes for women to a significant degree. Pakistan is ranked 127th out of 130 countries on the Gender Gap Index of 2013, and lags well behind the global average in all the four sub-indexes—economic participation and opportunity, educational attainment, health and survival, and political empowerment[18] (for an assessment of the gender program in Pakistan, see Appendix 1, Linked Document E).

B. Economic Performance and Development Challenges[19]

18. Pakistan enjoyed strong growth and a significant improvement in its macroeconomic fundamentals in the early part of the 2000s, leading to a reduction in poverty. Annual GDP growth ranged from 3% to 9% between 2002 and 2007 during a period of relative economic and political stability underpinned by improved external financing (Figure 1). The poverty headcount ratio at the national poverty line came down from 34.5% in 2002 to 22.3% in 2006 (later estimates are not available).

Figure 1: Pakistan: GDP Growth Rate, 2002–2012 (percent change in GDP)



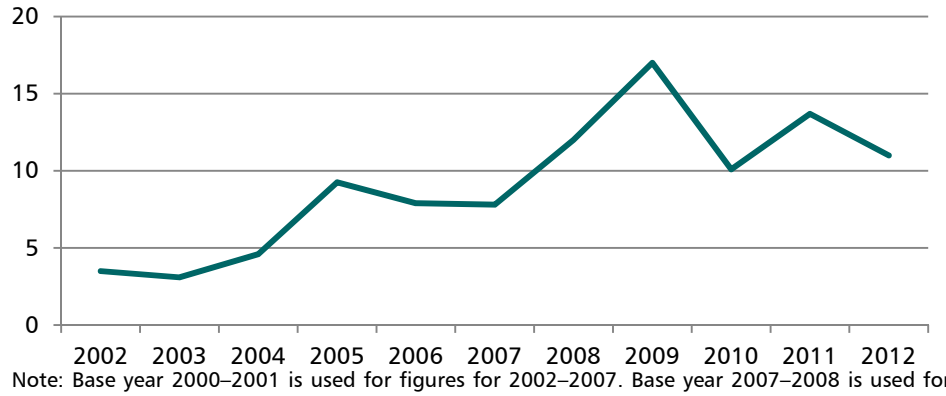
GDP = gross domestic product.
Note: Base year 1999–2000 for figures for 2002–2007. Base year 2005–2006 is used for figures for 2006 onwards.
Source: Pakistan Economic Survey, various years.

19. During fiscal year (FY) 2008, Pakistan experienced a serious reversal in its overall macroeconomic situation. The economy was affected by a political crisis and uncertainty regarding the impact of the global economic crisis on Pakistan. There was a deteriorating security situation, growing volatility in oil and food prices, rising fiscal deficits, and a significant reduction in foreign capital inflows that challenged the financing of the deficits. GDP growth declined to 5.0% in FY2008, and subsequently has been relatively muted, ranging from 0.4% in FY2009 to 4.4% in FY2012. Rising defense spending, a steady decline in tax revenue, and severe constraints on manufacturing output due to gas and power outages contributed to this dampening of GDP growth. In per capita terms, the growth rate in 2011 was 1.1%. Pakistan needs a minimum of 7% real growth for adequate job creation and sustained poverty reduction.[20]

[17] Available at http://undp.org.pk/2011-human-development-report-environmental-trends-threaten-global-progress-for-the-poor.html and http://undp.org.pk/images/documents/Pakistan%20-%20One%20pager.pdf
[18] World Economic Forum. Gender Gap. 2013.
[19] Pakistan Bureau of Statistics (www.pbs.gov.pk/content/details-tables); IMF World Economic Outlook Database (www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx); and World Bank (http://data.worldbank.org/country/Pakistan)
[20] Government of Pakistan, Planning Commission. 2011. *Framework for Economic Growth*. Islamabad (May).

20. Inflation (as measured by the consumer price index) peaked in 2009 and remained stubbornly high. It was 11% in FY2012, continuing the trend of double-digit inflation that started in FY2009 (Figure 2). In terms of purchasing power, it is ranked 24th, and 47th for size of the economy,[21] with a per capita income of $1,372 in FY2011.[22] All this does not bode well for the poverty headcount ratio in Pakistan.

Figure 2: Growth Rates of Consumer Price Index (%)



Note: Base year 2000–2001 is used for figures for 2002–2007. Base year 2007–2008 is used for figures for 2008 onwards.
Source: Pakistan Economic Survey, various years.

21. Major policy reforms and economic stabilization measures promised to the International Monetary Fund (IMF), ADB and the World Bank began as agreed but, as this evaluation will show, most could not be delivered. The IMF supported a stand-by arrangement (SBA) in 2008 amounting to $7.6 billion, which was subsequently increased to $11.3 billion in 2009 with the following conditions: (i) enhancement of the effectiveness of the State Bank of Pakistan in banking supervision; (ii) harmonization of income tax and sales tax laws and reductions in the exemptions for both taxes; (iii) lowering of the public sector deficit, especially through reducing the subsidy to the power sector; and (iv) adoption of an action plan to strengthen social safety nets for the poor so that they would be better able to withstand the effects of the fuel crisis and an emerging food price crisis.

22. However, the SBA was well off-track by June 2010. Despite taking a few politically unpopular reform measures (increasing electricity tariffs, for instance), the government failed to fulfil the most important structural reform conditions.[23] These related to a reduction in the fiscal deficit; finalization of amendments to the legislative framework for the State Bank of Pakistan; implementation of reforms of the distorted value added tax (VAT) regime[24] and the energy sector including a complete withdrawal of subsidies to the power sector. The program ended in September 2011, as the time limit ran out, with 64% of the loan under the SBA having been disbursed. There were no disbursements of the remaining tranches.[25] In November 2012, the IMF recommended that Pakistan give urgent attention to reducing subsidies and widen the

[21] "Gross domestic product 2012, "PPP" and "Gross domestic product 2012" from World Development Indicators database, World Bank, 1 July 2013.
[22] Pakistan Economic Survey. 2011–2012.
[23] Conditions on limits on the central bank to government could not keep up, which practically stalled the IMF arrangement.
[24] There were special provisions for vested interest groups, often justified on the grounds of equity or redistribution. The result was that the tax collection fell short of what was needed to maintain levels of service provision or meet MDG goals. There was insufficient financing to provide for the infrastructure needs for investment, or even to maintain existing investment, with tax/GDP ratios at 10% or less.
[25] Using the figures from IMF Press Release No. 09/281 and No. 10/198.

tax base to tackle the government's growing budget deficit.[26] IMF directors also underscored that reducing the large fiscal deficit[27] was essential for restoring macroeconomic and external stability. A similar point was later made by the United Kingdom (UK) International Development Committee in April 2013, which reported that Pakistan had a lower than average tax take, with only 0.57% paying income tax, while in comparable countries, the level was about 15%.[28]

23. Fiscal policy in Pakistan is characterized by the setting of demanding targets that are then often missed.[29] The inability to put a cap on the fiscal deficit is largely due to two factors: (i) unmet tax revenue because of persistent problems in tax collection, and (ii) high electricity subsidies, which continue to drain the government budget. Tax collection efficiency and broadening the tax base via eliminating certain tax exemptions have remained major fiscal policy issues. The period 2004–2007 saw strong growth, reasonable fiscal deficits (at least on a cash accounting basis), investment inflows peaking at $5.7 billion in FY2008, and reserve accumulation. However, the budget for energy subsidies increased from $4 billion in FY 2011 to $4.9 billion in FY 2012, which is 14.9% of the total budget.[30] This, combined with relief payments, necessitated by 3 consecutive years of major flood disasters in the country, has played havoc with the public finances. In FY2012, Pakistan's budget deficit widened to a record PRs1.4 trillion ($15 billion), equivalent to 6.6% of GDP—well above the target of 4% set at the start of the year. If the one-off payment of PRs391 billion ($4.2 billion) towards the restructuring of power sector debt were included, the deficit in FY2012 would be the equivalent of 8.8% of GDP.[31]

24. Pakistan is ranked low at 139 out of 176 on Transparency International's 2012 corruption perception index.[32] Most multilateral and bilateral aid agencies enforce anti-corruption safeguards to protect the integrity of their support.[33] However, ring-fencing of individual projects does not necessarily help to improve the government's systems or change the culture that has developed over a long period of time.

[26] First Post-Program Monitoring Discussions and the Ex-Post Evaluation of Exceptional Access under the 2008 Stand-By Arrangement with Pakistan http://www.imf.org/external/np/sec/pn/2012/pn12135.htm
[27] Revised deficit for FY2012 is 8.8% of GDP; same for FY2013.
[28] BBC News UK Politics, Stop extra aid to Pakistan unless Taxes Increase Urge MPs, 4 April, 2013 http://www.bbc.co.uk/news/uk-politics-22017091
[29] Economist Intelligence Unit. January 2013 (p. 5; p. 27).
[30] The Federal Budget 2011–2012 (revised) of Pakistan is PRs3.11 trillion, of which PRs419.02 billion is provided to Water and Power Development Authority (WAPDA)/Pakistan Electric Power Company (PEPCO) and PRs45.24 billion to Karachi Electric Supply Company (KESC) as subsidies. Source: Pakistan Federal Budget 2012–2013. Conversion rate used is $0.010573=PRe1.0 (as of 30 June 2012).
[31] On 31 March 2013, another one-time write-off was made in two payments totaling PRs480 million.
[32] Transparency International Corruption Perception Index. 2012. www.transparency.org
[33] See for example Department of International Development (DFID), UK. 2013. DFID's Anti-Corruption Strategy for Pakistan, www.DFID.gov.uk/Pakistan

CHAPTER 3

Country Strategies and Program

25. ADB's country strategies have to find a common ground between the government's development agenda and ADB's priorities. While ADB pays much attention to optimal alignment with government strategy, its corporate strategy has become progressively more specific and selective, sometimes requiring compromises to be made. However, as will be seen, ADB strategy has remained aligned with that of the Government of Pakistan over the evaluation period, i.e., generally responding to the government's critical needs.

A. Government of Pakistan's Strategies

26. Pakistan's medium- and long-term development strategies and investment plans have been outlined in several key documents, all put together at the time of the Musharraf government: the Medium Term Development Framework (MTDF) [2005–2010],[34] and its Mid-term Review [2008],[35] the Framework for Economic Growth [2011],[36] Vision 2030 published in 2007,[37] and the Poverty Reduction Strategy Paper (PRSP) II [2007–2012],[38] which superseded the first PRSP completed in 2003. According to the 2008 Mid-term Review of the MTDF, the outcome of both the MTDF and the MDGs was predicted as positive, but the optimism was based on the assumption of a continuation of improving economic growth, which did not materialize.

27. Vision 2030 was prepared through a consultative process between 2005 and 2007 when the economy was moving forward briskly. It called for structural change and transformation to achieve a developed, industrialized, just, and prosperous Pakistan through rapid and sustainable development, by deploying knowledge inputs. Vision 2030 acknowledged the forces of globalization and dispersion of information and technology, "which are likely to dramatically change the scale and character of human enterprise." The forward-looking document expressed determination to manage the global forces of change to Pakistan's advantage.

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[34] Government of Pakistan, Planning Commission. 2005. *Medium Term Development Framework, 2005–2010*. Islamabad.

[35] Government of Pakistan, Planning Commission. 2008. *Mid-term Review of the Medium Term Development Framework.* Islamabad (May).

[36] Footnote 20. In the absence of an update to the MTDF, the 2011 framework has been used as an interim reference document for the medium term.

[37] Government of Pakistan, Planning Commission. 2007. *Pakistan in the 21st Century—Vision 2030*. Islamabad (August).

[38] Government of Pakistan, External Finance Policy, Finance Division. 2008. *Poverty Reduction Strategy Paper II, 2007–2012.* Islamabad.

28. The 2008 PRSP II identified three main structural weaknesses: the fiscal deficit, the trade deficit, and inadequate social protection for the poor and vulnerable. The overall strategy of PRSP II was to: (i) regain macroeconomic stability; (ii) rally the GDP growth rate; (iii) generate adequate employment; (iv) improve income distribution; and (v) achieve better global competitiveness through economic liberalization, deregulation, and transparent privatization. In retrospect, PRSP II can be seen as a transition document, showing a government shift from a position where poverty reduction and governance reform are viewed as paramount towards a recognition that a greater focus on economic growth is needed.

29. The paradigm shift from investment in all sectors into selective investment in key sectors is reflected more specifically in the post-Musharraf government's 2011 Framework for Economic Growth, which aimed to make growth more inclusive and speed up the movement out of poverty. Its pragmatic approach was to seek to increase the return on investment through measures to improve the investment climate, reduce the cost of doing business, and dissolve the impediments to entrepreneurship. It identified key determinants of growth as economic governance and human capital. Nevertheless, the government instituted a key social protection program, the Benazir Income Support Program, at the time of the food and fuel crisis.

B. ADB's Country Strategies

30. The Pakistan program in the late 1990s and early 2000s was based on various corporate strategies and reflected changing priorities. A main influence at the start of the evaluation period was ADB's 1999 poverty reduction strategy, which asked for much greater poverty targeting in ADB operations. A related influence was the advent of the MDGs in 2001, which also reinforced attention to poverty reduction and the social goals of development support. Based on the 1995 policy on sound development management, [39] improved governance in operations and increased attention to corruption worldwide became other important elements of ADB strategy. After 11 September 2001, Pakistan became regarded as a key ally in the fight against international terrorism. In the prevailing international context, ADB also increased its financing, particularly in the form of program lending and budgetary support.

1. Country Strategy and Program, 2002–2006 and Subsequent Updates up to 2008

31. Pakistan's CSP for 2002–2006 was followed by three updates: 2004–2006, 2005–2006, and 2006–2008. The CSP and first update had three pillars or themes: (i) good governance, (ii) sustainable pro-poor growth, and (iii) inclusive human development (for details, see Appendix 1, Linked Document F). The emphasis on these pillars led to a wider range of sectors being supported than prior to 2002.[40] In support of pillar one, ADB's portfolio included major initiatives in PSM and governance, such as support for (i) reforms in the judicial sector and police services; (ii) devolution and decentralization for improved delivery of social services; and (iii) public resource management programs, such as budget support and technical assistance (TA) for the provinces of Punjab and Balochistan. Support for the sustainable pro-poor growth pillar also covered several sectors, such as agriculture and rural sector development, water and irrigation, energy, roads, and finance. The third pillar had a focus on gender issues through devolved social service delivery programs, water supply and sanitation

[39] ADB. 1995. *Governance: Sound Development Management*. Manila.
[40] Operations Evaluation Department (OED). 2007. *Country Assistance Program Evaluation: Pakistan*. Manila: ADB. Appendix 4.

projects, integrated rural development interventions, and support for microfinance activities.

32. In the second and third CSP updates, the emphasis shifted towards higher sustained growth. This shift was in part based on the improvements in the economic and political situation in Pakistan at that time. High priority was given to improving economic infrastructure in water resources, power, transport and communications, as well as in urban renewal. However, the shift may also have been partly related to course changes at the ADB corporate level, after the issuance of the enhanced poverty reduction strategy in 2004[41] and of the Medium-Term Strategy 2006–2008 in 2006.[42] The enhanced poverty reduction strategy emphasized that operations could pursue poverty reduction in an indirect way, while the Medium-Term Strategy stressed the benefits of greater selectivity in sector choices, with a preference for such operational areas as infrastructure, education, finance, environment, and regional cooperation.

2. Country Partnership Strategy, 2009–2013

33. The CPS 2009–2013 was approved on March 2009, less than a year after the issuance of ADB's Strategy 2020.[43] The CPS focused ADB interventions on three areas: (i) investment and reforms in energy and infrastructure (for energy security and efficiency, irrigation, and a national trade corridor program); (ii) development of urban services (better delivery of basic services); and (iii) reforms to strengthen governance[44] and promotion of structural transformation (for addressing market distortion and institutional bottlenecks, better financial resources, and development of the private sector). The third area was no longer a core corporate area, but it mirrored the ongoing work on program lending and budget support in Pakistan at that particular time in reaction to the financial crisis. In addition, the CPS stated that special attention would be given to effective implementation of projects and programs and capacity building (to reduce institutional bottlenecks). These priorities were evident in the spring cleaning program then ongoing, the introduction of ADB's new instrument, namely the multitranche financing facility (MFF), and a renewed focus on capacity development.[45]

34. The CPS clarified that the shift to focus on stimulation of the economy would involve support for macroeconomic stabilization, an emphasis on sectors associated with economic growth, the financial sector, the private sector, and urban development. It intended to remove institutional impediments, particularly with respect to power supply, quality and maintenance of the road network, irrigation infrastructure and its maintenance, and urban services.

35. The latest shift of ADB priorities can be seen in the pipeline of projects and programs in the COBP 2013–2014.[46] The pipeline gives more attention to the rehabilitation of aging irrigation works and poor water management. The COBP also acknowledges again the need for better urban services and planning, along with

[41] ADB. 2004. *Enhancing the Fight against Poverty in Asia and the Pacific. The Poverty Reduction Strategy of the Asian Development Bank.* Manila.
[42] ADB. 2006. *Medium-Term Strategy 2006–2008.* Manila.
[43] ADB. 2008. *Strategy 2020: Working for an Asia and Pacific Free of Poverty.* Manila.
[44] In governance, ADB priority shifted from the promotion of cooperation among stakeholders at the local level in the previous CPS to improving capacities in local governments in financial management and addressing corruption in the current CPS to improve service delivery at the local level. The current CPS also underscored the support towards reducing the cost of doing business.
[45] When the CPS was formulated, devolved social services projects in Punjab and Balochistan were still ongoing. The emphasis then switched to irrigation and Sindh urban services, with little priority given to education and health.
[46] ADB. 2013. *Country Operations Business Plan, Pakistan 2013–2014.* Manila.

targeted social protection measures to improve the social safety net while easing inflationary measures. A new strategy document is planned for 2014–2018.

36. **Tracking progress in program implementation.** Although the two country strategy papers and the various updates had results frameworks with indicators, a review for this evaluation revealed that these were not always monitorable (sometimes they had no baselines or targets), and also were changed significantly over time. The CSP 2002–2006 identified performance indicators, collectively presented as the Poverty Reduction Strategy Monitoring Targets.[47] In addition, the CSP included a matrix on Country Lending Scenarios and Performance Triggers. The first CSP update (2004–2006) updated this matrix based on FY2001/02 data and Poverty Reduction Growth Facility targets. The first CSP update also included country sector roadmaps with various projections, but the two subsequent updates no longer included this type of matrix. Meetings with staff confirmed that the results framework function had been delegated from headquarters to the Pakistan Resident Mission (PRM).

37. Despite PRM's efforts in country documents to report on ADB operations and their contribution to sector and country performance, its system to monitor the results indicators was inadequate as it did not align outputs and outcomes of individual projects with the country-wide indicators. The CPS 2009–2013 discusses key areas for ADB interventions that would contribute to CPS outcomes. However, the indicators for these interventions are presented separately in the design and monitoring frameworks of projects, which further adds to the difficulty in tracing the contribution of projects to the sector outcomes and the overall results.[48] Many monitoring and evaluation systems of projects were not established or were inadequate. Also, the 2007 completion report for the CSP 2002–2006 did not include a review of the status of the results framework indicators.[49] Overall, the ADB country strategy papers documented significant shifts of priorities and focus, but the effect of the shifts were not adequately monitored subsequently. This evaluation would find it more beneficial if the country results framework were set up similar to ADB's corporate results framework, so that annual monitoring of operations and results could feed into a scorecard and an annual action plan. But this is a suggestion that would apply to all country programs, not only Pakistan's.

C. ADB's Portfolio

38. ADB approved 116 sovereign and nonsovereign loans and grants between 2002 and 2012, amounting to $11.46 billion, of which 69% was financed from ADB's nonconcessional ordinary capital resources (OCR) and 27% from ADB's concessional Asian Development Fund (ADF). The remaining 4%, mainly grants for investment projects, came from other sources, such as the Japan Fund for Poverty Reduction (JFPR). In 2011, Pakistan was the third highest recipient of ADB financing ($1.334 billion),[50] after Viet Nam and India, because of flood emergency assistance, but it dropped to eighth position ($419 million) in 2012 because of the suspension of program lending

[47] This was presented as part of the Pakistan Interim Poverty Reduction Strategy Paper, November 2001. See Appendix 9 of the CSP 2002–2006.

[48] The CPS results framework was updated and presented in COBP 2013–2014. The country portfolio review mission (CPRM) 2013 report provided discussion and tables on tracking of contribution of projects to sector and country results, particularly, in agriculture and natural resources, energy, WOMIS, and transport sectors.

[49] An abbreviated version of the full CSP completion report drafted in May 2007 is found in Appendix 5 of ADB. 2009. *Country Partnership Strategy: Pakistan, 2009–2013.* Manila.

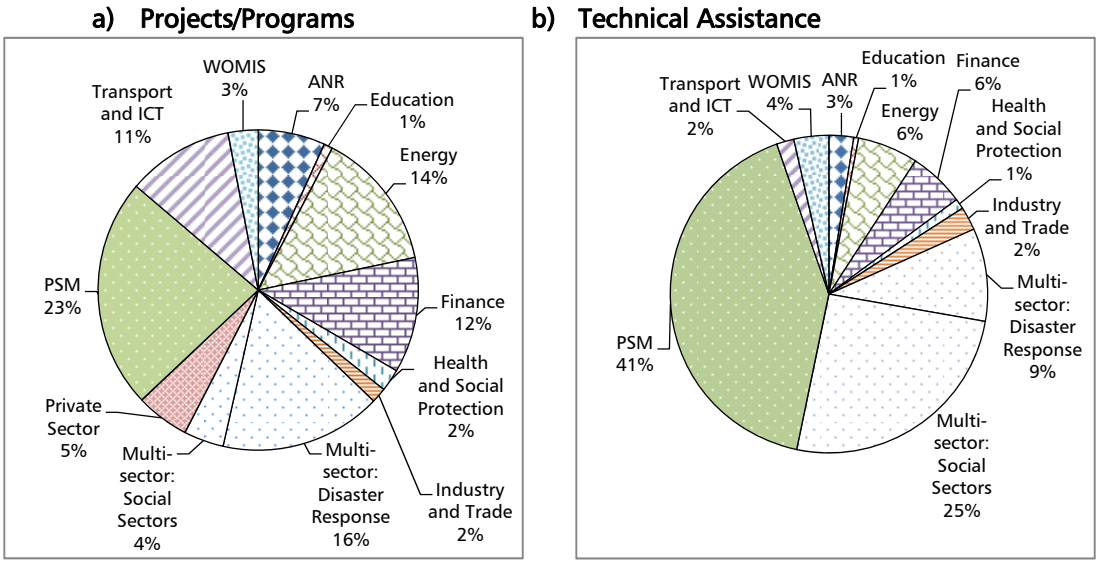
[50] Excluding cofinancing; Index Mundi Pakistan Economy Profile, 2013 and ADB Annual Report, 2012.

and budget support after the IMF's SBA went off-track, in addition to Pakistan's increasingly precarious debt position.

39. Until recently, Pakistan was also among the top recipients of TA grants,[51] along with India, the People's Republic of China, and Vietnam. This may be related to ADB's support for capacity development, the opportunity to link program loans to TA support, and also the greater willingness of other donors to support the ADB program, such as the United Kingdom's Department for International Development (DFID).[52]

40. The largest portfolio of projects and programs was PSM with 23% of total loan approvals (Figure 3). PSM lending covered various central and provincial programs on public sector resource management, decentralization, and economic transformation. In the portfolio, some devolved social programs (4%), and infrastructure and emergency response projects (16%), which ADB collectively classifies as multisector operations[53] ranked next at 20%. The energy and finance sector development portfolios stood at 14%, and transport at 11%. These are the five largest portfolios. There were 8 portfolios in total, excluding the separately managed private sector operations.

Figure 3: Sector Shares of ADB Support, 2002–2012



ADB = Asian Development Bank, ANR = agriculture and natural resources, ICT = information and communications technology, PSM = public sector management, TA = technical assistance, WOMIS = water and other municipal infrastructure and services.
Source of basic data: ADB database on Loan, TA, Grant and Equity Approvals.

41. ADB approved 60 ADB project loans and 33 policy based program (sovereign) loans over the evaluation period, including 24 loans for PSM, and 12 each for multisector operations and energy. In addition, ADB approved ten private sector loans amounting to $620 million. These nonsovereign loans were extended to power companies, investment funds, and medium-sized enterprises. As of end-December

[51] Advisory and capacity development TAs (i.e., excluding project preparatory TAs).
[52] Appendix 1, Linked Document A has a listing of all ADB loans, grants, TAs, and MFFs. One grant of $30 million for the Punjab Devolved Social Services Project was cofinanced with DFID in 2004, and one advisory TA in 2007 for $11.5 million for Support to Governance Reforms in Pakistan.
[53] In this CAPE, multisector projects have been regrouped into two subcategories: (i) multisector social sectors (mainly devolved social programs), and (ii) multisector infrastructure (mainly natural disaster emergency assistance loans).

2012, Pakistan had 27 active loans amounting to $3.68 billion,[54] which is much smaller in number and size compared to the peak in 2006, when the total active loan number was 80 and the amount was $6.44 billion (project loans of $3.35 billion plus program loans of $2.99 billion).

42. ADB's spring cleaning exercise, which will be discussed more extensively in Chapter 4, contributed to a significant slimming of the portfolio, with the number of active loans falling to 42 in 2009 and 27 in 2012. The average loan size increased from $80 million in 2006 to $140 million in 2011 and declined slightly to $136 million in 2012.[55] Compared with earlier restructurings of ADB programs in Bangladesh, India, Nepal, and Sri Lanka, the effect on loan cancellations in Pakistan was of much greater magnitude, both volume- and value-wise. Project loan disbursements in the last 5 years (2008–2012) have averaged $342 million annually (Appendix 1, Linked Document G on Annual Loan Disbursements). For the same period, there is an increasing trend in contract awards for project loans, from $364 million in 2008 to $577 million in 2012 (Appendix 1, Linked Document G on Annual Contract Awards by Loan Type), indicating the increasing average size of contracts (in the transport sector, from $0.2 million in 2002 to $9.7 million in 2010) and greater efficiency. However, the percentage of projects with implementation challenges also increased, from 11.1% in 2011 to 15.8% in 2012.

43. Investment is increasingly channelled through a relatively new instrument in ADB, the MFF. This instrument enables a long-term and programmatic approach to be followed, relying on government agencies to submit tranche proposals only as soon as the feasibility studies for new work are finished. The financial envelope of the facility and its first tranche are approved by the Board, but subsequent tranches can be approved by ADB management. ADB approved 8 MFFs between 2006 (when the MFF modality was introduced) and 2012 for $2.9 billion. Top sectors for MFF loan tranches were energy with 55% of overall MFF approvals, and ANR and transport and information and communications technology (ICT) with 20% each. It is worth noting that the net transfer of resources[56] for sovereign loans increased from $247.5 million in 2005 to $1.4 billion in 2008, but decreased to $201.6 million in 2010, became negative at $218 million in 2011 and further declined to negative $434.5 million in 2012.

44. Following the strategic shift discussed in the preceding section, ADB support changed between the periods 2002–2006 and 2007–2012. Whereas PSM and multisector operations[57] held very large shares of financing and TA in both periods, energy operations increased notably, perhaps facilitated by the approval of MFF tranches in the latter period. Provincial multisector operations with a social sector focus were prevalent from 2002 to 2006 (notably the devolved social services programs), but were no longer supported by ADB from 2007 onwards. PSM programs also became scarce, although the ones remaining were very large (notably the Accelerating Economic Transformation Program [AETP]), accounting for the large financial size of

[54] Five active projects were completed ($670.4 million) but their loan accounts were open. Source: 2013 Country Portfolio Review Mission Pakistan—BTOR. Unpublished (21 August 2013).

[55] The decreasing trend in average loan size started in 2009. However, in 2011, when ADB assisted Pakistan during the flooding, the average amount went up. Thus, 2011 is an exceptional case.

[56] Net transfer of resources is defined as disbursements less repayments of principal and loan charges (front-end fee, commitment charge, and interest and other charges)

[57] Multisector projects have components in more than one sector (e.g., a mixture of support for education and water supply, for finance and public sector governance, and for emergency assistance after a disaster that can include support in various sectors). Classified as multisector projects were, for instance, the devolved social services programs, emergency response infrastructure rehabilitation projects involving more than two main sectors, and other urban or rural infrastructure loans.

the sector in the portfolio over 2007–2012. No industry and trade and education projects or programs have been approved since 2007. On the other hand, the share of private sector (nonsovereign) projects and programs has doubled.

45. Advisory TA was channelled to a range of sectors in Pakistan, but most (41%) was channelled to PSM and 25% to 'social' multisector operations (Figure 3). The third and fourth largest categories of TA were energy and finance, at 6% each. In numbers, 34 out of 79 TAs were for PSM. Ten were for ANR, 9 for disaster-related multisector operations, and 8 for energy. During the discussion with the Ministry of Finance, the government expressed the view that the TA portfolio is spread too widely, with much of the TA work not being effectively linked to tangible results.

46. The shares of TA approvals for PSM and multisector operations became even larger after 2006. However, ADB no longer approved any advisory TAs in health and social protection, and industry and trade. Thus, the volume of advisory TA projects shrank by almost 50% (Appendix 1, Linked Document H: Pakistan Portfolio Compared across Two Periods).[58] Given that the poverty index in Pakistan is still very high, ADB should consider to find ways to work with other development partners in social sectors through TA, particularly where this would link well with its infrastructure program.

47. Between 2002 and 2012, ADB approved 35 regional TA projects that included a study of or support to Pakistan, for a total cost of $60.4 million. These regional TA projects mainly supported strengthening of regional economic cooperation, capacity building, and institutional strengthening of beneficiary developing member countries (DMCs) in the region (Appendix 1, Linked Document I). Eleven of these regional TA projects supported improvements in PSM, this time with a focus on trade facilitation. These TA projects aimed to (i) improve Pakistan's potential in linking with markets in adjacent DMCs and the rest of the world, (ii) strengthen research institutes and think tanks, and (iii) mainstream managing for development results and gender strategy in poverty reduction.

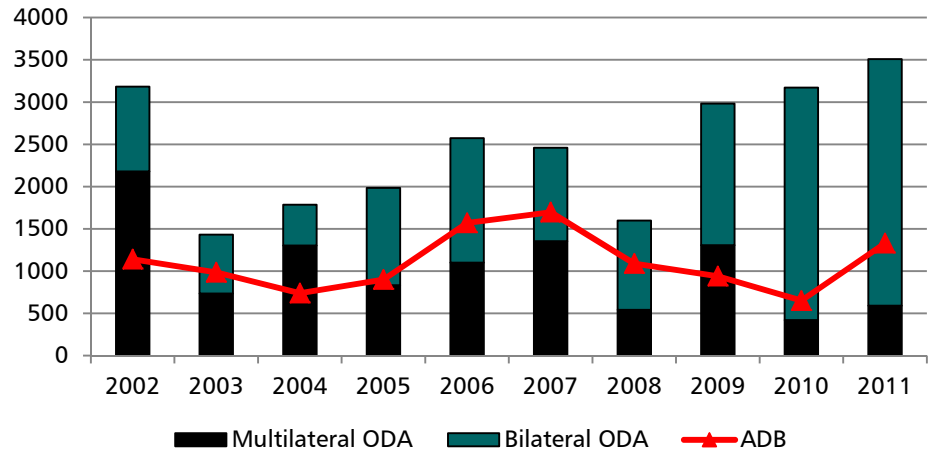
D. Support from Other Development Partners

48. At $11.5 billion, ADB had the largest program of all of Pakistan's development partners over the evaluation period. Support from the World Bank was $11.0 billion, $2.8 billion from the Department of International Development (DFID), and $2.6 billion from the United States Agency for International Development (USAID); and the European Union made available $150 million to $200 million annually (Figure 4). More recently, the World Bank has become the largest source of external support in Pakistan, approving an average of $1.3 billion annually as against ADB's $0.8 billion over the past 4 years. The decreasing ADB support can in part be attributed to the spring cleaning exercise, which accelerated loan closures. The consequences of the IMF stand-by credit going off-track, Pakistan's debt position, and constrained lending resources in ADB are also likely reasons.

49. After the initial surge in development support in the context of 2001 events, support spiked again in 2006 (after the earthquake of 2005), 2009 (financial crisis), and 2010–2011 (floods). Aid flows dipped briefly in 2008 following a period of great political uncertainty, despite the onset of the debt crisis.

[58] Meanwhile, 44 project preparatory TA projects were approved from 2002 to 2012, amounting to $27.6 million. There were eight supplementary TA projects.

Figure 4: Bilateral and Multilateral ODA in Pakistan, 2002–2011 ($ million)

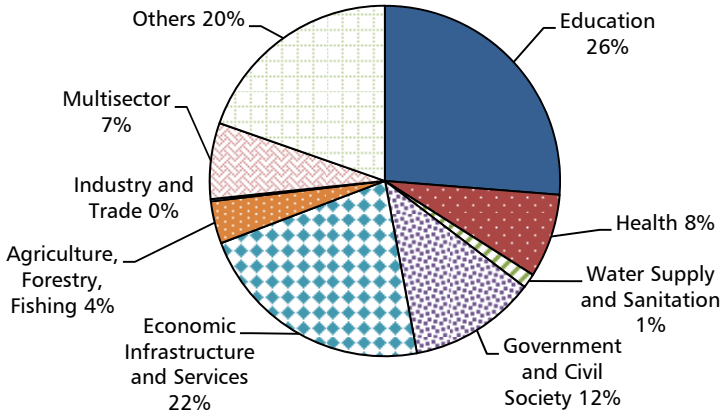


ADB = Asian Development Bank, DAC = Development Assistance Committee, ODA = official development assistance, OECD = Organization for Economic Co-operation and Development.
Note: OECD figures include only International Development Association (IDA) (World Bank) and sovereign loans (ADB). ADB lending volume includes OCR, whereas volume for both multilateral and bilateral ODA only includes concessional loans and grants.
Source: OECD-DAC. ADB Loans and Grant Approvals,

50. Figure 5 shows the sector shares of ODA support to Pakistan in 2011 using OECD data.[59] Over the previous 5 years (2007–2011), OECD financing focused on humanitarian aid and support for the social sectors including education and health. Compared with the sector distribution of ADB support over the same period, it is clear that other donors are extending higher priority to the social sectors. While ADB reduced its support in education and health, other development partners have continued their involvement in these sectors. ADB has been more prominent than others in PSM, finance, and energy and transport infrastructure. It should also be noted, though, that some major nonconcessional PSM and multisector loans included support for the devolution of the management of education and health services, and thus, ADB support for the social sectors in a wider sense may be significantly understated, even in the 2007–2010 period. External partners' support for water supply and sanitation however, has been minimal. Appendix 1, Linked Document J discusses Official Development Assistance in Pakistan, 2002–2012.

[59] OECD data on ODA includes only concessional loans and grants, not the nonconcessional lending that some organizations like ADB is providing as well.

Figure 5: OECD Development Assistance to Pakistan by Sector, 2011



ODA = official development assistance, OECD = Organisation for Economic Co-operation and Development.
Note: Includes only total sector allocable ODA. "Economic infrastructure and Services" is defined by OECD as transport and storage, communications, energy generation and supply, banking and financial services, and business and other services. Some ODA such as budget support and humanitarian aid are not allocable by sector. "Others" include population policy and reproductive health, employment policy, low-cost housing, construction, and mining.
Source: OECD.

51. **Cofinancing**. Between 2002 and 2012, nine sovereign projects (supported by loans and grants) in Pakistan had cofinancing with other development partners, with a total direct value-added of $108 million (Table 1). Of these nine, one loan was approved in 2009 and eight grants between 2003 and 2007. The cofinancing amount consisted of resources from five partners: the French Development Agency, DFID, the European Commission, JFPR, and the Netherlands. From 2003 to 2009, approved TA projects with cofinancing amounted to $42.1 million from various development partners.[60] The table also shows that the very low level of cofinancing has not been increasing over the years in spite of a corporate target since 2000, and interest by various development partners expressed to the evaluation team.

Table 1: Cofinanced Sovereign Projects in Pakistan, 2002–2012

Year of Approval	No. of Loans	No. of Grants	Amount of Cofinancing by Cofinancier ($ million)					Grand Total
			AFD	DFID	EC	JFPR	Netherlands	
2003	0	1				3.4		**3.40**
2004	0	2		30			1.92	**31.92**
2005	0	2			37.5	1		**38.50**
2006	0	2				7		**7.00**
2007	0	1				2		**2.00**
2009	1	0	25					**25.00**
2010	0	0						**0**
2011	0	0						**0**
2012	0	0						**0**
Total	**1**	**8**	**25**	**30**	**37.5**	**13.4**	**1.92**	**107.82**
% share			**23%**	**28%**	**35%**	**12%**	**2%**	**100%**

AFD = French Development Agency *(Agence Française de Développement)*, DFID = Department for International Development, EC = European Commission, JFPR = Japan Fund for Poverty Reduction.
Source: Cofinancing Statistics, OCO website downloaded on 21 August 2013.

[60] Approved TA projects refer to advisory TAs and project preparatory TAs. Cofinanciers are: Canada, the Cooperation Fund for the Water Sector, Denmark, the Governance Cooperation Fund, Netherlands, the Pakistan Earthquake Fund, the Poverty Reduction Cooperation Fund, United Kingdom, and the Water Financing Partnership Facility.

52. **Prospects for ODA in Pakistan.** Support from other development partners is expected to continue as follows:

(i) **DFID.** For DFID, aid to Pakistan will remain a priority and areas of focus will include (a) increasing access to and the quality of education; (b) economic stability, which is key to addressing poverty especially among women, (c) maternal and child health, and (d) peace building, stability, and democratic processes. Humanitarian assistance and support to civil works will also be provided when needed in response to natural disasters and conflicts.[61]

(ii) **USAID.** USAID support will focus on energy, economic growth, stabilization, education, and health, including the mainstreaming of important cross-cutting activities on gender and the strengthening of democratic and civil society institutions.[62] Its priority focus will be Khyber Pakhtunkhwa, Federally Administered Tribal Areas, and Khoram Tangi Dam.

(iii) **The Netherlands.** The Netherlands government is supporting the water sector and urban development.

(iv) **European Union.** It is engaged in the energy and other areas, but its seven-year energy budget support is nearing its end, and EU is not fully satisfied with the progress of reforms so far.

(v) **Canada.** Future support will be determined by the result of the merger of the Canadian International Development Agency (CIDA) with the Department of Foreign Affairs, Trade and Development, which is expected to aim for more effective and coherent international development and emergency humanitarian relief.[63] CIDA is very keen to focus on vocational education, to address the chronic shortage of employment in the country. In education, CIDA and Australia (formerly AusAid) are focused in Khyber Pakhtunkhwa, whereas USAID is working at the federal government level. For CIDA, education planning and policy enforcement at the federal level is a priority area.

(vi) **World Bank.** An increasing proportion of the World Bank portfolio will be managed at the provincial level in support of the delivery of public services (particularly education and health). It will also continue to manage the Multi-Donor Trust Funds for the conflict affected areas as well as maintain an extensive analytic work program for various economic and sector specific topics.[64]

(vii) **United Nations Development Programme.** This program is realigning its technical support and grant programs to match with the re-centralization of power from districts to provinces.

53. **Coordination among development partners**. Several partners consulted viewed overall coordination of their development programs as adequate at the high level but lacking in detailed arrangements for day-to-day collaboration in project work. Some felt agency coordination at the headquarter-to-headquarter level was the problem. ADB's chairing of a monthly meeting of the country office heads was appreciated.

[61] www.devtracker.dfid.gov.uk/countries/PK.index.html
[62] http://transition.usaid.gov/pk/db/sectors.html
[63] Paper on CIDA's Education Sector Support in Pakistan shared to IED on 25 June 2013.
[64] http://www.worldbank.org/en/country/pakistan/overview

Several lamented the lack of government leadership of donor coordination; a unit in the Economic Affairs Division that held regular meetings in the past was disbanded. In some sectors the coordination between government and key partners was working (e.g., energy and education), but in other sectors, the momentum had faded. The last meeting of the Pakistan Development Forum – for overall aid planning – was held in November 2010. The D-10 meeting, in which the largest ten development partners participated, has not been held for over a year. Thus, development partners felt that donor coordination in Pakistan was weaker than in some other large Asian countries (e.g., Bangladesh or Viet Nam). Several felt that closer coordination among the full range of large and small development partners is becoming more important to facilitate more collaboration in the implementation of various projects and programs, and to generate more cofinancing or parallel financing of projects in other sectors, such as transport, education, governance, and labor.

CHAPTER 4

Program Implementation

54. In 2006, ADB Management took stock of the portfolio of ongoing projects in Pakistan and found that it was performing poorly, although this was not yet showing in poorer than usual success rates. Contract award and disbursement ratios were low and, due to many projects being delayed in their implementation, the portfolio had ballooned to 80 active loans. This was proving difficult to manage.

55. Starting in 2007,[65] various measures were introduced to improve the situation, most importantly the earlier referred to spring cleaning of the poorest performing projects (para. 42), and a much stricter approach than before to requests for an extension of the loan closure date. However, other measures were also introduced. In order to speed up project implementation, ADB started trying to economize on the sometimes very large number of contracts considered to be needed in some projects, by going for larger infrastructure works on the one hand and the bundling of works into much larger contracts on the other. ADB started to increase the size of many loans it would approve over the second half of the period, thereby limiting the total number of operations under implementation and easing supervision requirements. ADB also reduced the number of sectors in which it was involved, and moved to large MFF loans for infrastructure operations. ADB also expanded its non-sovereign operations. ADB lastly took a large role in aiding Pakistan with budget support when a financial crisis erupted in 2008–2009. Some of the measures were undertaken in response to the findings of IED's 2007 CAPE (chapter 6). As this chapter will demonstrate, these measures generated mixed results.

56. This chapter investigates possible reasons for the poor performance of the portfolio that prompted such restructuring measures, and the effects of the measures taken. The poor performance led to unprecedentedly low success rates of projects completed in 2007–2010. Investigated in particular are the impact of ADB reorganizations, the spring cleaning and the no-extension policy, shifts in reliance on certain loan modalities, increases in resident mission staffing, and Pakistan's difficult security situation over much of the period.

A. Impact of ADB Reorganizations

57. **Have ADB reorganizations affected the poor performance?** There are indications that this has been the case, at least in the short term. ADB undertook two major reorganizations during the review period, one in 2002 and another in 2006.

58. Effective January 2002, ADB simultaneously introduced a new organizational structure as well as new business processes that would strengthen the country focus in

[65] The 2007 country portfolio review mission (CPRM) reported a spring cleaning exercise, with a list of projects targeted.

its operations and development effectiveness.[66] The previous East and West Asia departments were split into five regional departments (those of East and Central Asia; Mekong; Pacific; South Asia; and Southeast Asia), while the formerly organizationally split functions of programming and projects were joined in each department and division.[67] The changes led to many staff being transferred from one division to another and the reassignment of many tasks and projects. This caused considerable disruption, although ADB's operations in Pakistan were not affected any more than in other countries.

59. In March 2006, ADB further realigned its regional departments. This was done as a follow-up to an independent assessment of the 2002 reorganization in 2004.[68] The new groupings were Central and West Asia; East Asia; Pacific; Southeast Asia; and South Asia. This affected the Pakistan portfolio in particular. Prior to 2006, Pakistan had been placed under the South Asia Department (SARD), but with the 2006 realignment, it was transferred to the new Central and West Asia Department (CWRD).[69] Thus, staff working on the Pakistan portfolio lost responsibility for projects assigned to them, if they chose or were chosen to remain in SARD. There were several cases of projects that were left without a task leader for some considerable time, or passed on to newly joined staff without much regional experience. ADB's 2006 Annual Report[70] stated that the adjustments were aimed at "ensuring greater synergy between country and regional operations by regrouping countries more in line with existing regional and subregional initiatives."

60. The 2006 realignment affected selected Pakistan portfolio performance indicators, particularly the number of projects at risk and the number experiencing implementation delays or significant disbursement delays (Appendix 1, Linked Document G). Within the CAPE period, 2006 was the year with the highest number of sovereign loans with implementation delays (33 out of 80) and significant disbursement delays (30 of 80).

61. The reasons for implementation delays and poor ADB performance cited in various project/program completion reports (PCRs) for Pakistan projects in different sectors confirm that the reorganizations, particularly the 2006 reorganization, negatively affected portfolio performance. High turnover of project officers and frequent changes in ADB staffing affected the continuity in staff supervision from design to implementation.[71] There is a learning curve for each project officer. Further evidence is the average supervision intensity in 2006 for the Pakistan portfolio of 24.6 staff days per project, which is the lowest over the CAPE period. The memorandum of understanding (MOU) of the 2006 Pakistan country portfolio review mission (CPRM) confirmed that the frequent change of project officer was one of the reasons for poor

[66] OED. 2002. *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period ending 31 December 2001.* Manila: ADB.

[67] The regional departments covered a group of geographically contiguous countries with similarities in culture, economic systems, and social organization. Other considerations for the groupings were operational convenience, and scope for subregional cooperation and linkages with subregional groups, ADB Annual Report 2002.
http://operationstoolkit.asiandevbank.org/modules/tinycontent0/index.php?id=1

[68] ADB. 2004. *Independent Assessment of the Effectiveness of the Reorganization of the Asian Development Bank, Diagnostic Report.* Manila.

[69] Comprising Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, and Uzbekistan.

[70] ADB. 2007. *Annual Report 2006.* Manila.

[71] An average of 4.3 officers administered a project in Pakistan over its life, while the average for ADB as a whole was lower, at 3.8. (IED. 2013. *Annual Evaluation Review 2013.* Manila: ADB. Linked document B).

portfolio performance in Pakistan, although this probably also referred to the period before the reorganization.[72]

B. Impact of Portfolio Spring Cleaning

62. **Did the spring cleaning improve portfolio performance?** As this section will argue, the spring cleaning in the short run worsened success rates but should in the long run improve them. The spring cleaning, which started in 2007, aimed to rationalize and restructure the portfolio, which was performing poorly. For program loans, challenges reported at the time[73] were mainly (i) over-ambitious and far too numerous tranche release conditions; (ii) unrealistic time schedules; and (iii) unclear commitment to agreed reforms. Regarding project loans, key problem areas included (i) use of multi-agencies and multi-tasks; (ii) complicated project design and weak implementation arrangements; (iii) lack of project readiness before loan approval and effectivity, especially in relation to the establishment of project management and project implementing units, and necessary advance actions; (iv) lengthy and cumbersome approval procedures for procurement, recruitment of consultants, disbursement, and resettlement, and safeguard plans; (v) weak project implementation and management capacity of executing and implementing agencies, in particular regarding contract management and financial management; (vi) unfamiliarity with ADB guidelines, procedures, practices and standard documents on procurement, recruitment of consultants, and disbursements; and (vii) frequent changes of project staff by both the executing agencies and ADB.

63. The spring cleaning was initiated by ADB. Arguments for it had been building up since 2006. The May–June 2006 Country Portfolio Review Mission (CPRM) raised an alarm about the bloated and slow-moving portfolio. Compared with the situation at the end of 2005, in May 2006, the number of loans rated as "at risk" had increased from two to eight, for reasons such as project implementation delays, delays in fielding consultants, significant disbursement delays, poor compliance with audited accounts and financial statements, and environmental and social problems. When ADB discussed its portfolio with the World Bank office, it learned that the World Bank was contemplating imposing stricter project readiness filters and a restrictive policy on extending loan closing dates, and that extensions would be granted only in case of *force majeure*.

64. Based on such concerns, the 2007 CPRM was conducted with a heavy focus on cleaning up and improving the portfolio. The number of loans had increased sharply in the preceding 5 years from 53 in 2002 to 80 in 2007, and few loans had been closed, while many new ones (often small) had been added each year. The average project duration had increased to 8 years—longer than in other countries in the region. ADB aimed for a smaller number of loans of larger size, after having applied much stricter quality control. The CPRM started a phased portfolio spring cleaning exercise immediately after consultations were held, primarily with the Economic Affairs Division, and after visits to the planning departments of Punjab and Sindh.

65. An agreement was reached that candidate projects for spring cleaning would be classified into four categories, from Section A to Section D. As many as 30 Section A loans would be closed by March 2008 with no extensions. Seven Section B loans would be immediately closed; some of these had a few more years before the original closing

[72] 2006 CPRM Memorandum of Understanding. Internal document (September 2006).
[73] 2007 CPRM Memorandum of Understanding. Internal document (July 2007).

date but were deemed as having very low disbursements and physical progress (many of these were in education, social sectors, rural development, and financial markets). Sixteen loans under Section C were scheduled for further discussion between the federal government and executing agencies; if their continuation could not be justified, they would have to be immediately closed. And four loans in Section D—mainly vocational training and road projects—were advised to restructure (i.e., either reduce their scope or close with cancellation). In total, 57 loans were initially targeted for spring cleaning.[74]

66. The exercise was pursued through an action plan for mainly Sections C and D loans combining loan cancellations and loan restructuring with improved processing and implementation arrangements. Informally, CWRD applied a "no extension" policy for loans, looking mainly at disbursement and physical output data in the database. This was initiated because most loans had delayed disbursements and were often easily extended two to four times[75] without repercussions. It was perceived that ADB was failing to give signals to executing agencies that it was serious about schedules and wished to keep its own costs to a minimum.

67. During the March 2008 CPRM, ADB reiterated that it was important to keep a small portfolio in terms of active loan numbers. ADB made clear that it used three indicators to guide the spring cleaning exercise: (i) disbursement ratio, (ii) elapsed loan period (i.e., time), and (iii) physical progress. The negotiation usually listed all projects' performance in tables with these numbers. During this process, some provincial governments and executing agencies raised concerns that all the decisions regarding cancellations or extensions seemed to be premeditated by ADB and the Economic Affairs Division, without their involvement. PRM reported that early partial cancellations of loan savings would result in reductions of net loan amounts and would bring up the disbursement ratio, but would also reduce the loan commitment charges for the government.

68. The evaluation observes that there were repeated and close consultations among PRM (sometimes with the presence of senior CWRD management from Manila in CPRM missions), the Economic Affairs Division, and key provincial planning departments on the listing of loans targeted for further spring cleaning in 2008–2009. On those occasions, the provincial governments still made requests to ADB to be more flexible on extensions of loan closing dates (mainly for road loans[76]); the Balochistan government made a request to ADB to be allowed to flexibly change the project design when things were not moving well, and to be lenient on extensions. However, in general, ADB intensively pursued the exercise with agreement at the federal level through the CPRM process, stressing that the process made Pakistan's portfolio "appear in a much cleaner and healthier" light. While in exceptional cases, ADB told provinces that it would review the justification provided by the provincial planning departments, it emphasized that the official CWRD stance was "for no loan extensions."

[74] Footnote 73. Annex 1: List of Loans for Review as Agreed in the Initial Wrap-up Meeting.
[75] In 2007 and 2011, two loans were extended 5 and 6 times, respectively.
[76] It was cited that the main problems of the transport sector were as follows: (i) intended outputs, primarily road construction contracts, could not be finished in the loan period; (ii) many contracts received no bids, even with repeated tender attempts; (iii) many projects were not compliant with financial requirements, including audits; (iv) there were large material cost increases (principally concrete, steel, and bitumen); (v) land acquisition was a sticking point; and (vi) security situations were worsening such that many contractors and consultants were unwilling to work in Pakistan.

69. **Effects of the spring cleaning on cancellations and loan closures**. In the 5 years prior to the 2007 spring cleaning, there had been on average five loan cancellations per year, involving on average $90 million per year (Table 2). This changed to an average of 13 loan cancellations per year from 2007 to 2011, involving on average $257 million per year, which demonstrates the extensive and prolonged effort to streamline Pakistan's portfolio after the start of the spring cleaning in 2007.[77] Annual loan closures jumped from a low of 3 in 2006 to 23 in 2007, 15 in 2008, and 31 in 2009 (peak). This was unprecedented; prior to spring cleaning such closures never exceeded 8 in a single year.

Table 2: Loan Closures and Cancellations in Pakistan, 2002–2012

Item	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Loans closed (no.)	8	8	6	1	3	23	15	31	10	11	1
Loan cancellations (no.)	7	6	10	0	2	16	13	18	16	13	4
Amount cancelled ($ million)	23	17	411	0	6	361	121	373	281	354	50
% share of principal amount	6	4	40	0	2	29	15	45	19	22	10
% share to total ADB loan cancellations	2	2	40	0	1	27	28	66	17	47	11
Principal amount ($ million)	395	424	1,018	0	301	1,256	814	825	1,503	1,637	487
Total loan cancellations ($ million)	1,137	1,076	1,023	744	423	1,333	426	562	1,634	754	469

Source: OSFMD Loan Cancellations, and ADB Loan Financial Information System.

70. **Cancellations by sector portfolio.** The majority of the cancellations[78] made during the spring cleaning exercise in 2007 concerned finance and education sector operations. Later they were made also in other types of operations. In 2008 and 2009, the transport and WOMIS portfolios had significant cancellations. In 2010, aside from the transport portfolio, the PSM portfolio had a large share of cancellations. In 2011, again, transport, together with the ANR sector, had major cancellations in their operations, while in 2012, the energy portfolio stood out in loan cancellations (Appendix 1, Linked Document G.5).[79]

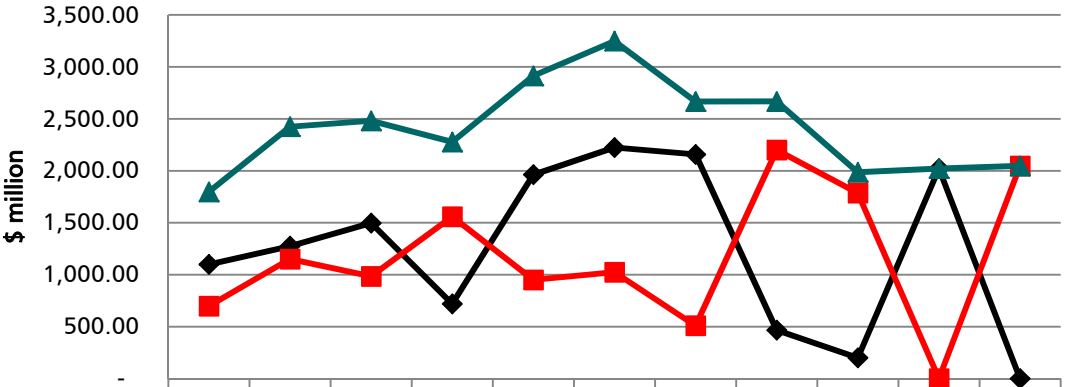
71. **Disbursements.** Prior to the spring cleaning, undisbursed loan balances had been increasing, peaking at $3.24 billion in 2007, or 77% of the overall portfolio. As an understandable effect of spring cleaning, undisbursed loan balances have been declining every year since 2008 (Figure 6).

[77] Pakistan's portfolio performance before and after the spring cleaning was assessed using the following indicators: (i) loan cancellations, (ii) loan closures, (iii) disbursements (undisbursed loan balances and loan disbursement ratio), (iv) contract awards, (v) loan extensions, and (vi) project ratings (PCRs, PCR validation reports [PVRs], and project/program performance evaluation reports [PPERs]).

[78] The tables on loan cancellations in Appendix 1, Linked Document K: Sector Program Assessments also cover 2001 loans in PSM, social sectors, transport, and ANR that were implemented during the CAPE period.

[79] For loans cancelled during the CAPE period, including those approved prior to 2002.

Figure 6: Undisbursed Loan Balances, 2000–2012

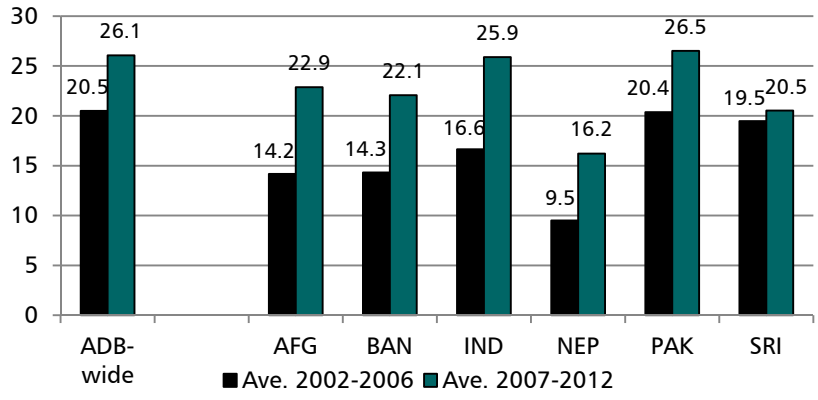


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Program	1,098	1,274	1,496	719.0	1,962	2,223	2,157	466.0	200.0	2,021	-
Project	697.9	1,150	984.0	1,558	950.5	1,024	508.9	2,200	1,785	-	2046.5
Total	1,796	2,424	2,480	2,277	2,913	3,248	2,666	2,666	1,985	2,021	2,046

Notes: Includes (i) active and effective loans as of the cut-off period; and (ii) loans closed during the year.
Source: Controller's Department. (For years 2000 to 2004, ALR511 Report [Disbursement Ratio by Country and by Fund]; for years 2005 to 2011, computed Disbursement Ratio.)

72. The spring cleaning exercise has had some positive effects on corporate efficiency indicators. By cancelling slow-moving loans, disbursement will lead to a better disbursement ratio, or will do so at least in the beginning. The loan disbursement ratio for Pakistan improved during 2007–2012 (26.5%) compared with 2002–2006 (20.4%). The loan disbursement ratio of the earlier period was in fact similar to the ADB average, raising some questions as to the need for the extensiveness of the spring cleaning procedure (Figure 7). Although the loan disbursement ratio also improved in other selected DMCs, as well as ADB-wide, Pakistan's average loan disbursement ratio was stronger than that of neighboring DMCs for both periods. Of course, actual disbursements may not have increased, but the ratio improved because of extensive cancellations in many projects.

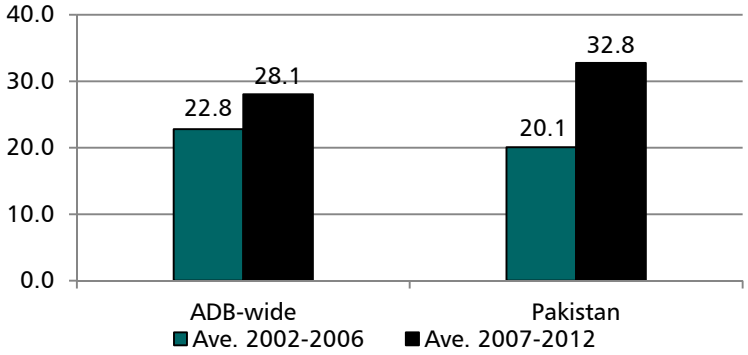
Figure 7: Loan Disbursement Ratio, Average 2002–2006 and 2007–2012 (%)



ADB = Asian Development Bank, AFG = Afghanistan, BAN = Bangladesh, CPRM = country portfolio review mission, IND = India, LGFIS = Loan and Grant Financial Information Services, NEP = Nepal, OSFMD = Operations Services and Financial Management Department, PAK = Pakistan, SRI = Sri Lanka.
Source: OSFMD CPRM Report Pakistan 31 December 2007, 2008, 2009, 2010, and 2011; ADB Quarterly Portfolio Update December 2007, 2008, 2009, 2010, 2011, and 2012; ALR511 Report; and LGFIS.

73. **Contract awards.** The spring cleaning also had a positive effect on the average contract/commitment ratio.[80] This increased from 20.1% in the first period to 32.8% in the second (Figure 8).[81] Pakistan's performance exceeded the ADB-wide performance (including Pakistan) by nearly 5 percentage points on average. The factors that may have improved the ratios are fewer implementation delays, faster loan effectiveness, the shrinking size of loans, greater availability of government counterpart funds, better compliance with ADB policies on safeguards and anticorruption, and a concomitant increase in the quality of ADB supervision.

Figure 8: Contract/Commitment Award Ratio, Average 2002–2006 and 2007–2012 (%)



ADB = Asian Development Bank.
Note: ADB-wide data includes Pakistan.
Source: Operations Services and Financial Management Department.

74. **Loan extensions.** By no longer granting extensions automatically, the number of loans with extensions declined from 13 in 2007 to 9 in 2008, and was kept low at an average of 5 for the next 3 years (Table 3). Prior to the spring cleaning, the number of loans with approved extensions had increased from 10 in 2004 to 22 in 2006.

Table 3: Number of Loans in Pakistan with Extensions, 2003–2011

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
No. of Loans	**14**	**10**	**18**	**22**	**13**	**9**	**5**	**5**	**6**	**102**
Growth rate		-29%	80%	22%	-41%	-31%	-44%	0%	20%	

Source: CPRM Reports (Portfolio Management Indicators) on Pakistan, 2009–2011.

75. **Effect of spring cleaning on success rates**. One conspicuous result of the spring cleaning has been a slump in the success rates of projects whose PCRs were circulated in the immediate aftermath of the spring cleaning. PCRs issued between 2010 and 2012 were mostly for projects completed between 2007 and 2009 and registered much lower success rates than PCRs in earlier periods (Table 4). Of all the projects approved before 2002 and for which the PCRs were circulated between 2010 and 2012, only 14% were *successful*, and of all projects approved from 2002 onwards, only 27%. However, the success rate of PCRs in 2012—further removed from the 2007–2010 spring

[80] Contract/commitment ratio is defined as the ratio of contracts awarded/actual commitments during the year over the value available for contract/commitment awards at the beginning of the year. The value of the contracts/commitments to be awarded/committed under newly approved loans during the period is/will be added to the opening balance of the value available for contract/commitment awards.

[81] Higher ratios may have resulted from the lower number of loan approvals in the years following the spring cleaning. That is, fewer project approvals imply a lower number of loans to take effect and therefore a lower net loan amount available in a given year. A lower denominator would yield a higher ratio, and therefore improvement in the ratios does not necessarily imply increased efficiency in implementing the Pakistan loan portfolio.

cleaning—started to pick up (55% were rated *successful*), which gives some comfort for the future.[82] The number of PCRs issued over 2010–2012 was far higher than in previous years, indicating a peak in project completions; this was partly due to the extra loan closings as a result of the spring cleaning. As such, it even affected ADB's overall project success rate reported in the corporate scorecard in some years, reducing it by 5–8 percentage points.

76. The average success rate achieved so far on the portfolio of projects approved since 2002 is 29%, well below the ADB average of 68% over this period. All 10 projects approved from 2002 with PCRs issued in 2010 were rated *less than successful* or *unsuccessful*. The reasons for these ratings are detailed in Appendix 1, Linked Document G on Success Rates.

Table 4: Success Rate of Operations Approved before 2002, and Approved 2002–2012

Period of PCR/PVR/ PPER Issuance	Approved Before 2002		Approved 2002–2012[a]		Total	
	Completion Reports	Success Rate[b]	Completion Reports	Success Rate[b]	Completion Reports	Success Rate[b]
2001–2003	19	58%	0	0%	19	58%
2004–2006	14	57%	0	0%	14	57%
2007–2009	8	75%	2	50%	10	70%
2010–2012	7	14%	37	27%	44	25%
2010	4	0%	13	8%	17	6%
2011	1	0%	13	23%	14	21%
2012	2	50%	11	55%	13	54%
2013	1	0%	0	0%	1	0%
Total	**48**	**54%**	**39**	**28%**	**87**	**43%**

APDRF = Asia Pacific Disaster Relief Fund, JFPR = Japan Fund for Poverty Reduction, PCR = project completion report, PPER = project performance evaluation report, PVR = PCR validation report.

[a] Includes ratings for programs/projects approved after 11 September 2001 except for North-West Frontier Province Urban Development Sector Project.

[b] Ratings are based on latest ratings. When available, the PPER rating supersedes the PVR rating, and the PVR rating supersedes the PCR rating. If neither PPER nor PVR is available, the PCR rating is reported.

Note: This excludes JFPR and APDRF grants. Excluding the 2001 successful program, the success rate for programs/projects approved between 2002 and 2012 is 29%.

Source: IED ratings database as of 26 Sept 2013.

77. The immediate objectives of the spring cleaning were realized in terms of a leaner, more focused loan portfolio that has slowly started to improve its performance. This view can be gleaned from the improving success rates in the past 2 years, and from internal reports based on ratings covering technical issues, disbursements, contract awards, submission of financial statements, and safeguards. The number of operations approved annually declined significantly, and their average financial size was generally higher from 2006 onwards (2011 is the highest, with large flood support) (Table 5). In addition, disbursement ratios rose and were higher than the ADB average (Figure 7), which suggests that supervision may be more manageable, and the upward trend in performance may be sustained.

[82] But PCRs issued in 2011 and 2012 have generally not yet been validated by IED, and some downgrading of their ratings can be expected (historically around 10%–12%).

Table 5: Yearly Loan Approvals and Active Loans, by Volume and Number

Year	Approvals			Active		
	Amount ($ million)	No.	Average Amount ($ million)	Amount ($ million)	No.	Average Amount ($ million)
2002	1,141	13	88	4,402	53	83
2003	871	11	79	5,157	58	89
2004	709	11	64	5,082	61	83
2005	739	10	74	5,339	70	76
2006	1,536	13	118	6,439	80	80
2007	1,495	8	187	6,073	66	92
2008	1,090	12	91	5,082	62	82
2009	940	7	134	4,363	42	104
2010	512	3	171	3,571	31	115
2011	1,163	4	291	3,355	24	140
2012	417	4	104	3,683	27	136

Source: Reports of the Operations Services and Financial Management Department.

78. The aim of the spring cleaning was to weed out poorly performing loans with no future and bring in more discipline in project management. The question remains whether so many loans were rightly cancelled midway or not extended when they reached their formal closure date. The answer to this question is not straightforward, as a counterfactual cannot easily be established. This evaluation agrees that investment project loans that experience inordinate delays that go beyond their first years may have to be cancelled, so that funds can be used more productively for other loan projects. Some of these projects with loans cancelled midway were, however, completed by the government with injections of government funds or with additional funds from development partners. They even showed a positive rate of return and development impact. This, for instance, was the case with the Punjab Road Development Project (also discussed in the sector assessment of the transport program, in Appendix 1, Linked Document K). Some provincial governments, such as Balochistan, managed to substantially complete several projects (e.g., Balochistan Road Development Sector Project) with cancelled loans using their own resources, albeit at typically twice the implementation period envisaged at project appraisal, and by deploying funds that would have otherwise been available for other, locally funded projects. The Road Sector Development Program-Provincial Sector Reform Project component and Southern Punjab Basic Urban Services[83] were also assumed by government. The Agricultural Support Fund (ASF) component of the Agribusiness Development Project[84] was continued by USAID.

79. The evaluation registered serious concerns about the limited consultation with some implementing agencies that were subjected to the spring cleaning exercise. As per an agreement, ADB had left some of the consultation with executing agencies to central government. Executing agencies have expressed the view that ADB could have handled the rationalization with more sensitivity to concerns of executing agencies and with more time for discussion.[85] Development effectiveness of some project loans

[83] One of the main reasons for loan suspension and later termination was safeguard compliance. A complaint was received by the Office of Special Project Facilitator (OSPF) in February 2009. Details can be gleaned from: ADB. 2013. *ADB Accountability Mechanism: Annual Report 2012.* Manila.

[84] After ADB's withdrawal, the government sought to continue the viable (ASF) component. USAID, through its Agribusiness Project is now supporting the ASF.

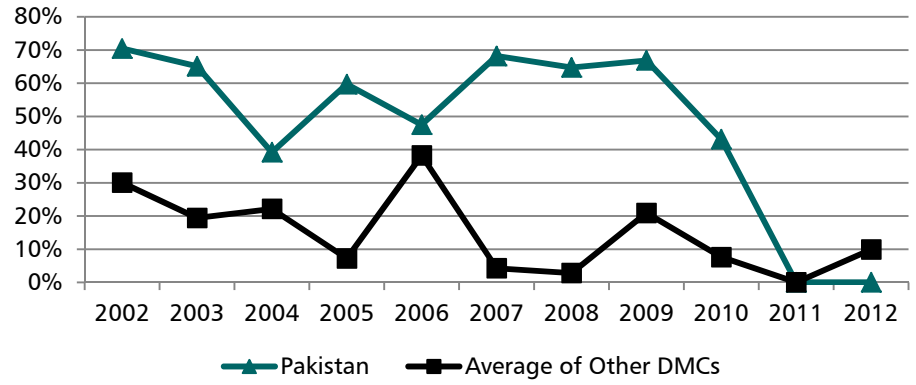
[85] Central agencies in the federal government were especially concerned that commitment charges had been incurred by those loans that were not moving, and eventually included in the spring cleaning exercise. The government saw that there were many cases wherein ADB also had some responsibility for slow progress

might have benefited. A large number of program loans were discontinued and hence the second or third tranche was not released. This may have been justified for several PSM operations due to the IMF program going off-track or absent political will to reform. But longer and more intensive policy dialogue or further support through projects might have led to deeper and more complete reforms, as the assessments for several sector programs have argued.

C. Program and Project Implementation

80. **Was the Pakistan portfolio performance affected by its large reliance on program lending?** The volume share of program loans to total loan approvals for Pakistan was 51%, well above the average for five neighboring DMCs (Afghanistan, Bangladesh, India, Nepal, and Sri Lanka) (Figure 9). For these five countries, it ranged from 8% (Sri Lanka) to 38% (Afghanistan). This indicates Pakistan's heavy reliance on program lending over the review period. From 2002 to 2009, the share was 60% on average, and never below 40% in a single year. There was, however, a sharp drop in program loan approvals from 2010 onwards; this was related to Pakistan's failure to meet IMF conditions in May 2010, and ADB's rule to not engage in program lending when a country has an IMF standby program and is off-track.

Figure 9: Volume Share of Program Loan Approvals (Pakistan vs. Neighboring DMCs)



ADB = Asian Development Bank, DMCs = developing member countries (i.e., Afghanistan, Bangladesh, India, Nepal and Sri Lanka)
Source: ADB database.

81. In some neighboring countries, a drop in program lending was also observed, for instance in the Sri Lanka portfolio, which has had no program loan approvals since 2005. For ADB as a whole, as recent development effectiveness reviews have documented, program lending slowed down after the global economic crisis of 2008–2009, but more gradually than in the case of Pakistan.

82. **Success rates of programs and projects.** Study of success rates bear out that the heavy reliance on program lending has been an important reason for the low performance ratings for the Pakistan portfolio over the review period. Program lending has had a much lower success rate than project lending. Country portfolios in Afghanistan, Bangladesh, India, Nepal, and Sri Lanka jointly achieved a 63% success rate for their 16 program loans over the period, and 80% for their 30 projects.[86] Given

(i.e., long turnaround time for decision making or responding to procurement queries, prolonged discussion on safeguard compliance gaps, and changes or departures of ADB staff).

[86] These rates incorporate those of IED's validations.

Pakistan's above average share of program lending, it is to be expected that the success rate of the portfolio as a whole would be below the average. Nevertheless, the success rates of programs and projects approved between 2002 and 2012 were lower for Pakistan than for neighboring DMCs. Pakistan's 13 program loans achieved a 15% success rate, and the 21 projects had a 38% success rate—considerably lower than the rates of its neighbors.

83. Prior to the CAPE period, programs and projects in Pakistan had the same share of *successful* or better ratings (55%). However, programs have performed worse during the last decade, which is the opposite of the trend for ADB as a whole, where the success rate of programs has been 68% and 64% for projects in the 2000s.[87] The weak PSM program loan ratings in Pakistan were largely due to overambitious designs that failed or were discontinued, although program loans in education, finance, and industry and trade also performed poorly. ADB program loans replaced expensive debt, and thereby eased crisis situations. Reform content, however, was rather ad-hoc and encountered little follow-up, as the government may have perceived the programs primarily as budget support vehicles, and its commitment to follow up on the difficult reforms seemed to vary considerably (see the PSM assessment in chapter 5 and Linked Document K for details). One disadvantage of program loans if they do not achieve reforms is that, unlike investment project loans, they do not generate new income. The conclusion is that program lending to Pakistan has become a very difficult proposition from the perspective of its reform objectives, in spite of the government's clear preference for it.

D. Multitranche Financing Facilities

84. **Was the Pakistan portfolio performance affected by its growing reliance on MFFs?** So far it has not been – the MFFs are a too young instrument for that – but this evaluation finds it worth noting at this stage that MFF tranches seem to be beset by the same type of implementation problems as all other types of interventions. This is unfortunate, as a large part of ADB's operations is currently being implemented with this instrument. ADB's portfolio in Pakistan over 2002–2012 includes 8 MFFs, focusing on four sectors: 1 in ANR, 4 in energy, 2 in transport, and 1 in water supply and sanitation. All were approved during 2005–2009. Since then, no more MFFs have been approved. The 8 MFFs to date have led to 24 approved tranches.

85. The National Highway Development Sector Investment Program is the only facility under which some tranches have been completed. Implementation of these tranches appears to have been good; they had a 100% disbursement ratio and a contract award ratio of over 90% at completion. However, the two tranches had significant loan cancellations of about 87% and 32%, respectively[88] (Appendix 1, Linked Document G, Table G.4). Approved in 2009, the only ongoing project under this MFF has not yet incurred any loan cancellation, even though its disbursement ratio was below 50% at end-2012, one year from the closing date. The contract award ratio was about 60%. The transport loan portfolio as a whole shows a pattern of low rates of loan utilization and reduced project outputs. Of the transport loans reviewed for this evaluation, almost half ($484.6 million) of the originally approved loan amounts was cancelled.[89] Four completed projects/programs were rated *successful* while two were rated *less than successful.*[90]

[87] IED. 2013. *Annual Evaluation Review 2013*. Manila: ADB.
[88] The percentage of the amount cancelled is based on the amount approved.
[89] The cancelled amount includes portions of loans and project components that were cancelled because of natural disasters, security and peace-and-order problems, "anticipated safeguard issues," and force

86. In the other seven MFFs, 16 tranches (projects) are operational, while one was cancelled.[91] The trend in the disbursement ratios of the active projects has likewise been relatively slow across all MFFs, despite several cancellations, which reduce the denominators and should therefore improve the ratios.[92] Another concern is that, for ADF-funded MFF loans, over 12 months elapsed between the effectivity date and the first contract award or first disbursement. This was not the case for OCR-funded loans.

87. No new MFFs have been approved for Pakistan between 2010 and 2012, partly to build the needed capacity in executing agencies for this at a later stage and partly because lending resources for Pakistan dwindled. But in the energy sector, a second generation of MFFs in areas where previous MFFs have been implemented relatively smoothly (e.g., power transmission and power distribution) is on the cards for 2014. Further, a new power generation plant is being proposed as a stand-alone project in response to an urgent request by the government.

88. From interviews, the main consideration for the slower increase in MFFs seems to be the underlying weakness in institutional capacity, which led to more time being spent on preparing agencies for more responsibility in project design. Although some tranches beyond the 24 already approved are still expected under some of the existing MFFs, because of their 10-year implementation cap, several projects originally envisaged as tranches are now being designed as single investment loans. ADB's MFF Annual Report of 2010 [93] refers to the slow progress of tranche design and implementation and also cites other potential problems and risks in implementing MFFs in Pakistan: influence of pressure groups against policy reforms, delays in procurement and recruitment, the bad security situation, and the high demands in project supervision and coordination especially in the more remote provinces. These problems are of course not unique to MFFs.

89. IED's real-time evaluation of the instrument in 2012 found that MFFs remain favored as lending instruments by DMCs, including Pakistan, partly because ADB's approval of new tranches under existing MFFs does not require complementary approvals from top decision makers in the country.[94] MFFs have achieved savings in terms of less time lost on slow government decision making regarding counterpart funds. MFFs also have features that are advantageous to individual executing agencies; for example, they are an assured financing source for a period of 10 years or longer with commitment fees charged only on approved tranches, rather than on the entire committed amount. However, since the tranches are generally as large as individual projects, this benefit may not be very real, especially if the MFF tranches disburse as slowly as other types of projects. Another trend is that MFFs in practice offer the

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majeure incidents. This applies to two projects, namely the National Highway Development Sector Investment Program, and the North-West Frontier Province Road Development Sector and Subregional Connectivity Project.

[90] Refer to latest ratings. *Successful* projects/program are: Balochistan Road Development Sector/Community Development and Poverty Reduction, North-West Frontier Province Road Development Sector and Subregional Connectivity; National Highway Development Sector Investment Program, and Road Sector Development Program. *Less than successful* projects are: Punjab Road Development Sector Project; and Road Sector Development Program-Provincial Sector Development Project (Sindh).

[91] Four recent MFF loans approved in December 2012 are yet to take effect (Punjab Irrigated Agriculture Investment Program, Power Distribution Enhancement Investment Program, and Sindh Cities Improvement Investment Program).

[92] Punjab Irrigated Agriculture Investment Program, and Renewable Energy Development Sector Investment Program.

[93] ADB. 2011. *Multitranche Financing Facility Annual Report 2010.* Manila.

[94] IED. 2012. *Special Evaluation Study. Real-Time Evaluation Study of the Multitranche Financing Facility.* Manila: ADB.

opportunity to exclude some components and include them in a succeeding tranche. The transport program has already had such a case.[95] If this had been an ordinary investment project, ADB would have needed to specially approve additional financing for the project. Care needs to be taken, however, that in the long run the discipline in preparing cost estimates is not reduced, and that the MFF does not end up financing and achieving less than intended.

90. The experience with slow implementation under MFFs could in theory be accommodated by extending the period of implementation allowed by the modality (now generally 10 years, which leaves little implementation time for the later tranches). The issue of slow physical and financial progress should be addressed more fundamentally, however, and IED's MFF study includes several recommendations in this respect: (i) support and implementation of capacity development should be ensured not only in the first tranche but also in succeeding tranches, as necessary, based on a needs assessment of agencies to be involved in the MMF; (ii) project designs should be made realistic and implementable within given constraints and impediments as identified in road maps, sector strategies, and policy frameworks; (iii) safeguards implementation should be mainstreamed with adequate monitoring; and (iv) technical and economic due diligence should be conducted, and the lessons learned in previous MFFs and tranches should be applied to subsequent MFFs and tranches.

E. Sector Program Performance

91. **Was the performance of the Pakistan portfolio worse because of the particular sector choices made?** This seems to have been a factor, but even the performance of sector programs that had previously been reasonably good declined after 2002. At individual project level, transport projects maintained a reasonable performance over the years, and the water supply and other municipal services portfolio seemed to perform better than before (albeit from a low base). But the performance of several other sector programs declined, sometimes significantly (Table 6). This is the case for programs in the finance sector, the industry and trade sector, and the education sector. The Pakistan program included hardly any PSM operations up to the end of the 1990s, and when the PSM program did start, it performed poorly. Multisector operations were few before the 2000s, while afterwards they consisted of successful emergency response operations and less successful operations usually directed at decentralization and social sectors. Few PCRs were completed for sector programs in the 2000s, and so caution should be exercised in interpreting the findings.

[95] Under the National Highway Development Sector Investment Program, the 155-km Zhob-Kila Saifullah subproject was excluded from Project 1 and included in Project 2 instead, due to procurement difficulties.

Table 6: Success Rates for Completed Operations by Sector Program

Sector Program	Operations before 2002		Operations after 2002	
	No.	Successful (%)	No.	Successful (%)
Agriculture and Natural Resources	44	57	4	50
Education	8	38	3	0
Energy	27	81	0	-
Finance Sector	17	18	4	0
Health and Social Protection	9	33	0	-
Industry and Trade	8	75	2	0
Multisector	1	100	7	43
Public Sector Management	1	0	6	0
Transport and ICT	11	82	4	75
Water and Other Municipal Services	8	25	4	50
Total	**134**	**55**	**34**	**29**

ICT = information and communication technology, IED = Independent Evaluation Department. No. = number.
Note: The total number of operations (including MFF tranches) approved over the period 2002–2012 was 61, of which 43 were closed. Of these, 34 or 79% had PCRs by end-2012. Eighteen were validated by IED. One or two ongoing project evaluations and PCR validations may lower the success rate in the transport program.
Source: IED ratings database as of 26 Sept 2013.

F. Resident Mission Staffing

92. **Have resident mission staffing issues affected portfolio performance?** ADB's policy on resident missions states that, as far as practicable, projects will be delegated to resident missions because evidence indicates that ADB's proximity to operations on the ground will improve project performance.[96] But has the size of the PRM affected portfolio performance in Pakistan? The short answer is that the decline in performance cannot be attributed to any specific decline in numbers, as staffing increased over the period. A longer answer could however argue that between 2001 and 2006 the number of staff was insufficient for the large portfolio then maintained, and that staff increases came too late. The number of PRM staff gradually increased every year from a low base of 27 in 2001, but jumped to 45 in 2007 from 37 in 2006 and then stabilized (Table 7). (Appendix 1, Linked Document G on Pakistan Resident Mission Staffing.)

Table 7: Resident Mission Administered Loans and Staffing, 2001–2012[97]

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Active Loans	51	53	58	61	70	80	66	62	42	31	24	27
RM-administered loans	14	15	17	20	26	29	20	25		(joint venture)		
PRM Staff	27	29	33	34	36	37	45	44	45	45	46	46

PRM = Pakistan Resident Mission, RM = resident mission.
Note: This table refers to actual staff on board in PRM.
Sources: Portfolio reports, and IED's *Special Evaluation Study on Resident Mission Policy and Related Operations*, 2007.

[96] ADB. 2000. *Asian Development Bank's Resident Mission Policy*. Manila. While the number of PRM staff increased, the number of active loans handled both by headquarters and PRM has decreased since 2007 (Table 8) to only 27 in 2012. The number of delegated loans increased over time before suddenly decreasing in 2007, and increasing again in 2008. The decrease in the portfolio can be attributed to the spring cleaning exercise.

[97] CWRD established a joint venture approach in 2009, which explains why data is not available from 2009 to 2012. Projects are no longer categorized as "delegated" or "non-delegated" under this approach, but rather jointly managed by staff at both headquarters and resident missions. Source: CWRD, and ADB. 2010. *Development Effectiveness Review 2009.* Manila.

93. It is worrying that the number of international staff positions assigned to PRM suddenly decreased from 10 in 2010 to 6 in 2011 and 2012, although the number of national staff positions increased from 18 in 2010 to 20 in 2011 and in 2012 (Table 8). The potential positive effect of fewer but larger active projects in the portfolio in recent years has not been fully realized. No regular staff has been employed for gender and development; this area is covered by a consultant.[98] The replacement of international by national staff can be seen in part as a cost reduction measure on the part of ADB.[99] For Pakistan in particular, the lack of appetite of international staff to move to PRM may be another factor. PRM management has indicated that the office in Islamabad needs only senior international specialists, preferably one for each sector program. PRM considers that if such staff cannot be mobilized, then national staff should be relied on, as Pakistan has a sufficiently large pool of experienced nationals. A factor that has affected the attractiveness of PRM as a duty station for such senior international staff has been the deteriorating security situation, and the related reclassification of PRM as a non-family posting.

Table 8: Staff Positions in Pakistan Resident Mission by Type

Number of Positions	2001	2002	2003	2004	2005	2006	2007	2008[a]	2009[a]	2010	2011	2012	2013
International Staff	5	5	6	6	7	6	7	7	9	10	6	6	6
National Staff	9	11	12	13	14	15	16	17	18	18	20	20	20
Administrative Staff	11	12	13	15	17	18	19	20	20	19	17	17	17
Total	**25**	**28**	**31**	**34**	**38**	**39**	**42**	**44**	**47**	**47**	**43**	**43**	**43**

[a] Including Extended Mission.
Note: This table refers to staff positions assigned to PRM.
Source: ADB Unit for Institutional Coordination (BPOD-UIC).

94. Although national staff are no doubt competent, CWRD and PRM should look at the mix of expertise within the resident mission given certain priority sectors. National staff have been assigned functions in all sectors, but staff with a depth of experience gained in other countries are needed as well, particularly for energy and for reform-oriented operations.[100] Thus, successful portfolio performance in the medium term requires continuation or even expansion of the present size of PRM, and some increase in senior international staff. This is in spite of the reduction in loan numbers (but not so much in aggregate financial position).

G. Effects of the Security Situation

95. **Has the deteriorating security situation in Pakistan had an effect on portfolio performance?** Deteriorating security conditions have indeed become a common issue in project implementation. They are frequently cited in PCRs as reasons for delays and changes in scope. Among projects with *less than successful* and *unsuccessful* PCR ratings, the deteriorating security situation is the issue mentioned most frequently, apart from design or implementation issues. Thus, the security situation in the 2000s can be taken regarded as a significant factor in explaining the low success rate.

[98] There is no international or national staff member for PSM as of June 2013, which is the largest sector.
[99] The trend to less international staff and more national staff also holds for Afghanistan Resident Mission. For other resident missions like in Armenia, Georgia, Kazakhstan, and Turkmenistan, the number of assigned international staff positions had no notable change; however, for national staff positions, the number increased in 2011. Generally, ADB increased the number of national staff positions in the resident missions.
[100] As of 2012, there are four international staff in the PRM (excluding the Country Director and Deputy Country Director), i.e., Principal Social Development Specialist, Principal Natural Resources and Agriculture Specialist, Senior Transport Specialist, and Senior Economist.

96. Security concerns also created problems in recruiting consultants, especially after 2007 when the political troubles flared up. The deteriorating security environment has made it more difficult to anticipate the timing of field based project activities,[101] and missions are often delayed or cancelled. Sometimes it has resulted in changes in project scope, and some security related delays have led to increased cost. The cost of consultants has also been higher, because of the security concerns and need for better compensation and protection. Like in fragile countries and situations, ADB needs to build in higher costs and special procedures to deal with security related issues.[102]

[101] United Nations has declared Pakistan as non-family duty station, and approved extended hazard pay for its staff from 1 December 2009. ADB followed suit with the United Nations staffing posts profile.

[102] PRM co-authored the Post Crisis Needs Assessment report for Khyber Pakhtunkhwa and Federally Administered Tribal Areas in September 2010 on security and disaster conditions.

CHAPTER 5

Assessment of the Program

97. The CAPE assessed ADB support to Pakistan during a very eventful period, both domestically and internationally. Pakistan went through a military government; political turmoil surrounding various elections; a global and national financial crisis and an IMF program; spillovers from war on its Afghanistan border; multiple acts of terrorism; a major earthquake; and several large floods. Within ADB itself, there were departmental reorganizations and the inevitable staff movements affecting the Pakistan program; strategic shifts in thematic and sector priorities; the approval of new modalities and products; and a major general capital increase in 2009 coupled with significant increases in staffing and administrative budget over 2010–2012. ADB's increasing concern for compliance of its projects with social safeguards in the 2000s created new challenges in project implementation, partly due to the large discrepancy between ADB's standards and the national law and practice, and partly due to lack of local capacity in this field. These circumstances have clearly influenced both strategy and programming in Pakistan. This CAPE has tried to assess the ADB performance against what was laid out in the CSP/CPS at the strategic and program level, and in the report and recommendations of the President and TA documents at the level of individual projects and programs.

A. Overview of Evaluation Ratings

98. The evaluation conducted assessments of the strategic positioning, relevance, efficiency, effectiveness, sustainability, and impact of ADB's eight sector programs in Pakistan. These programs were in the following sectors: PSM, social sectors, finance, energy, transport, ANR, water supply and municipal services, and natural disaster response. The CAPE also assessed ADB's private sector program, as per the usual criteria used for private sector operations—development impact, ADB investment profitability, ADB work quality, and ADB additionality. These sector program assessments, including the private sector program assessment, are in Appendix 1, Linked Document K. The summary of the ratings provided, disaggregated by sector, are in Table 9.

Table 9: Evaluation Ratings Disaggregated by Sector and Evaluation Criterion

Sector (Sector Share)	Strategic Positioning (10%)	Relevance (10%)	Efficiency (20%)	Effectiveness (20%)	Sustainability (20%)	Impact (20%)	Sector Rating
PSM (25%)	1	1	1	1	1	1	1.0
Education, Health and DSS (8%)	1	1	1	1	1	0	0.8
Finance and Trade (14%)	2	1	1	1	1	1	1.1
Energy (15%)	3	2	2	2	1	1	1.7
Transport and ICT (11%)	2	2	2	1	1	1	1.4
ANR (7%)	2	2	1	1	1	1	1.2
Water Supply and Urban (3%)	1	2	1	1	1	1	1.1
Disaster Emergency (17%)	2	2	1	2	1	2	1.6
Weighted Score	**1.79**	**1.53**	**1.26**	**1.32**	**1.00**	**1.09**	**1.27**
Overall Rating	**Satisfactory**	**Less than relevant**	**Less than efficient**	**Less than effective**	**Less than likely sustainable**	**Less than satisfactory**	**Less than successful**

Sector	Development Impact	ADB Investment Profitability	ADB Work Quality	ADB Additionality	Sector Rating
Private Sector/Nonsovereign	**Satisfactory**	**Satisfactory**	**Satisfactory**	**Satisfactory**	**Successful**

ANR = agriculture and natural resources, DSS = devolved social services, ICT = information communication and technology, PSM = public sector management
Note: 0 = unsatisfactory, 1 = less than satisfactory, 2 = satisfactory, 3 = highly satisfactory.
Threshold for a successful rating is 1.60.
Source: This evaluation. The rating methodology is explained in IED's CAPE Guidelines of 2010.

99. **Overall rating.** All sector programs, except the energy program and the disaster emergency support (both rated *successful* on the borderline), are rated *less than successful* (Table 10). The rating of the transport program was particularly difficult. It is showing improvement as ADB's contributions to the national highway network experience traffic growth to an extent that it may well make up for the loss of traffic outcomes due to the many road project cancellations. It is nevertheless rated *less than successful* for the overall CAPE period, which also covers the period of the difficult provincial road investments that has been discontinued later on. ADB's private sector operations are rated *successful*, but are discussed separately as the assessment is based on a different methodology. Many of the private sector operations projects are still not operational. Even if the private sector program score is added to the sovereign scores, the aggregate turns the rating for the program as a whole into *less than successful*, whether calculated by weighted sector volume lending or simple average.

Table 10: Overall Rating by Sector Program (Sovereign Operations)

Sovereign Sector Programs	Rating	Sector Rating	Financing Volume (%)	Weighted Score
Public Sector Management	Less than successful	1.0	25	0.247
Education, Health and DSS	Less than successful	0.8	8	0.061
Finance and Trade	Less than successful	1.1	14	0.153
Energy	Successful (on the borderline)	1.7	15	0.251
Transport and ICT	Less than successful (on the borderline)[a]	1.4	11	0.158
ANR	Less than successful	1.2	7	0.085
Water Supply and Urban	Less than successful	1.1	3	0.035
Disaster Emergency	Successful (on the borderline)	1.6	17	0.275
Overall rating	**Less than successful**		**100**	**1.27**

ANR = agriculture and natural resources, DSS = devolved social services, ICT = information and communication technology
[a] There are indications of upward trend in portfolio performance in the recent years. Therefore, this CAPE rates the sector program at the high end of *less than successful* or *less than successful* on the borderline.
Note: Sector ratings range from 3 (highly successful) to 0 (unsuccessful). A score of 1.6 is the threshold for a borderline *successful* rating, 0.8 for an *unsuccessful* rating.
Source: This study.

100. The assessment of the performance of the programs by evaluation criterion focuses on key sectors: PSM, energy, transport, finance and natural disaster response. These are the sectors with large shares in the portfolio during the CAPE period. They are summarized in section C. Highlights of assessments of smaller sector programs such as in irrigation and agriculture, social sectors (health and social protection, and education), water and other municipal services, and private sector operations are discussed in section B below.

B. Assessment of the Smaller Sector Programs

101. **Agriculture and natural resources**. The evaluation assesses the ADB program, starting from end-2001, as *less than successful* (see Appendix 1, Linked Document K for a more detailed assessment).[103] However, individually, there was a lot of variation, with several successful projects and also some unsuccessful ones. In terms of strategic positioning, the program was rated *satisfactory.* This evaluation viewed as appropriate ADB's commitment to support Pakistan in responding to the need for rehabilitation and expansion of the Indus river irrigation system. The program is rated *relevant* as it was aligned with both government and ADB strategies. The project portfolio addressed mainly agriculture, rural development, policy reform, and agribusiness. The program is rated *less than efficient*. Nevertheless, some projects could be considered efficient despite minor delays in start-up, counterpart funding, and limited extensions.[104]

102. The evaluation rated the program *less than effective*, although several of the projects were rated *effective*, as they exceeded their appraisal targets and achieved their outcomes. The results of the ongoing MFFs are difficult to anticipate. Although implementation of outputs is improving (e.g., the MFF Punjab Irrigated Agriculture Program), the longer term impact and sustainability is less clear. The slow implementation and challenges with the very important Punjab irrigation loan, as well as the cancellation of the tranches with an institutional focus, give justification for caution. Delivery of other component outputs (construction, rehabilitation) is picking up and this will yield results in at least the short term. Other projects and programs were either *less effective* or *ineffective,* as rated in PCRs and PCR validation reports, which may be due in part to their early cancellation and closure. The sustainability of ADB's program in this sector is considered *less likely,* but some projects should be sustainable. Meanwhile, the positive impacts and results delivered to date in the CAPE period stem largely from the integrated/area-based rural development projects, which were often pro-poor and directly targeted at the rural population. On the other hand, the sector reforms have delivered few benefits.

103. **Social sectors.** ADB's support to social sectors over the CAPE period is rated *less than successful,* and is bordering on *unsuccessful* (see Appendix 1, Linked Document K for a more detailed assessment). The program was assessed as *less than satisfactory* in terms of its strategic positioning and relevance. The social sectors were not given focus in the ADB strategy documents, and therefore the goals they set out to achieve also remained unclear. Although the CPS 2002–2006 had social development as a theme, the emphasis of the social sector strategy was on improving governance structures and devolution. The CPS 2009–2013 did not consider the possibility of a program in either health or education, but did give some consideration to social protection, albeit only

[103]The sector assessment included the Agriculture Sector Program loan which was approved in 2001. This was validated *unsuccessful*.

[104]The entire agriculture program under implementation in the early 2000s was much larger than the set of operations approved in the 2000s because of the large carry-over of operations approved in the 1990s. These operations were assessed by IED in the 2007 CAPE.

through budget support, so no long term results are expected. Projects approved early in the period were consistent with the stated strategic intentions, considering the number and magnitude of the interventions. Subsequently, the strategies became less coherent, and while some substantial commitments continued to be articulated, the actual support progressively reduced to practically zero.

104. The evaluation rates the social sector program *less than efficient* as the portfolio showed many start-up and implementation delays, and also low disbursements. These difficulties ultimately led to substantial cancellations. The social sector program was also rated *less than effective.* A majority of the intended outputs and outcomes have not been achieved. Policy reforms generally failed to materialize or were reversed, such as the devolution of social services. The sustainability of the social sector program is *less than likely*. The Devolved Social Services Program (DSSP) was not sustainable; the sustainability of other interventions cannot improve without improvements in institutional mechanisms and systems, which have not happened. The social sector program is rated as having had an *unsatisfactory* development impact. Admittedly it is difficult to quantify, partly because of the poor or contested baselines and poor tracking of program and sector outcomes. The program loans helped to fill the gaps in some provincial education and health budgets, but this was only temporary and budgets are also fungible.[105] It is true that human development indicators over the period improved in Pakistan. But, as mentioned, it is less likely that these impacts can be attributed to ADB supported interventions, as some were terminated early, the devolution process was in part reversed, and there was considerable under-utilization of approved funds.

105. **Water and other municipal and infrastructure services**. ADB's support for such services was rated *less than successful* (see Appendix 1, Linked Document K for a more detailed assessment). The program's strategic positioning is rated as *less than satisfactory*. The sector strategies changed over time without adequately assessing the results of previous work done. The program was rated *relevant as* the ADB program was aligned with the changing government focus, and the continuation of work in the urban sector also coincided with ADB's increasing prioritization of urban development. The design of the interventions was better at the start of the period. The program is rated *less than efficient*. In general, the rates of return calculated for some project components were lower than the values at appraisal. The program was also rated *less than effective*. Three municipal services projects were less than effective, while the two projects that addressed the newly devolved administrations had significant shortcomings and drawbacks.

106. ADB's program was also rated *less than likely sustainable.* In the first phase of the municipal integrated urban services projects, community participation in design and planning of the subprojects was not high except for one project that had a proven design. Lastly, the program's development impact was rated *less than satisfactory* given the lack of concrete outputs and outcomes in several of the projects, and the lack of institutional impacts. For the components that were completed, it was difficult to determine how many benefits resulted from ADB's municipal services investments, as the benefits were not monitored.

107. **Nonsovereign operations**. The evaluation assessed separately ADB's nonsovereign operations in Pakistan using a different set of evaluation criteria, namely development impact, ADB investment profitability, ADB work quality, and ADB

[105]The PPERs conducted for the DSSP in 2012 mention that it is as yet unclear what has happened to the last tranches and whether they were really passed on to local governments.

additionality. The overall rating for nonsovereign operations approved and ongoing over 2002–2012 was *successful* (see Appendix 1, Linked Document K for a more detailed assessment). The impact of ADB's private sector operations was rated *satisfactory*. The rating is determined by their contribution to private sector development; business success; contribution to economic development; and environmental, social, health, and safety performance. While the power projects are under construction or in the early stages of operation, the contribution to private sector development (PSD) is likely to be significant since many of the projects go beyond alleviating the power shortages. The PSD contribution of the Trade Finance Program (TFP) in Pakistan is important as it ensures the flow of critical imports to private enterprises, including small and medium enterprises (SMEs).

108. The business success of power projects was too early to assess as many were still under construction at the time of the field visits. However, the large TFP in Pakistan has not experienced any losses to date. The power projects are expected to make significant contributions to economic development, by improving access to power as well as strengthening the local economy through jobs, procurement, and small infrastructure. Power projects are complying with environmental, social, health, and safety safeguards.

109. ADB's investment profitability of the nonsovereign operations is rated *satisfactory.* It is too early to assess ADB's profitability in the power sector as many projects are not yet operational. However, the TFP is likely to be profitable given that the capital investment needed is less than for conventional loans. ADB's work quality is also rated *satisfactory*. ADB's screening, appraisal, and structuring of projects was acceptable. The quality of at-entry work in the power projects has generally been good. Projects were chosen on the basis of strategic focus, potential development impact, and quality of sponsors. In addition, adequate risk assessments were undertaken. The power projects are well monitored and supervised. There is a regular review of new and outstanding TFP transactions. ADB's nonsovereign operations program is also rated *satisfactory* in terms of its additionality. ADB's participation in many power projects was useful in mobilizing resources and providing credibility. The TFP had an accompanying TA project to improve the capacity of banks in implementing trade finance transactions.

C. Assessment of the Country Program by Evaluation Criterion

1. Strategic Positioning

110. This evaluation assesses ADB's sector choices and subsequent changes over the review period as having been broadly *satisfactory*, although the reasons for ADB's major shift in 2007, which was later set out in the CPS 2009–2013, were not well elaborated. The positioning of ADB's development support among main development partners was also satisfactory. The strategic positioning of ADB's programs within the highly specific context of the various sectors supported has been rated *satisfactory* or *highly satisfactory* in 5 of the 8 sector assessments (Table 9). As mentioned, ADB made some changes to its sector choices over the period evaluated, significantly reducing in 2007 its lending program in agriculture and the social sectors, and expanding its focus on macroeconomic stabilization-oriented budget support (at a time of food and fuel crisis in 2008 and 2009) and infrastructure. Given the need for agricultural support and the reasonable success achieved with certain types of integrated area development projects undertaken in this sector, the relative disengagement was abrupt and not well justified in IED's view, although ADB continued to work on irrigation infrastructure.

Pakistan is among countries with the worst social and gender indicators, and so any disengagement from social sector work (education and health) by a major development institution is surprising, especially when other agencies continue to support these sectors in a major way.

111. The CPS 2009–2013 focused on sectors and subsectors that would increase the return on investment, reduce the cost of doing business, and eliminate impediments to entrepreneurship. Along with education and health, conventional area-based community or municipal infrastructure in rural development and water supply and sanitation were no longer viewed as a top priority for ADB support. Although the previous CAPE 2007 had recommended reducing the number of sector programs, the CPS 2009–2013 should have had more discussion on how to exit from certain sectors and how such an exit would affect ADB's overall development impact.

112. The strategic positioning of ADB's PSM program was *less than satisfactory*. It was in principle satisfactory that the PSM portfolio addressed several high visibility issues such as justice reform and decentralization. Moreover, ADB program loans could be called timely in terms of providing budget support and contributing to fiscal space, particularly at the provincial level. At the federal level, ADB, through the AETP budget support, was viewed as a good partner by donor partners and government.

113. However, the PSM portfolio has been dominated by large shifts in its composition and the fluctuating allocation over the CAPE period. This can be partially explained by ADB's desire to respond to the changing governments and priorities. The result, however, is that, despite initial progress in some programs, the lack of continuity and failure to pursue second generation reforms significantly reduced the potential impact and sustainability of ADB's reform efforts. This was the case with ADB's support for the justice subsector, where the reform efforts did not go beyond first generation reforms. ADB was also too optimistic about the risks, context, and requirements to tackle the major reforms. For example, ADB should have been more cautious in its support of the 2001 LGO on decentralization, as it was imposed by a government with questionable legitimacy and had limited prior national debate. Others donors such as Canada, while also supporting decentralization, were more prudent in financing and approach. With the change in government in 2008, these policies on decentralization were reversed.

114. Similarly, the support for public management resource programs that sought to deepen reforms in the management of public resources was not sufficiently sequenced and linked. The Punjab resource management program (RMP) series did not adequately link with the DSSP series; there was some overlapping, and it was not clear how the two meshed. Neither the CPS nor the mid-term assessment adequately explains why the RMP series was shortened in Punjab in favor of a new cluster program initiative—the Punjab Government Efficiency Improvement Program (PGEIP). The PGEIP, like other programs, was not completed as planned. In the original PGEIP program, ADB planned to commit $750 million over a 5-year period (2007–2012). The first subprogram was approved in 2007 and its tranche of $250 million was released in January 2008 along with an $8.8 million TA loan. In 2009, due to resource scarcity, the size of the subprogram for tranche 2 was reduced from $250 million to $150 million. Given ADB's limited resources and the substantial medium and longer term development challenges in Pakistan, it is unclear why ADB had to be the first multilateral donor to provide resources for the stabilization of the economy in 2008–2009 through its AETP; the government did not agree to the conditions of the IMF

stand-by credit until after ADB had approved the first tranche of the AETP ($500 million).

115. ADB's program gave appropriate attention to facilitating power sector reforms, enhancing energy security, and promoting regional cooperation in energy. ADB worked closely with the government and was the lead player in the sector. For these reasons, the strategic positioning of ADB's energy sector support is rated *highly satisfactory.* The scope of support appropriately changed depending on changes in Pakistan's macroeconomic situation and politics.[106] ADB prioritized its support to help manage the power sector crisis, while dealing with a raft of governance and financial problems. ADB had been asked to bail out the power sector deficit through program loans in the past (e.g., the Energy Sector Restructuring Program (ESRP) loan approved in 2000, and various subprograms under the AETP loan). However, as with the IMF programs and reforms, implementation remained incomplete. While ADB's role in helping reduce the sector's indebtedness through program loans was directly beneficial, ADB should reflect on the value addition of ADB when subsequent structural reforms are regularly discontinued. The government had not been able to substantially address (despite various attempts) the underlying causes of continued poor financial performance.

116. ADB's strategic positioning in transport (roads) was *satisfactory.* The size of the operational program in the transport sector, coupled with initiatives for policy and institutional reforms, meant to give ADB adequate leverage to influence government sector strategies, policies, and plans. ADB changed its strategy around 2007 from one focusing on provincial roads to national highways and regional corridor development due to, it seems, the lack of capacity of provincial road administrations (though the 2009 CPS did not fully explain the change), better capacity at national level (the National Highway Authority [NHA]) and increased priority attached to regional integration in ADB's corporate strategy.

117. The strategic positioning of ADB activities in finance sector development[107] was rated *satisfactory* as well. ADB activities were responsive to the country challenges and government development priorities, even though the focus of government strategies changed over the evaluation period. In the first half of the evaluation period, ADB activities focused on those envisioned to have a poverty impact, such as the SME, rural development, and microfinance programs. The Financial (Nonbank) Market Governance Program represented continuity of the 1997 Capital Market Development Program; in addition, there was a window of opportunity to push difficult reforms given the ongoing IMF program. In the latter part of the evaluation period, ADB supported government priorities with the Second Generation of Capital Market Reform Program. ADB programs generally complemented the activities of development partners; for example, in the financial sector, the World Bank focused on the banking sector while ADB covered capital markets. In addition, the activities of development partners, in microfinance and financial infrastructure, for example, helped sustain the reforms implemented in various ADB programs. ADB project documents included sections listing donor activities and explaining the positioning of ADB programs.

118. ADB's strategic positioning in its response to natural disasters was *satisfactory*. ADB was able to respond swiftly to disasters that hit Pakistan over the decade, playing

[106] For instance, as part of its work on the Energy Task Force of Friends of Democratic Pakistan, ADB recommended the creation of a Ministry of Energy to strengthen energy sector governance and regulation. However, in view of ground realities, ADB settled for a committee headed by the Prime Minister and suggested implementation of a monitoring and accountability mechanism.

[107] Covering programs and projects classified as finance, and industry and trade.

a leading role in damage and needs assessments. ADB has been heavily involved in reconstruction and rehabilitation efforts. However, its positioning in disaster prevention requires improvement, by taking this into consideration in the new CPS.

2. Program Relevance

119. ADB's various sector programs were rated *less than relevant* in the aggregate in spite of the alignment of many sector strategies with government and ADB strategies over the period, principally because of the low relevance of the design of many projects, and especially program loans, to their ambitious goals. Of the eight sector programs reviewed, those in energy, transport, ANR, water supply, and natural disaster response were rated *relevant*; the others were rated *less than relevant*. This section focuses on PSM, energy, transport, finance, and natural disasters.

120. The preponderance of the PSM program over 2002–2009 was aligned with ADB corporate strategy priorities. There was initial alignment with the government's program, but, under President Musharraf, it was heavily disputed by provincial governments and unlikely to be sustainable. The alignment of post 2008 program loans with the ADB corporate strategy was much weaker, as neither PSM nor macroeconomic stabilization support was a focus of it.

121. ADB persistently designed overly ambitious or complex interventions, particularly in terms of institutional reforms. These generally require considerable political support at all levels of government, which they rarely received over extended periods. They also require more time and technical support than was made available. Despite consultations with stakeholders, the analysis underpinning the designs often failed to identify political and organizational obstacles or challenges, and to mitigate the risks that these entailed. In the early CAPE period, the risk assessments pertaining to financial management, procurement, and anti-corruption were either not provided or vague. Over time these issues were given more attention in the strategy updates. The CPS 2009–2013 directly addressed the issue of risk related to financial management and procurement, and carried out the required risk assessments. However, IED country, sector, and program assessments found that, during implementation, risk mitigation had not been adequately followed to the level required by the guidance in the Second Governance and Anticorruption Action Plan (GACAP II).[108]

122. The large AETP, foreseen to provide up to $1.4-1.8 billion in four tranches, was a special case. AETP had the dual objectives of contributing to both stabilization and transformation. A clear separation of these objectives would have been useful. Although envisioned to be focused on transformation, as per the title, AETP's actual contribution was largely stabilization and creation of fiscal space. ADB's decision to provide budgetary support was much appreciated by the government and was viewed as supportive by the IMF. It contributed to the stabilization plan but AETP made little progress in its transformation agenda. The change of government in February 2010 and the IMF standby loan going off-track in June 2010 prevented ADB from providing further program support. This effectively led to the economic transformation initiative fading away with unclear reform results from the first two tranches ($1 billion). The two remaining tranches earlier foreseen to support the reforms were abandoned and the transformation objective remained unfulfilled.[109] Funding for PSM and the

[108] ADB. 2008. *Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

[109] The abandonment of program lending was caused by ADB's standing policy to stop program lending when IMF conditions are not met. Other reasons for the fade out may well be: (i) lack of a powerful champion to

transformation agenda has declined significantly. Despite being part of the 2009 strategy, PSM operations disappeared from the pipeline after 2010, although the COBP 2013–2014 does contain a PSM related initiative.

123. Several factors may explain the large fluctuations in PSM support. The large program lending in 2009 took place in a period when more funds were becoming available following the approval of ADB's general capital increase and the advent of ADB's counter cyclical support facility in light of the global financial crisis. As resources available to the country program declined, PSM may no longer have been as compelling of a sector, given its generally poor performance and deteriorating context, which had contributed to the IMF program going off-track.

124. ADB's energy operations were *relevant* as they contributed to the government taking some difficult decisions on implementing power sector reforms, such as the privatization of the Karachi Electric Supply Company (KESC) and the unbundling of the Water and Power Development Authority. From the perspective of improving governance, most important is ADB's support for the work of a high-level energy task force that recognized explicitly the need for improving energy sector governance, and formulated an approach for the sector's recovery that was acceptable to the government. ADB's three ESRP loans were designed to be implemented over 4 years beginning late-2000 and covered a broad range of activities. However, the design was very ambitious as many outputs are still to be achieved more than 8 years after the planned closure of the loans. The proceeds of the first tranche of ESRP went to the restructuring of KESC, for which the government also allocated the incentive tranche. $50 million of the loan was expected to go to the Ministry of Petroleum but, because the second and third tranches of the ESRP were cancelled, this did not happen. The third tranche was cancelled by the government in 2004 because it was thought that it would not add value to the privatization of KESC. These series of changes reflect that project design for various reforms should have factored in more time for implementation, and applied more thorough readiness filters.

125. The transport program was rated *relevant,* as loan and TA projects were consistent with ADB's corporate strategies, the country strategies, and the government's strategic frameworks. The major themes of the strategies, including poverty reduction in rural areas, growth-oriented economic development, human resource development, regional cooperation, and trade competitiveness, were relevant throughout the evaluation period.

126. The ADB program in finance sector development is rated *less than relevant*. The programs and projects were consistent with the country strategies and addressed key sector development issues. However, there were design flaws that eventually led to poor or incomplete outcomes for many programs and projects. The Rural Finance Sector Development Program focused on restructuring the Zarai Taraqiati Bank Limited, instead of encouraging the entry of private sector banks—including microfinance banks—that could mobilize deposits and provide a variety of other financial services to the rural sector. The Small and Medium Enterprise Sector Development Program created the Business Support Fund to "jumpstart the market for business development services" but the intended demonstration effect has not materialized.[110] The Financial (Nonbank) Market Governance Program suffered from program complexity and lack of

push the AETP reforms, (ii) resignation of a strong supporting finance minister, (iii) different executing agency (MOF) and line ministries responsible for reforms in sectors, and even (iv) Pakistan's reform fatigue.

[110]The PCR for the SME Sector Development Program attributed the limited impact of the Business Support Fund to the way it was designed; a more targeted approach would have been more effective.

ownership, resulting in cancellation of the final tranche. The bulk of the assistance of about $1.4 billion in sovereign loans in finance sector development went to the general budget rather than to finance specific policy reforms. Only one private sector assessment was completed during the evaluation period, and the planned financial sector strategy paper did not materialize. The design of the results framework covering outcomes and impact was generally weak, particularly in identifying monitorable indicators, which led to difficulties in evaluating performance.

127. ADB's emergency assistance and disaster prevention support was rated *relevant* as ADB responded to requests by the government. Also, ADB's support in this aspect is consistent with Strategy 2020, which recognizes the importance of giving special attention to disaster management. Both disaster response and prevention projects were implemented, but support for the latter needs to be accelerated.

3. Efficiency

128. ADB programs in all sectors other than energy and transport were rated *less than efficient*. This is in spite of ADB's spring cleaning exercise, which was a response to inefficiencies experienced earlier in the decade.

129. ADB's energy program was rated *efficient.* Delays have occurred post-approval for many loans and TA projects, but not necessarily for reasons within the control of program management. A brief summary of key results is:

(i) **Transmission MFF.** Despite a 2-year delay in approving tranche 1 of the transmission MFF, it achieved cost savings of $67 million. This accounts for the bulk of the loan amount that was cancelled. The outputs planned were achieved with much less investment because of cheaper procurement than anticipated (partly due to a 25% depreciation of the currency against the dollar in 2008–2009).

(ii) **Distribution MFF.** Tranche 1 of the distribution MFF also seemed efficient as it achieved savings of about $60 million, which were used to build an inventory of spares and implement simple subprojects that entailed no land acquisition.

(iii) **Renewable energy MFF.** Tranche 1 of the renewable energy MFF, however, experienced substantial delays as well as cost escalations.

(iv) **Energy efficiency MFF.** Tranche 1 of the energy efficiency MFF also experienced significant delays, albeit without cost over-runs, so the original outputs may still be produced if the project is no longer subject to CWRD's previously strict no extension policy. Tranche extensions are now negotiated, and it may be reasonable to grant a second extension to tranche 1 provided significant progress has been made in implementing it.

130. Some road projects had positive economic rates of return in spite of sometimes considerable delays and cuts because extensions were not granted. The roads were cut in terms of both length and cost, yet the remaining road sections were economically sound. The capacity development components were, nevertheless, rated *inefficient* as the majority of the interventions envisaged at appraisal were not fully implemented. Overall, the transport program was rated *efficient*.

131. In the PSM program and also the social sector programs, consultant recruitment and procurement under the loan agreements was generally slow as various government departments had little or no experience in administering projects under ADB rules. For several complex program loans, ADB fielded only a limited number of missions and mission members, and did not support the executing agencies or project management units in consultant recruitment and procurement, despite the importance of such support in program implementation. Cluster or related programs either never got off the ground or were terminated early, with the following programs/subprograms experiencing truncation or lack of follow through (details are in Appendix 1, Linked Document K, Table K.2): Access to Justice Program (did not proceed in Punjab); Balochistan DSSP (second tranche was not released, and program closed early); Balochistan RMP II and Punjab RMP III; PGEIP II; Sindh Growth and Rural Revitalization Program II; and national level AETP third and fourth tranches.

132. ADB's finance sector development program was also rated *less than efficient*. The programs and projects had many operational inefficiencies. For example, the Rural Finance Sector Development Program experienced many delays due to reorganizations in both the government and ADB. There were large cancellations: a third of the $225 million program was cancelled; over two-thirds of the $25 million project loan was undisbursed; most of the $5.2 million loan for the Rural Enterprise Modernization Project was cancelled; and the final tranche for the Financial (Nonbank) Market Governance Program was cancelled due to lack of ownership of several components. The SME Sector Development Program had problems with the coordination of activities, causing loss of momentum for reforms and delayed implementation. It was also affected by (i) the unwillingness and inability of participating banks to put capital at risk as intended by the program, and (ii) restrictions on margins banks could add. There were delays in staffing the program implementation unit of the Second Generation of Capital Market Reform Program. The Improving Access to Financial Services Program loan had delays in the take-up of the endowment fund because of overlaps with other donor programs. Advisory TA projects also experienced implementation issues.

133. ADB's response to natural disasters was rated *less than efficient*. This is in part due to the delays that the earthquake relief projects experienced during their implementation.[111] Some of the delays were due to floods subsequent to the earthquake. It also appears that poor management and cumbersome procedures contributed to significant delays in the Earthquake Emergency Assistance Project. These were exacerbated by instances of deficient procurement. The need to catch up after the delays, some unsuitable contractors and consultants, and demanding working conditions constrained performance. While a number of subprojects did show deficiencies against expectations, the project had high risks from the outset, yet was substantially completed overall. The concerns reported throughout the project, however, are a stark reminder of the difficulties in this area.

4. Effectiveness

134. With almost 40% of the aggregate loan amount having been cancelled or not spent over the period, overall, outcomes fell significantly short of the objectives, and the program was rated *less than effective*. This is the case even when cancellations resulted from legitimate scope changes approved by ADB management. But many projects had multiple cancellations, were just cut at some stage due to spring cleaning,

[111] Other than the Asia Pacific Disaster Response Facility (with a maximum of $3 million) for short-term relief, ADB does not have a large stand-by loan facility, as the Inter-American Development Bank has.

or failed to spend a significant portion when the project termination date was reached. In fact, the evaluation came to a satisfactory score on effectiveness only for the emergency response program and the energy program. In the PSM program, most intended outcomes (in the area of capacity development and reform) have not been attained. Some efforts have seen only little or modest progress (tax reform, law/judiciary, civil service), or have been largely reversed or stopped (management of public services contract, devolution). ADB's contribution to the Benazir Income Support Program was timely and its targets, although not reached, were important for focusing attention on female-headed households. DSSPs, RMPs, and AETP helped to create fiscal space, with a lot of it going to the retirement of high interest debt. The more explicit outcomes pursued have not been sustainably achieved so far, and it is unclear whether they will be in the near future. Some success was seen in the Punjab government effort to pilot the medium-term budgetary framework, and government pension funds are being slightly better managed. The PCRs for the two $500 million AETP tranches released 4 years ago are still awaited. These should give greater insight into the outcomes achieved.

135. ADB's energy sector support is rated *effective* in achieving its intended objectives and outcomes. ADB's support for KESC privatization (with KESC becoming profitable in 2012) demonstrates the medium-term benefits of privatization. Likewise, ADB's support for various independent power producers (IPPs) contributed to building capacity in provincial governments to oversee and negotiate concessions, water supply and use agreements, power off-take agreements, and other related aspects. Some TA projects and loan/investment interventions have also been effective, and at least one of the non-sovereign loans has been highly effective. The transmission MFF and distribution MFFs are progressing well, but the renewable energy MFF and energy efficiency MFF are unlikely to achieve their full sector outcomes as intended. Some TA and RETA projects have mostly been less than effective, and the attempt to undertake integrated energy planning (one of the energy task force's proposals) to facilitate informed policy-making also amounted to little more than creating awareness in some government organizations of the need for, and benefits of, integrated energy planning.

136. ADB's transport program was *less than effective*. Slow and difficult progress and related substantial cancellations of loan amounts and project components prior to project completion have limited ADB's road network contribution. The cumulative cancellation of the original loans was 50%, and the cumulative output in kilometres of roads against the original target was also 50% (Tables K.7 and K.8 in Appendix 1, Linked Document K). Although some good traffic outcomes beyond expectations on some completed roads have been argued to make up for traffic outcomes lost due to cancelled road outputs, the aggregate picture was not clear to the evaluation. Some scope cancellations due to force majeure, such as disaster and serious security deterioration might have been justified, but other cancellations had other reasons including sketchy design, spring cleaning, and safeguards.

137. Next to the expansion of the road network and the economic and social benefits this can lead to, the key sector objectives in the early half of the decade were to (i) foster decentralized province specific-operations, (ii) create adequate operation and maintenance funds, and (iii) build the capacity of provincial road agencies. These objectives were not fully achieved, partly due to security conditions, as mentioned, which hindered the fielding of ADB staff and consultants in some regions. The road operation and maintenance funds remained stagnant at around 55% of the requirement over the period.

138. The latter half of the decade was centered on the National Trade Corridor framework, but that also fizzled out, as the corridor network did not materialize due to lack of consensus within the government. In response to capacity building and institutional reform objectives, the NHA has set up a division and unit for safeguards and public-private partnerships, but the newly planned project in the pipeline still requires external consultants for safeguards compliance. The evaluation observes that NHA has skills to prepare road projects and does not need project preparatory TA. However, for the first generation of MFFs, ADB yet provided parallel TA and bridging consultants, which, in effect, supported project preparation.

139. The finance sector development program was also *less than effective*. ADB activities in rural development areas made only a small contribution to rural financing. The SME and capital markets programs had mixed results. Many of the economic benefits that justified the cost of the programs—the SME Sector Development Program, the Financial (Nonbank) Market Governance Program, and the Rural Finance Development Program—at the beginning of the evaluation period did not materialize. These include privatization of the SME Bank, restructuring of ZTBL into a sustainable financial institution, transformation of provincial credit cooperatives into microfinance institutions, reform of public sector contractual institutions, introduction of a clear regulatory framework for occupational savings schemes, and enactment of legislation that clarifies accountabilities and ensures the independence of the Securities and Exchange Commission of Pakistan. The $400 million Second Generation of Capital Market Reform Program contributed to the growth of the mutual fund and voluntary pension fund industries, but debt markets remain undeveloped and the share of nonbank financial sector assets in total financial sector assets has declined. While economic returns for the Second Generation of Capital Market Reform Program are mixed, they are high for the Improving Access to Financial Services Program. The microfinance sector has been going through a significant restructuring process that will enable the sector to achieve its objectives of greater outreach and self-sustainability without requiring public resources.

140. ADB's program responding to the natural disasters that occurred was rated *effective.* The assessment puts more weight on those projects that have been completed, and less on the reconstruction project following the 2010 floods, as the repair works contracts were awarded only in 2012, with design works yet to be completed. Following the 2005 earthquake, the objective of the main component of the emergency assistance was to restore access roads, bridges, and key highways, and this was realized despite problems with poor drainage and construction standards, and delays caused by flood damage. The objectives were also largely realized for the Earthquake-Displaced People Livelihood Restoration Program,[112] and the Asia Pacific Disaster Relief Fund's Sindh and Balochistan Emergency Response, which was a $3 million one-time grant for immediate humanitarian support.

5. Sustainability

141. Large changes over the decade in government priorities and financial space have contributed to turning the sustainability of many sector programs to *less than likely* (Table 9). The modest progress against outcomes seen in the PSM sector limits sustainability. Certainly, several policies have been reversed, with new governments

[112]The PCR rated the program as partially effective in achieving its original goal of helping the government meet its goal of having 85% of the 3.5 million earthquake-displaced people living in seismically compliant houses by the end of 2010.

coming on the stage. PCRs have also rated the sustainability of program loan outcomes and project loan outputs as *less than likely*.

142. ADB's energy program was assessed *less than likely sustainable*. Sustainability of ADB's energy support depends on the extent of the new government's commitment to resolve underlying issues (such as high non-technical losses and poor operational efficiency). It has begun reducing the sector indebtedness by making payments for power generation from the national treasury. The Planning Commission's unfortunate abandonment of an attempt at energy planning, such as happened in the context of an ADB TA project, is symptomatic of underlying civil service issues related to the retention of trained staff. Such underlying issues, however, can be resolved only in the medium term, which means that there is a need for continued and sustained government commitment. In the short term, much will depend on the availability of bridge or standby financing, whether from the IMF or other potential financiers.

143. The transport program was *less than likely sustainable* because of an inadequate maintenance regime, particularly at the provincial level. Allocation of financial resources to provincial road maintenance is not based on needs and the sources of revenue are largely inconsistent with the user-pays principle. The policy environment holds little promise that overdue reforms will be undertaken.

144. ADB's finance sector program was also assessed *less than likely sustainable.* SME access to lending has not been sustained; in fact, their share in bank lending has declined during 2008–2012. The Business Support Fund faces high financial sustainability risk and is unlikely to have a long-term impact on the development of a business development services market. Two critical pieces of legislation on capital markets (Financial Services Commission of Pakistan Law and Securities Market Law) have not been enacted, which poses a risk to sector development and supervision strengthening. The microfinance agenda is still large and unfinished,[113] requiring continued dialogue and support, but the planned second phase of the Improving Access to Financial Services Program did not materialize. Some of the stakeholders interviewed stated that there was a lack of continuity in ADB support to SME development, especially in the areas of access to support services and access to finance. Restructuring of public sector contractual savings institutions, regulation of Occupation Savings Schemes, and pension reform are important initiatives begun under the Financial (Nonbank) Market Governance Program, but not continued under the Second Generation of Capital Market Reform Program and the AETP.

145. There was little evidence to indicate that the PSM reforms pursued by ADB interventions bore fruit. The evaluation found little documentation from either government or ADB that traced the effect of the interventions. Many loans were cancelled or an intended series or cluster of loans was not completed, leaving reforms hanging.

146. The natural disaster response program was rated *less than likely sustainable*. Most of the project roads in northeastern Pakistan have been constructed according to government standards, but, given the terrain in the mountainous region, proper maintenance is essential. However, little provision has been made for this in the budgets of relevant government agencies. Also, there are concerns at the institutional level. The Earthquake Reconstruction and Rehabilitation Authority was created specifically for the 2005 earthquake, whereas the National Disaster Management

[113]Pakistan continues to lag many countries in the South Asia, and Middle East and North Africa regions in terms of major microfinance indicators, though the gap has been reduced.

Authority was set up later in the context of the 2010 floods. Presently, there is confusion about the functions of these two agencies. They are slated to merge when the current mandate of the former for the 2005 earthquake rehabilitation is completed.

6. Impact

147. IED defines development impact as the contributions of support programs to the country's achievement of development results. The program in Pakistan has had unusually high cancellations and, as argued in the effectiveness assessment as well, this has affected the amount of output and thereby also the potential for significant outcomes and development impact. At a basic level, many of the program loans have shored up the government's finances in critical times, but they also created more debt for Pakistan (there was a net negative resource flow in 2011 and 2012). At another level, Pakistan has experienced some economic growth over the period, poverty has declined, and some human development indicators have improved. ADB-supported interventions have contributed to these developments. Nevertheless, the sector assessments (Appendix 1, Linked Document K) were not able to establish very clearly the links with ADB work and financing, and argued that only disaster emergency support had unambiguously satisfactory development impacts.

148. The development impact of the PSM program is the hardest to judge, as it is impossible to work out a counterfactual situation to the government receiving the loans and the consequences no loans would have had. The devolution and decentralization work by the government, supported by ADB, was ultimately reversed. The budgetary support may have been used to support public services temporarily, but capacity development and institutional reform impacts were absent (see also IED's PPERs on Devolved Social Services).[114] Impacts of the provincial public resource management programs may have been more positive, but in terms of reforms, the verdict is not clear. The same applies to the AETP. ADB partnered with the IMF and World Bank to contribute to the government financing plan and provide the fiscal space needed by the government. However, it came at a cost of a billion dollars, which ADB could have used for other programs with a medium or longer term development objective. AETP, which was packaged as a cluster of program loans, made limited headway with its economic transformation agenda. Thus the underlying causes of the food and fuel crisis remain unresolved. While coordination with the IMF and World Bank is important, ADB needs to consider the type of support it wishes to give; options include crisis related macroeonomic stability support, more policy based support with appropriate conditionality, and investment lending.

149. The development impact of ADB's energy program is rated *less than satisfactory.* The positive outcomes of certain interventions, such as completed transmission and distribution subprojects that have contributed to system stability, are obscured by the deteriorating situation of the energy sector, wherein load shedding is massive, IPPs are underutilized, and many public sector plants have been derated. Even recent government initiatives to honor a large part of the subsidy payments (which reduced the sector indebtedness to PRs66 billion by end-August 2013) cannot be sustained unless the underlying causes[115] are suitably addressed. The development impact could become more positive if the government were to build on the experience

[114] IED. 2012. *Performance Evaluation Report: Sindh Devolved Social Services Program (Pakistan).* Manila: ADB; and IED. 2012. *Performance Evaluation Report: Punjab Devolved Social Services Program (Pakistan).* Manila: ADB.

[115] These causes are (i) below-cost-recovery tariffs because of high overall costs that stem from the inability to lower reliance on high-cost imported oil; (ii) high non-technical losses; and (iii) poor collection efficiency.

gained and progress already made in restructuring and privatizing the power sector, as well as in reducing costs and non-technical losses. Further progress in these areas will make the regulator-determined tariffs more affordable. In this context, the string of ADB interventions during the evaluation period can at best be considered a work-in-progress.

150. The development impact achieved by the transport program has been *less than satisfactory*. Positive factors were employment generation through road construction, socioeconomic impacts in the roads' influence areas, and better environmental conditions. While there were notable impacts generated by environmentally friendly designs and construction practices, factors that have contributed to low sector impacts include poor sector management, particularly at the provincial level, an unstable policy environment, and a non-assured funding system for maintenance. As the National Trade Corridor Improvement Project is still underway, it is too early to make an assessment of its impact. On the other hand, the business plan component under this project and the regional trade component under the Balochistan Road Development Sector Project were unsuccessful. The business plan has so far not been implemented because of unrealistic resource implications.[116]

151. The project designs did not have specific gender targets, although women were a major group of direct project beneficiaries. While it is difficult to assess the gender impact of the projects without socioeconomic baseline surveys, benefits that have accrued to women primarily consist of positive impacts resulting from better access to basic economic and social services. Women in Pakistan are responsible for key family activities such as child education, child care and health, and food. The transport burden faced by women contributes to poverty, as lack of time is a key constraint on the ability of women to build their assets and reduce their vulnerability. The construction of rural access roads, in particular, has allowed an increasing number of women to visit markets, which can be presumed to have increased their productivity and income.

152. In the area of social safeguards, particularly in involuntary resettlement, there is a gap between Pakistan's legislation on land acquisition and compensation for affected persons and ADB's 1995 involuntary resettlement policy.[117] The legislation, which dates back to 1894, recognizes the need for compensation, but does not recognize the principle of 'replacement cost' stipulated under the ADB policy.

153. The impact of ADB activities in finance sector development is rated *less than satisfactory*. Several programs are not likely to achieve the impact envisioned in the program results frameworks. Program and project impact indicators typically include measures of growth, poverty reduction, employment, and competitiveness. In the rural sector, the ADB activities failed to even complete several outputs. In capital markets, with the declining share of the nonbank financial sector in total financial system assets and the declining ratio of market capitalization to GDP, it is unlikely that the program had an impact on investment and savings rates. In the SME sector, while there were achievements in the areas of business climate and financial infrastructure, other binding constraints emerged, notably macroeconomic uncertainty and deterioration in access to electricity. These constraints contributed to the declining share of SMEs in bank lending and lack of progress in achieving SME competitiveness. In microfinance, the reform trajectory and increasing outreach make it likely that the sector will

[116]Officials in Islamabad referred to the business plan as "the debt plan."

[117]The involuntary resettlement policy of 1995 has been superseded by the safeguard policy statement of 2009. Most of the projects under review have been subject to the Involuntary Resettlement Safeguards of 1995.

contribute to employment generation and poverty reduction, though at this time measures of financial inclusion show that Pakistan still lags the region.

154. The development impact of ADB's response to natural disasters is rated *satisfactory.* The Earthquake-Displaced People Livelihood Restoration Program, an emergency assistance project that constructed seismically compliant houses for disaster victims, established a proper monitoring system, which worked well. The impact of the program was to restore and improve the livelihoods of the earthquake-displaced people. Based on the 2010 Housing Survey, which was jointly funded and prepared by ADB, the French Development Agency, the Islamic Development Bank, and the World Bank, and on views expressed at the time of the evaluation mission, this was achieved.

155. **Pursuit of inclusive growth**. Inclusive economic growth is a key strategic agenda of Strategy 2020. The recently issued Guidelines on Inclusive Economic Growth in the CPS[118] defines it as "growth that focuses on creation and expansion of economic opportunities, and/or ensuring broader access to these opportunities." The CPS 2009–2013 appropriately included a country-level outcome of "Sustained inclusive growth averaging 7% by FY2013" (Appendix 1, Linked Document F).[119] The specific CPS outcomes were: (i) improved quality of the services of utilities and enhanced access to power and electricity; (ii) an efficient transport system under the National Trade Corridor Improvement Program, marked by reduced travel time and transportation costs; and (iii) improved efficiency and productivity of existing irrigation infrastructure and reliability of water resources.[120] In addition, the CPS 2009–2013 discussed outcome indicators related to inclusive growth such as increased coverage of the social safety net system, minimum service delivery standards for primary and secondary health services (e.g., Punjab), and an increase in the regular health sector budget allocation and expenditures for primary and secondary health care. Thus, the CPS made a reasonable attempt to link its program to inclusive economic growth, although it could have been more specific in explaining how the transport system and electricity sector would be made more inclusive.

156. Since the CPS 2009–2013 completion report (with its narrative assessment), which should assess the achievement of these outcomes, has not yet been finalized, this has also made evaluation of the objective more difficult. Nevertheless, it seems fair to conclude that ADB's program was more geared to inclusive growth in the CSP period (2002–2008) than in the CPS period (2009–2012). The first period included more work in agriculture, social sectors, small communities and urban areas, and provincial and rural roads. Energy work can be viewed as supportive of inclusive growth throughout, given the nationwide problems affecting all, while the finance sector program has also appropriately included microfinance work. AETP, lastly, included budget support for social protection. In October 2013 the program became more inclusive, with ADB's approval of loans for a social protection development project and a rural financial inclusion and dairy facility.

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[118]The guidelines were issued on March 2013 by the Strategy Policy Department.

[119]In Linked Document F, this is listed in the CSP/CPS Results Framework Updates table as one of the Targets/Indicators of CPS 2009–2013, under the Poverty Reduction theme.

[120]Outcome indicators are: Increase in the percentage of grid-connected electricity consumers from 60% in 2008 to 70% in 2013; reduction in electricity outages by 30% by 2013, with the electricity deficit at peak falling from 5,000 MW in 2008 to 3,500 MW by 2013; 900 km of national highways and 2,000 km of provincial highways and district roads improved by 2013; reduced average travel time from Peshawar to Karachi from 72 hours in 2006 to 36 hours by 2017; reduced transport cost for freight from 7% in 2006 to 5% of total cost by 2013; 1.2 million hectares of land rehabilitated in Punjab by 2013; conversion of 11,500 hectares of rain-fed agriculture to irrigated agriculture by 2013; and farmer organizations active in all areas of ADB-supported water projects by 2013.

D. Assessment of ADB Performance

157. ADB performance over the period is rated *less than satisfactory* on balance. ADB's reorganization in 2002 meant a significant transition in terms of the assignment of staff. The 2006 reorganization meant further disruption, as the Pakistan program was taken out of SARD, and integrated into the newly created CWRD. ADB's shift to the large PSM program and to large reliance on program lending did not work out well. ADB's spring cleaning of the Pakistan portfolio starting in 2007 was successful in principle but some more discussion with counterpart executing agencies and a closer look at consequences for development effectiveness would have been beneficial. Some projects now cut probably have picked up in the second half of their existence, as is the experience usually in Pakistan.

158. PRM suffered from a shortage of senior international staff throughout the review period, and national staff especially in the first half of the CAPE period. Given conditions in Pakistan and the demands of the many ambitious programs and projects, PRM could have benefited from having more local staff with the relevant experience to deal with donor coordination, policy dialogue, and project supervision.

159. Until 2006, ADB's management of project implementation was often not sufficiently efficient or effective, and subsequently ADB was not sufficiently responsive to the fast changing context. This reflected deficiencies in the ADB approach to administration: higher than average changes in project officers assigned to projects; an inability to place sufficient senior international staff in PRM; and too many small projects to monitor, given the number of staff assigned (in the first half of the period). ADB support for implementation was inadequate, particularly in the PSM program. The level of coordination and supervision was insufficient to sustain any momentum for change in key programs, particularly in cases where ongoing policy dialogue was crucial to adaptation and success. ADB had a hard time incorporating the lessons from previous programs into the new programs. For instance, although the Punjab RMP was shown to be unwieldy, the plans to streamline Subprogram 2 in view of Subprogram 1 results did not materialize, and the implementation arrangements had to be restructured midstream to improve performance.

160. ADB's performance in energy was better. ADB is recognized as the lead development partner and, as part of the IMF's periodic reviews, has assessed the sector periodically in conjunction with the World Bank. Such reviews have formed at least a partial basis for support from multilateral and bilateral development partners. By supporting a high level energy task force to meet and discuss forward paths for the energy sector, ADB has also made it possible to provide further direction for all development partners. Nonetheless, ADB may not have needed to provide the amount of budget support it did, through the AETP, as this reduced the space for a sizable investment pipeline. Although the support from ADB and its development partners is coordinated and synchronized to a certain extent, progress towards resolving the underlying causes of poor financial and operational performance remains too slow. It therefore gradually becomes harder to continue to justify ADB's support to IPPs, particularly after 2008 when the power sector debt began to rise quickly, when: (i) the IPPs' revenue payments are secured only through a sovereign guarantee, in some cases with a revolving letter of credit but no escrow account; and (ii) the IPP developers have legal recourse only to the courts and the legal system in Pakistan.

161. ADB's performance in finance sector development was *less than satisfactory*. ADB could have better supervised its support for the restructuring of SME Bank and the

establishment of the Business Support Fund. ADB's reorganization created disruptions in supervision activities. Generally, ADB performance was ineffective in restructuring public sector institutions and building private sector capacity.

162. ADB's performance in the transport program was satisfactory, although ADB chose to close some projects before they were completed and in one case decided against an explicit government request for project continuation.[121] ADB's decision to continue with the NHA and a national highways-focused program proved to solve some problems, as NHA has more capacity to implement ADB supported projects than provincial governments have and outputs picked-up. The shift to a regional focus of the program can also be supported. In the first half of the review period, transport sector faced serious implementation problems, and it is comforting that the second phase is seeing improvement in the portfolio indicators.

E. Assessment of Borrower Performance

163. The CAPE rates the borrower's performance as *less than satisfactory.* The federal government, four provincial governments, and many local governments have all been committed to one PSM reform or another, but their commitments were not always in line with each other. Many reforms were disputed at one level or another, or by new developments. Furthermore, the degree of commitment changed over time, reflecting shifts in alliances and election cycles.

164. The borrower is clearly aware of shortcomings in the financial, technical, and operational performance of the power and energy sector entities, but has not been able to prevent a spiralling sector indebtedness wherein: (i) power sector problems have spilled over to the gas sector and engineering industry; (ii) the power sector deficits are contributing heavily to the national fiscal deficit; and (iii) power and energy shortages continue to mount and make it even more difficult for the government to meet its social and non-economic objectives. At a time when the power sector debt was still manageable (2002 to 2007), the borrower and the various agencies involved did not appear to give particular attention to medium-term planning. This has led to the situation today that the sector has very limited choices to quickly augment capacity, and increase supply-side and demand-side efficiencies. This is notwithstanding the fact that private players have performed well by turning around a loss-making utility or being persistent and diligent in managing all safeguards and other concerns.

165. In the finance sector program, the borrower and executing agency performance was *satisfactory* in both the Improving Access to Financial Services Program and Second Generation of Capital Market Reform Program where the design took into account the capacities of the executing agency and the implementing agencies. These programs incorporated lessons from implementation of previous ADB initiatives. On the other hand, the borrower and executing agency performance was weaker in other programs, mainly due to lack of ownership. The SME Sector Development Program suffered from lack of coordination among government agencies.

166. The competency and autonomy of project directors play a critical role in project planning, execution, and governance in the transport program. The borrower has often assigned civil servants as directors of national projects even though they did not have the required technical background or project management knowledge. Along with

[121] Communications and Works Department. 2008. *Impediments and Causes of Delay in Implementation of ADB Loan No. 1928-PAK.* Case Study. Lahore.

political appointments, this practice has also plagued provincial road projects. Frequently changing project directors has given rise to poor project performance. The conditions with which the central government had to comply in the Road Sector Development Program [122] were less than onerous, as ADB had provided for the expeditious release of the two loan tranches. Nonetheless, delays were encountered with the release of both tranches. The government's efforts to substantially complete the reforms in the areas of road safety and asset preservation were unsatisfactory.

[122]ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Islamic Republic of Pakistan for the Road Sector Development Program*. Manila (Loan 1891-PAK).

CHAPTER 6

Lessons and Recommendations

167. After Musharraf took power in 1999, the country embarked on a series of governance changes that were ultimately unsustainable. The September 2001 events led to a new stance towards Pakistan from the international development community (the stance had previously been more critical because of Pakistan's nuclear tests in 1997), and new goodwill and development financing poured into the country. This evaluation surmises that conditionality attached to several ADB program loans were not fully committed to or owned by the government during the latter end of the tranches. Deteriorations in center-province relations may not have helped several delayed ADB supported projects and programs to progress towards their successful completion. In 2007 and 2008, the country descended into political turmoil. Afterwards, the global financial crisis also made an impact, and politics remained highly eventful. Pakistan went from crisis to crisis.

168. The consequences of this context for project performance have been felt throughout the review period. Security problems led to ADB decreasing its field presence and field visits and also to fewer end of project surveys to establish socioeconomic and environmental outcomes. Program loans did not achieve their intended outcomes. ADB has responded to a procession of problems flexibly, and tried many things for intrinsically valid reasons, but in the process it has often meant a reduction in project scope or changes in course, which have contributed to inconsistency in the sector programs, and a failure to follow-through on investments, capacity development, and intended reforms. This has resulted in less than complete and satisfactory outputs and outcomes.

169. Before presenting the lessons and recommendations, this CAPE will first revisit the outcome of the previous 2007 CAPE.

A. Follow-up after the Previous CAPE

170. The previous 2007 CAPE for Pakistan rated ADB's operations in Pakistan also as *less than successful.*[123] It focused mainly on four aspects: (i) resources were too thinly spread across too many sector programs, (ii) ADB's design of projects had not given adequate consideration to government capacity, (iii) there was a lack of staff resources for supervision, and (iv) ADB business processes were centered at the Manila headquarters. This CAPE had to determine whether any action has been taken to address these concerns, and evaluate any changes that have taken place since 2007. It

[123]As of 1 May 2012, IED changed the previous rating category of *partly successful* to *less than successful* to clarify that such a category indicates "below the line" performance. In this report, all prior ratings preceded by the word "partly" have been converted to the new designation of "less than."

has concluded that the lessons and recommendations put forward in the 2007 CAPE were taken into account in the CSP 2009–2013, and have subsequently been generally complied with, albeit with some exceptions or provisos:

(i) **ADB has adopted a more focused approach by decreasing the number of sectors in the Pakistan portfolio.** An appropriate scenario was suggested as four core lending and two nonlending sectors, with a more focused approach within these sectors. Indeed, no education sector projects in the form of loans, grants or advisory TA projects have been approved since 2005. The ADB lending portfolio has focused on four sectors, especially after 2007: PSM, emergency assistance, energy, and water supply and other municipal services (see Figure H.3b in Linked Document H). Some interventions in other sectors (ANR, finance, transport) also continued to be processed and implemented.

(ii) **ADB has started to build up its private sector operations in Pakistan**. Moreover, as recommended by the 2007 CAPE, this is being done in a manner that will create synergies with its public sector operations. Private sector projects approved during the evaluation period mostly concern the power sector (particularly in 2007, 2010, and 2011). ADB support for hydropower, wind energy, and power generation aims to help increase private sector participation, and is signalling to investors that the policy and regulatory framework is improving.

(iii) **PRM has produced analytical work on poverty, economic, and governance issues.** This is in line with the 2007 CAPE recommendation for an adjustment in the balance between (a) lending and (b) economic, sector, and thematic work, and policy dialogue. ADB's Pakistan Economic Update was prepared quarterly before it was discontinued, to avoid duplication in the Asian Development Outlook. Since 2009, PRM has prepared annual federal and provincial budget presentations for development partners. PRM has also collaborated with the World Bank, Friends of Democratic Pakistan,[124] and the IMF in preparing presentations, economic and sector-specific reports, and reviews—all of which contribute to the development of strategies and policy discussions. In addition, a business plan was completed in 2010, under a TA for the development of a national trade corridor highway business plan. Nevertheless, TA resources for Pakistan that could produce further analytical work declined significantly in 2012.

(iv) **Staff resources allocated to PRM have been somewhat more aligned with the requirements of the program.** PRM staffing has increased over the years, but only in terms of national staff. The 2007 CAPE recommended that both international staff and administrative staff positions should grow, but instead, international positions have slowly declined after reaching a high in 2010. There was also a high turnover rate for international staff positions in 2009 (16.7%) and 2010 (20%). In addition, the joint venture approach,[125] which was initiated in 2008, has been adopted. The evaluation found that government and ADB staff have raised some concerns about this approach, as essentially it is viewed as being led by headquarters, while the resident mission's decision

[124]Friends of Democratic Pakistan, Water Sector Task Force. 2012. *A Productive and Water-Secure Pakistan (Infrastructure, Institutions, Strategy);* and Friends of Democratic Pakistan, Energy Sector Task Force. 2010. *Integrated Energy Sector Recovery Report and Plan.*

[125]Projects are no longer categorized as "delegated" or "non-delegated" under this approach, but rather are jointly managed by staff at both headquarters and resident missions. Sector directors are accountable for the entire project portfolio performance, while country directors oversee the client relationship.

making authority or policy dialogue capacity has not been strengthened, with the decrease in international staff contributing to this.

(v) **No progress appears to have been made in regard to the recommendation for a review of incentives for international staff to relocate to PRM to ensure an adequate pool of candidates for vacancies.** The evaluation was not able to review ADB's vacancy application data. Interviews with headquarters and resident mission staff, however, did not suggest that international staff incentives to relocate to PRM have improved. Certainly, since 2007 the security situation has worsened, and Islamabad has become a hardship non-family posting.

(vi) **Some progress has been made in regard to the recommendation that ADB needs to ensure that it understands the nature, extent, and drivers of corruption in each sector in which it engages.** The aim is to ensure that project design and/or separate initiatives incorporate effective anticorruption measures. In 2009, some limited risk assessments were undertaken in selected sectors in Pakistan, namely, PSM, energy, and transport.[126] Findings show that the government has put in place some reforms, some of which were supported by development partners (adoption of legal and regulatory frameworks, development of a modern accounting system and procurement manuals, and establishment or restructuring of key agencies). However, the implementation and institutionalization of the reforms has been rather slow owing largely to structural and system weaknesses and inefficiencies, as well as capacity constraints that have made checks and balances very difficult.

171. While there has been a reasonable follow-up to the 2007 CAPE findings, the main conclusion from the new evaluation is that the situation changed significantly after the 2007 CAPE. This includes the initiation of a significant spring cleaning exercise in 2007, which led to a drastic scale-down on some sectors (e.g., social sectors) and shift to large-scale infrastructure projects based on new corporate directions in ADB in 2008, and a quickly evolving and very different political and macroeconomic context in Pakistan. Such changes led to a new set of problems and opportunities. Thus, after 6 years, a new set of recommendations is required.

B. Lessons

172. The following lessons may be of use in formulating or implementing programs in Pakistan or other countries. Several are obvious, while others may already have been followed up in the current program in Pakistan.

(i) **ADB should take care when considering program lending and budget support in politically turbulent countries and situations.** In addition, the current requirement where IMF endorsement is needed prior to any program loan approval may need to be reviewed. AETP was approved, independent of the IMF stand-by credit, but AETP's third tranche (and fourth) was not disbursed due to IMF determining the program being off-track, which in turn, led ADB to discontinue its support for the reform process (Appendix 1, Linked Document K, Table K.2). Hence, ADB's tying of support to credit

[126] Risk assessments were undertaken in compliance with the 2007 new CPS guidelines which required the CPS to report on the status of ADB's three priority governance themes: public financial management, public procurement systems, and combating corruption in sectors, and national and subnational levels of government. However, no detailed fact-finding of existing systems and procedures was carried out, only desk reviews.

provided by the IMF and the World Bank diminished the chances of the AETP's success as a policy reform instrument. Generally, as an earlier evaluation has also pointed out,[127] program loans are not an appropriate vehicle for counter cyclical support that is rapidly needed in the case of an economic crisis. In April 2013, ADB issued changes in its Operations Manual that pay specific attention to the conditions and modalities of budget support, in times of balance-of-payments crisis. Program loans should have wholehearted support from governments at various levels and a very clear policy matrix with clear milestones of achievement. Reforms should be tracked in a more systematic and transparent manner; and noncompliance with covenants should be taken seriously. Ownership of the program by government counterparts needs to be supported by continuous capacity building and policy dialogue. ADB should have more achievable and realistic goals and objectives when politically charged reforms are intended.

(ii) **Community-based small-scale projects focusing on water supply or agriculture can be successful and have a direct impact on the poor in Pakistan**. Tranche 1 of the new MFF Sindh Cities Improvement Investment Program follows a new approach. It helps the North Sindh Urban Services Corporation and will be completed by December 2013. This evaluation could not determine whether an approach relying on corporatized entities will be successful and the answer may take several years. Past projects were often successfully facilitated by community-based organizations. Many subprojects showed sustainability many years after ADB's direct support ended; and some of them were picked up by other development partners. ADB's desired shift to infrastructure operations in Pakistan, relying on only large and few contracts, should take into account that certain types of projects may lead to more complete development outcomes when nongovernment organizations and community-based organizations are involved, even though they may have more contracts to administer and are therefore more tedious and intensive.

(iii) **In countries such as Pakistan, which are both flood and earthquake prone, disaster management should be a component of any country program.** Disaster prevention and disaster risk mitigation measures should be given special attention in most infrastructure projects, given the increasing risk of natural disasters, particularly floods.

(iv) **Safeguards implementation for road and urban projects needs close attention in Pakistan**. There is still a deep resistance to fully embracing ADB's safeguard policies, especially by provincial and local level government officers. The resistance to ADB's wider definition of affected people, and compensation for loss of land is high. Continuous engagement on this front during project implementation remains essential. It is therefore encouraging that ADB has added a safeguards position in the resident mission (currently still vacant), while ADB's capacity at headquarters has also expanded significantly in the last few years.

(v) **Projects in countries with well-known implementation problems need more supervision.** Policy dialogue in the case of program loans and supervision during project implementation need to be intensive. The response to policy conditionality varies over time in politically unstable countries, and the program loan instrument needs to be used with care. The Pakistan program operates in a fragile environment and should be managed from that perspective.

[127] IED. 2011. *Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009.* Manila: ADB.

(vi) **The power sector debt needs to be reduced to manageable levels.** Otherwise, the management, bureaucracy, and political leadership will likely continue to address immediate and short-term issues at the expense of medium-term planning imperatives. While power sector debt remains high, fossil fuel based IPPs will likely remain relatively more susceptible to financial problems. In general, unless the power sector debt is reduced significantly, the private sector's interest in setting up further IPPs is likely to remain weak.

(vii) **The establishment of an apex transport planning and policy formulation agency would likely lead to improved implementation of transport projects and more effective capacity building in the sector.** It would benefit the country and external partner agencies to have the fragmented sector responsibilities consolidated at the central government level and to have a comprehensive and integrated planning system in place. A transport policy and a long-term national master plan should support road network development consistent with traffic growth and other parameters.

(viii) **Pakistan would benefit from national strategies for each sector.** There are currently no clear operational strategies for the sectors nationally (beyond MDG targets), despite widespread recognition of the severity of the problems, as evidenced by the government's reference to an "education emergency." However, provinces are making efforts to establish clearer sector policies, aided by development partners, e.g., Punjab, Sindh, and Khyber Pakhtunkhwa.

C. Recommendations

173. The following recommendations follow from the findings of the evaluation and the lessons identified.

(i) *Given Pakistan's current situation in regard to human development, public services provision and governance, and the risk of natural disasters, ADB's portfolio should include significant investments in pursuing a visible development impact on the poor and reduce vulnerability to disasters*. Reforms in several sectors remain highly necessary, but ADB should prepare any program lending or TA for these very carefully and with a long-term perspective, given the difficult experience of the recent past. ADB needs to pursue inclusive economic growth that is environmentally sustainable, while finding a balance among the programs of both the government and other development partners. For poverty reduction and human development-oriented social protection, ADB may need to use the limited ADF to which Pakistan has access, and TA grants, if the government is reluctant to borrow nonconcessional funds.

(ii) *ADB should pursue structural reforms as sector-specific programs using a programmatic approach.* Reforms in various sectors should not be lumped together into one large program. This was the case with many PSM loans during the review period. Budgetary support for stabilization should be provided through the countercyclical support facility in times of crisis. The programmatic approach requires an extended timeframe and considerable staff resources. Policy conditionalities need to be carefully selected in dialogue with the government and key stakeholders through a transparent process that strengthens accountability. As the Operations Manual has consistently prescribed since 2003, implementation experience with past program loans needs to be carefully reviewed. Given repeated cases where structural reform tranches were not pursued or cancelled, ADB should also look into other modalities to pursue reforms in sectors. A cluster loan approach could be one option, as it allows for adjustment to policy changes in a high-risk environment. Another option could be the

standalone operation as used by the World Bank, which also ensures flexibility. Finally, policy-based lending needs dedicated specialist staff in PRM to support reforms and monitor progress on a daily basis and in close proximity to clients.

(iii) *While cancellations of loans may be beneficial if they are slow moving or the situation has changed, comprehensive spring cleaning of portfolios across the board may inadvertently lead to cutting the potential effectiveness of some project loans that are prematurely closed.* Efforts to improve disbursement efficiency and instil more discipline in implementation should be accompanied by extensive consultation with clients at various levels and by careful assessment of the gains versus the losses (i.e., the costs of incomplete outcomes). Given the planning and implementation environment in Pakistan, long project approval and implementation periods should be fully factored in.

(iv) *ADB's energy strategy in Pakistan and its reform achievements need to be reviewed to see if a course change is needed.* Although ADB's energy strategy has been supported by the international aid community, it has not been fully implemented. Recent successes have included improving the power systems through completion of some transmission and distribution subprojects. In addition, the government has shown its political will by settling a major portion of past dues and taking difficult decisions to raise tariffs. ADB, as the lead power sector partner and power sector advisor to the IMF, can therefore use this opportunity to support implementation of the action plan formulated in the July 2013 National Energy (Power) Policy. While ADB's private sector operations strategy needs to consider its continuing primary reliance on energy operations, the KESC experience demonstrates that it should be possible to improve the operational efficiency of power sector entities over the next few years (e.g., reducing technical losses, introducing energy accounting in distribution). In fact, there are few short-term options that can reduce power shortages as well as power generation costs. In the medium term, however, ADB could explore options such as (i) hydropower development, (ii) natural gas pipelines, and (iii) further privatization. All of these need thorough feasibility studies first.

(v) *As part of its infrastructure support, ADB should consider expanding its work in urban and municipal services and social protection, given their direct effect on human development indicators, which are still poor in Pakistan.* Municipal and social sectors interventions should generally be blended with community-level engagement and the use of nongovernment and community-based organizations should not be discarded. These can play a useful part in making even big city projects successful. ADB's recent approval of a social protection project is a good development. Social protection systems need special attention and close monitoring of impact on the eligible poor. ADB TA could also be used for innovative approaches to the strengthening of social services, for instance by supporting studies or institutional change. Some interventions in this area of great need could be done in partnership with development partners, several of whom have large and relatively more effective programs in the social sectors, and with a greater staff presence outside Islamabad.

(vi) *ADB could help strengthen Pakistan's disaster response capability by increasing its support. It should strengthen the risk analysis in its projects in this area and further mainstream disaster risk mitigation measures in infrastructure projects.* The chances of recurring natural disasters, especially floods, are very real in Pakistan. ADB has wide experience in the area of disaster management and could offer greater knowledge transfer (e.g., capacity development and other institutional support). ADB should consider supporting the new National Disaster Management Authority set up after the

2010 floods, and work more closely with several ministries and agencies to improve the disaster resilience of infrastructure and the preparedness of communities. The new National Disaster Management Authority has inadequate funding and human resources to fully realize its mandate. The Authority could draw usefully on ADB's regional cooperation experience and network, and the knowledge of other specialized agencies in Asia.

Appendix

APPENDIX: LINKED DOCUMENTS

A Approved Loans, Grants, and Advisory Technical Assistance to Pakistan
http://www.adb.org/sites/default/files/A-Approved-Loans-Grants-TAs.pdf

B Governance Indicators
http://www.adb.org/sites/default/files/B-Governance-Indicators.pdf

C Key Economic and Social Indicators
http://www.adb.org/sites/default/files/C-Key-Economic-Social-Indicators.pdf

D Progress towards Millennium Development Goals
http://www.adb.org/sites/default/files/D-Progress-Towards-MDGs.pdf

E Assessment of the Gender Program
http://www.adb.org/sites/default/files/E-Assessment-Gender-Program-Pakistan.pdf

F ADB Country Development Partnership and Assistance Programs
http://www.adb.org/sites/default/files/F-ADB-Country-Development-Partnerships.pdf

G ADB Program Implementation
http://www.adb.org/sites/default/files/G-ADB-Program-Implementation.pdf

H Portfolio in Two Periods, 2002–2006 and 2007–2012
http://www.adb.org/sites/default/files/H-Pakistan-Portfolio.pdf

I ADB Regional and Project Preparatory Technical Assistance Activities
http://www.adb.org/sites/default/files/I-ADB-Regional-PPTA-Pakistan.pdf

J Official Development Assistance, 2002–2012
http://www.adb.org/sites/default/files/J-ODA-in-Pakistan.pdf

K Sector Program Assessments
http://www.adb.org/sites/default/files/K-Sector-Program-Assessments.pdf

Country Assistance Program Evaluation for Pakistan

This second independent evaluation of the ADB program in Pakistan (the first was in 2007) covers operations and policy dialogue during 2002–2012. The focus is on the results of two country strategies, one covering 2002–2006 and the other 2009–2013. The evaluation assesses the performance of ADB operations, and provides lessons and recommendations for ADB's new country partnership strategy (CPS).

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people who live on less than $2 a day, with 828 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

About the Independent Evaluation at Asian Development Bank

The Independent Evaluation Department evaluates the policies, strategies, operations, and special concerns of the Asian Development Bank relating to organizational and operational effectiveness. It contributes to development effectiveness by providing feedback on performance and through evaluation lessons.

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