Country Partnership Framework

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COUNTRY PARTNERSHIP FRAMEWORK

FOR THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR THE PERIOD FY26 UP TO FY35

Pakistan Country Management Unit
South Asia Region
The International Finance Corporation
Middle East, Central Asia, Pakistan and Afghanistan Region
The Multilateral Investment Guarantee Agency

The date of the last Performance and Learning Review was June 15, 2017

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AFD	Agence Française de Développement (French Development Agency)
AIIB	Asian Infrastructure Investment Bank
BMGF	Bill and Melinda Gates Foundation
CCDR	Country Climate and Development Report
CCT	Conditional Cash Transfer
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
EIB	European Investment Bank
EFF	Extended Finance Facility
ESG	Environmental, Social, and Governance
FCDO	Foreign, Commonwealth & Development Office
FDI	Foreign Direct Investment
FLFP	Female Labor Force Participation
FY	Fiscal Year
GDP	Gross Domestic Product
GFF	Global Financing Facility
GHG	Greenhouse Gas
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
GPE	Global Partnership for Education
GW	Gigawatt
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IsDB	Islamic Development Bank
JDRMI	Joint Domestic Revenue Mobilization Initiative
JEP	Joint Engagement Plan
JICA	Japan International Cooperation Agency
KP	Khyber Pakhtunkhwa
MIGA	Multilateral Investment Guarantee Agency
MPA	Multiphase Programmatic Approach
MSME	Micro, Small, and Medium Enterprise
PFM	Public Financial Management
PLR	Performance and Learning Review
PM2.5	Particulate Matter 2.5 Microns or Less in Diameter
PPP	Public-Private Partnership
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
T&D	Transmission and Distribution
UN	United Nations
UNDP	United Nations Development Programme

UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WASH	Water, Sanitation, and Hygiene
WB	World Bank
WBG	World Bank Group
WFP	World Food Programme
WHO	World Health Organization
$\mu g/m^3$	Micrograms per Cubic Meter

COUNTRY PARTNERSHIP FRAMEWORK FOR THE ISLAMIC REPUBLIC OF PAKISTAN

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EXECUTIVE SUMMARY

1. **After decades of volatile low growth and low investment, Pakistan has fallen behind its peers in key metrics of development. It now has an opportunity to durably take another course.** Per capita incomes have long stagnated, and high rates of child mortality, child stunting, fertility, and learning poverty persist, following decades of underinvestment in health, education, water and sanitation, and other public services. The causes of low investment and growth include inconsistent macroeconomic policies fueled by a volatile polity, a complex and inconsistent business environment, and distortive trade and investment policies that benefit few and limit productivity growth and exports. These are exacerbated by the impacts of climate change and by insecurity at Pakistan's borders. The economy has been subject to successive boom-and-bust cycles driven by structural imbalances and unsustainable fiscal policies, which invariably resulted in abrupt fiscal adjustments and short-term and, so far, short-lived reform episodes. The most recent cycle was exacerbated by political instability that magnified the adverse impacts of COVID-19, terms of trade shocks, and the 2022 floods. Inflation increased to record highs in 2023 while growth and investment plummeted, causing poverty to rise after two decades of significant decline.

2. **The economy is recovering from the recent crisis as the government has launched an ambitious program of fiscal, energy, and business environment reforms that have the potential to sustain a growth acceleration—but past failures have led to a credibility gap that may mute the economic response.** These reforms could lead to a durable recovery made of stronger investment, productivity, and growth if they are duly implemented and sustained. But the accumulated track record of past stop-and-go reform episodes handicaps the government's credibility, and the response of economic actors, including investors, may thus be slow to materialize. Success will therefore require sustained commitment to implementation, which may be difficult to achieve given the legacy of a volatile political environment.

3. **Against this background, we propose a longer-term, focused Country Partnership Framework (CPF) as an "anchor" for a joint commitment to address Pakistan's most acute development challenges.** The proposed approach is a departure from the previous approach of contributing to finance short-term adjustment cycles and is structured to durably and credibly anchor the World Bank Group's (WBG) partnership with Pakistan on addressing the country's human capital crisis, its exceptional exposure to the impacts of climate change, its high cost of energy and hosting among the worst air quality hotspots in the world. Support for policy reforms that boost private-led growth and create fiscal space to durably finance the investments needed to address these challenges will remain key to our engagement in partnership with the International Monetary Fund (IMF), the Asian Development Bank (ADB), and others. The balance of financial assistance will be focused on supporting longer-term development needs, which have suffered from chronic underinvestment in recent decades.

4. **The proposed CPF would run up to 10 years—with a Performance and Learning Review (PLR) in FY30—and is anchored around six outcomes focused on Pakistan's most critical development needs.** The 10-year perspective aims to leverage WBG resources (subject to available resource envelopes) and knowledge, as well as the government's, the private sector, and other partners of Pakistan, to reach a set of decade-targets—most of which are drawn from the WBG Corporate Scorecard. The PLR will offer an opportunity to course-correct and decide the ultimate term of this CPF. This approach is a shift from the past, as it aims to focus less on short-term adjustment programs and on often small investments in scattered sectors, to more selective, stable, and larger investments in areas critical for sustained development and that require time and persistence for impact. This should also help shield the program from a volatile polity and a track record of frequent changes in priorities and short-lived initiatives while facilitating alignment with other development partners.

5. **Aiming for impact at scale, the CPF is anchored on reaching a select number of targets within a decade.** In line with the WBG Evolution Roadmap, it is framed along six key features:

I. **Focus, selectivity, and alignment with the WBG Corporate Scorecard:** It targets six focused country outcomes, all of which enjoy strong support across the political spectrum. Ten decade-targets under these outcomes draw largely from the new WBG Corporate Scorecard (Figure 1) and align with the WBG's global and regional priorities. These areas were selected based on: (i) key diagnostics—prioritizing areas where Pakistan lags the most; (ii) the government's own priorities and strategies (e.g., the *5E Framework to Turn Around Pakistan* and various sectoral strategies), including provincial programs and priorities, as well as civil society, academia, and private sector inputs received through wide consultations conducted over the year across the country; and (iii) the WBG's track record and comparative advantages, informed by local and global knowledge. The CPF will focus on supporting:

   1. ***Reduced child stunting***—both a health, nutrition, and family planning agenda, particularly for adolescent girls, mothers, and newborns; as well as a water, sanitation, and hygiene agenda.
   2. ***Reduced learning poverty***—via improvements in enrollment and attendance in quality primary and secondary schools that provide strong foundational learning, especially for girls.
   3. ***Increased resilience to climate change***—particularly to floods and other climate disasters and addressing the water-agriculture-climate nexus to improve food and nutrition security.
   4. ***Cleaner energy and better air quality***—via a sustainable transition to lower greenhouse gas (GHG) emissions intensity and cheaper energy and reducing sources of air pollution in key sectors.
   5. ***More public resources for inclusive development***—by raising tax revenues and rationalizing expenditures, to eventually increase progressive and efficient social and development spending.
   6. ***Increased productive private investment***—to improve productivity, trade balances, and job creation.

II. **Long-term targets and short-term business planning:** The CPF proposes a long-term strategic approach with five- and 10-year targets. A mid-term review in FY30 will allow to course-correct and decide whether to extend the CPF period to 10 years. Implementation will be supported by two-year rolling business planning with the government, which will define the project pipeline and knowledge investments in support of reaching the 10-year targets. These will be updated on a yearly basis.

III. **An "IF and THEN" approach to drive ambition and instrument selection:** areas where government commitment, policy reforms, and implementation progress will be prioritized for scale-up.

IV. **One WBG approach anchored on Joint Engagement Plans:** The World Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) have jointly identified six areas of joint engagement to foster private investment that contribute to CPF outcomes. Joint Engagement Plans (JEPs) will coordinate solutions to unlock private investment in specific sectors, starting with: *Energy*, *Water*, *Agriculture*, *Digital*, *Transport*, and *Financial Inclusion.*

V. **WBG Knowledge Compact and stepped-up measurement and evaluation agenda:** With 10-year targets driving strategic programming, the data and monitoring and evaluation (M&E) agenda will be core to this CPF, including via setting up a *Pakistan Data and M&E Lab*, with a special focus on impact evaluation of key operations, particularly regarding gender outcomes. The business planning process will incorporate global knowledge to support analytics, implementation, and just-in-time advisory.

VI. **Leverage:** Impacting these country outcomes will require more resources than are available through the WBG alone. Leveraging private capital and sources of blended finance will be key, as will be increased co- and parallel financing with other development partners around key outcomes. The longer focus of the CPF aims to encourage other partners to join outcome-specific country platforms.

Figure 1. CPF Outcomes, Theory of Change, and the WBG Scorecard

CPF Outcomes

1. Reduced child stunting	2. Reduced learning poverty	3. Increased resilience to climate change	4. Cleaner energy and better air quality	5. More public resources for inclusive development	6. Increased productive private investment

CPF Theory of Change and Contributing Areas to the Six Outcomes

1.1 Improved access to basic **health** services and diversified **nutrition** **1.2** Improved access to **family planning** services **1.3** Improved access to safe **water, sanitation** services, and **hygiene**	**2.1** Increased access and attendance to quality schools and improved **foundational learning** for primary and secondary school students	**3.1** A more **diversified agriculture**, resilient to water scarcity, droughts and changing rain patterns **3.2** Increased **resilience to floods** and climate-related disasters	**4.1** Improved **affordability reliability** and **sustainability of energy** with lower GHG emissions per unit of GDP **4.2** Reduced sources of **air pollution**, with focus on: transport, industry, energy construction, agriculture and residential (cooking).	**5.1** Increased **fiscal space** for progressive and efficient taxation and expenditures, for increased, more stable and inclusive public spending for development.	**6.1** More productive and inclusive **private investments:** to improve balance of payments and job creation, including for women

CPF Targets and Contributions to WBG Corporate Scorecard

1.1 50 million people receiving quality health, nutrition, and population services. WBG SCORECARD **1.2 30** million women using modern contraceptives. **1.3 60** million people provided with water, sanitation, and/or hygiene, o/w (%) is safely managed. WBG SCORECARD	**2.1 12** million students supported with better education WBG SCORECARD *<u>with focus on foundational learning</u> of primary and secondary school students.*	**3.1 30** million people with strengthened food and nutrition security. WBG SCORECARD **3.2 75** million people with enhanced resilience to climate risks WBG SCORECARD *<u>with focus on resilience to floods</u> and other climate-related disasters.*	**4.1 10** GW of renewable energy capacity enabled WBG SCORECARD *sustainably, including via grid strengthening and gradual replacement of thermal generation capacity.* **4.2 35%** reduction of the population-weighted PM2.5 average annual exposure (from 55 to 35 µg/m^3).	**5.1** Tax revenues-to-GDP ratio above **15%**, with increased collections. WBG SCORECARD	**6.1** Private Investment as a percentage of GDP. [contribution] CLIENT CONTEXT INDICATOR

WBG Corporate Scorecard Outcomes

- 3 Healthier Lives
- 2 No Learning Poverty
- 5 Green and Blue Planet and Resilient Populations
- 4 Effective Macroeconomic and Fiscal Management
- 15 More Private Investment
- 6 Inclusive and Equitable Water and Sanitation Services
- 7 Sustainable Food Systems
- 9 Affordable, Reliable and Sustainable Energy for All

I. COUNTRY CONTEXT AND DEVELOPMENT PRIORITIES

A. SOCIAL AND POLITICAL CONTEXT

1. **Pakistan's fast-growing population of over 240 million is yet to benefit from what could be a high demographic dividend.** Short periods of growth have benefited upper income groups, with the majority increasingly left behind. With 3.4 births per woman in 2022—the highest fertility rate in South Asia—the number of youths entering the labor market each year is expanding at a faster rate than the total population, resulting in high youth disenchantment. The composition of employment has changed little over time, and much of the labor force is employed in low productivity and often informal jobs, particularly for women. This is mostly due to very low human development outcomes: child stunting rates have long stagnated at close to 40 percent, learning poverty exceeds 78 percent of school-aged children, and infant mortality rates exceed 62 deaths per 1,000 births. Many parts of the country, especially rural areas but also major cities, lack access to basic services such as clean water and sanitation.

2. **The recent crisis deepened the realization that Pakistan needs to break away from its past pattern of stop-and-go reform cycles and instead needs to build credibility to commit to a more stable development course.** While the current government has embarked on ambitious structural reforms, the past track record of short-lived reform episodes has eroded the credibility of the public discourse on reforms. Addressing this challenge requires both decisive and frontloaded action on short-term macro-fiscal priorities, and a sustained long-term commitment to improve the foundations for Pakistan's growth and development. The former is anchored in the new US$7 billion Extended Fund Facility (EFF) from the IMF. The latter is what this new partnership aims to help provide: a long-term joint commitment between the Government of Pakistan and its largest international financial partner to focus on the most acute development challenges the country faces: its human capital crisis, its exceptional exposure to the impacts of climate change, its high cost of energy, and its and considerable air pollution, being among the worst air quality hotspots in the world.

3. **The 18th Amendment of the Constitution vastly increased provincial autonomy, but structural fiscal imbalances persist, and devolution has not trickled down to local governments.** Although the Amendment transferred key service delivery mandates—such as education, health, and water and sanitation—to the provinces, local governments remain disempowered, resourceless, and with little autonomy and capacity to deliver basic services. The federal government still plays a significant role in some of the devolved functions, leading to a structurally imbalanced intergovernmental fiscal system. A Council of Common Interests was set up to coordinate key policies across the Federation, but there is still a substantial need for coordination in critical economic and investment policies, climate adaptation investments, and water and agriculture.

4. **Fragility is on the rise, particularly in Balochistan and the former Federally Administered Tribal Areas of the Khyber Pakhtunkhwa (KP) province.** Violence has increased in the area in the last year, intensifying what had been a low intensity conflict area for some time. These areas also suffer from the worst human development outcomes,[1] poverty, and economic outcomes in the country, particularly for women. Operating in these areas will be increasingly challenging because of security risks, and further conflict-sensitive analysis is required to better understand the opportunities and challenges of responding to development needs in fragile contexts through investments in basic services and developmental institutions. Monitoring the risks associated with operating in these areas during the course of the CPF and adjusting the program and its supervision methods accordingly will be critical.

[1] Primary school net enrollment in the newly merged districts is 52 percent compared to 74 percent in the rest of Pakistan.

B. Recent Economic Developments and Outlook

5. **Pakistan's economy has faced periodic episodes of macroeconomic instability and slow growth, driven by deep policy and institutional distortions.** Between 2000 and 2023 it achieved real annual per capita gross domestic product (GDP) growth of just 2.2 percent—almost half South Asia's average. Periods of unsustainable, consumption-boosted growth have been followed by economic crises. Macroeconomic mismanagement over the past years has led to fiscal and external imbalances, a growing debt burden, and an erosion of external buffers. These challenges reflect underlying problems of an uncoordinated intergovernmental fiscal architecture, unsustainable fiscal policies, low investment, and low productivity. Distortionary tax, investment, and subsidy policies, and a large presence of the state in the economy have led to important resource misallocations and underinvestment in services and infrastructure. Periods of exchange rate overvaluation with protectionist trade policies and distortive taxation that incentivize firms to primarily sell domestically have undermined exports and integration into global supply chains.

6. **The energy sector's persistent deficits contribute to the country's fiscal problems.** Accumulated losses (primarily due to distribution losses and theft, high generation costs, and unfunded subsidies) for power and gas total more than 4 percent of GDP, weakening public finances as well as the financial sustainability and attractiveness of a sector that critically needs private investments. It also deters investment in other industries that are uncompetitive internationally with such high energy costs. The potential efficiency gains in the sector are large and reducing energy costs would boost competitiveness.

7. **Pakistan avoided a major macroeconomic crisis in FY23 by implementing corrective measures that restored macro-stability in FY24.** It emerged from the COVID-19 pandemic with depleted policy buffers, which further deteriorated amid the 2022 floods, global commodity price shocks, and tightening external financing conditions. Economic mismanagement, including costly energy subsidies and administrative interventions to manage the exchange rate, further weakened macroeconomic fundamentals, preventing completion of an IMF EFF program and leading to collapsing confidence, a series of credit rating downgrades, and a sharp increase in bond yields. Short-term macroeconomic risks have since moderated with improvements in macroeconomic management over FY23, the successful completion of a nine-month IMF Stand-By Arrangement and the signing of a new, ambitious 37-month EFF, the rollover of bilateral external debt, and new official inflows. With improved macroeconomic policies and favorable weather conditions supporting recovery in the agriculture sector, real GDP grew by 2.4 percent in FY24 after contracting by 0.2 percent in FY23.

8. **Despite recent stabilization, Pakistan faces a challenging macroeconomic outlook, and sustained recovery will be required to durably increase fiscal space to reduce the level of indebtedness.** Growth is expected to gradually recover as confidence improves following the approval of the new IMF program, credit rating upgrades, easing of inflationary pressures and domestic supply chain disruptions, and continued fiscal consolidation. Current gross foreign reserves (2.1 months of imports) are adequate to meet short-term external financing needs. But in the absence of major and sustained economic reforms that durably raise fiscal space and increase competitiveness in the tradables sector, Pakistan risks facing continued foreign exchange liquidity issues due to persistent trade deficits and limited access to external financing, including foreign direct investment (FDI). The government has embarked on an ambitious reform plan in these areas. Implementing it credibly and durably will be key to restoring confidence, without which growth and investment are likely to remain muted. Real GDP growth is projected to remain below potential and average 3 percent over FY25–26, while gross financing needs will remain sizeable, at around 28 percent of GDP. Pakistan's economic outlook therefore remains highly vulnerable to downside shocks, including natural disasters, global price shocks, and deteriorations in macroeconomic policy.

Table 1. Macroeconomic Outlook Indicators

(Annual percent change unless indicated otherwise)	FY21	FY22	FY23	FY24e	FY25f	FY26f	FY27f	FY28f	FY29f
Real GDP Growth, at constant market prices	6.5	4.8	0.0	2.8	2.8	3.2	3.4	3.6	3.8
Private Consumption	9.4	7.0	2.6	2.5	2.7	3.3	3.4	3.5	3.6
Government Consumption	1.8	-1.3	-3.9	-4.2	6.8	5.8	5.0	5.7	6.2
Gross Fixed Capital Formation	3.7	4.6	-14.9	-2.4	2.6	2.8	3.6	4.4	4.7
Exports, Goods, and Services	6.5	5.9	3.2	2.0	1.3	3.2	3.8	4.8	5.1
Imports, Goods, and Services	14.5	11.0	1.8	-4.0	3.4	4.6	4.4	4.9	5.1
Real GDP Growth, at constant factor prices	5.8	6.2	-0.2	2.4	2.8	3.2	3.4	3.6	3.8
Agriculture	3.5	4.2	2.3	6.3	1.9	2.8	3.4	3.5	3.6
Industry	8.2	7.0	-3.7	1.5	3.1	3.2	3.4	3.5	3.7
Services	5.9	6.7	0.0	1.1	3.0	3.3	3.5	3.7	3.9
Inflation (Consumer Price Index)	8.9	12.2	29.2	23.4	11.1	9.0	8.0	9.5	10.0
Current Account Balance (% of GDP)	-0.8	-4.7	-1.0	-0.2	-0.6	-0.7	-0.9	-1.1	-1.3
Net Foreign Direct Investment, Inflow (% of GDP)	0.5	0.5	0.2	0.4	0.5	0.5	0.5	0.6	0.6
Fiscal Balance, including Grants (% of GDP)	-6.0	-7.8	-7.7	-6.8	-7.6	-7.3	-6.8	-6.4	-6.0
Revenues (% of GDP)	12.4	12.1	11.5	12.5	13.9	12.9	13.0	13.1	13.3
Tax Revenues	10.3	10.4	10.1	10.5	10.9	11.0	11.2	11.5	11.8
Debt (% of GDP)	77.6	80.6	81.6	72.4	73.8	74.7	75.2	74.2	72.7
Primary Balance, including Grants (% of GDP)	-1.1	-3.1	-0.9	0.9	0.7	-0.1	-0.1	-0.4	-0.5

Source: World Bank estimates, Pakistan Bureau of Statistics, Ministry of Finance, and State Bank of Pakistan. The values in the table are based on World Bank estimates of October 2024 and do not take into account the provisional FY24 GDP estimates and the revisions in historical national accounts (FY23) issued by the Pakistan Bureau of Statistics on September 30, 2024.
Note: e=estimate; f=forecast.

C. POVERTY, INEQUALITY, AND LIVABILITY

9. **POVERTY: after decades of decline, poverty has begun to rise.** Pakistan saw an extended period of increasing real household consumption between 2001 and 2018 (60 percent rise), leading to a sustained decline in poverty from 64.3 to 21.9 percent. This was driven primarily by increased off-farm opportunities and out-migration (boosting remittances). The COVID-19 pandemic, followed by catastrophic floods in 2022, increased commodity prices, contributed to low growth, and precipitated currency devaluation, leading to record-level inflation (29.2 percent) in 2022–23 and to an estimated increase of 2.4 million poor people since 2022. Food insecurity is also on the rise, particularly among rural districts of KP, Sindh, and Balochistan, affecting nearly one-third of the country's population. School dropouts are also increasing in the poorest districts.

10. **SHARED PROSPERITY: inequality remains high.** While monetary inequality is relatively low and stable with a Gini coefficient of 31.1 in 2024, actual inequality levels are markedly higher once under-reported top incomes are accounted for. Spatial disparities are also systematic and persistent, with rural poverty rates twice as high as urban rates and large differences between districts and among the provinces. There are also large and persistent gender inequities—Pakistan is ranked 142 out of 146 countries in the World Economic Forum 2023 Gender Gap Report. Gender gaps are especially stark in human development outcomes. Female labor force participation (FLFP), at 25 percent in 2020 (up from 23 percent a decade prior), is the fourth lowest among lower-middle-income countries. Multiple factors contribute to weak FLFP: restrictive gender norms, weak mobility and limited access to safe transport, and insufficient demand for jobs that provide adequate conditions for women (e.g., availability of childcare). If Pakistan's FLFP were to reach the average of lower-middle-income countries, its GDP could raise by 23 percent due to 19.3 million additional jobs.

11. **LIVABLE PLANET: Pakistan ranks among the top 10 countries worldwide most affected by climate change and natural disasters.[2]** Climate change is expected to increasingly put pressure on livelihoods and food security, as well as productivity and growth, driven by increases in extreme heat, air and water pollution, and changes in water availability and precipitation. These risks can significantly compromise development in an already fiscally constrained environment and make sustained progress in poverty reduction and human development even more challenging than it is today.

D. Key Development Challenges

12. **For Pakistan to achieve poverty reduction and shared prosperity on a livable planet, it will need to break out of its current model of development.** The pace of economic growth and structural transformation has been long stunted by distortive policies that benefit only a few, who have historically coalesced to oppose growth-oriented reforms as well as increases in progressive public spending in human capital and basic services for the poorest. Pakistan's model of growth—dominated by (public) consumption, high levels of debt, low productivity, and poor capital accumulation—is increasingly unsustainable and requires measures to increase investment and productivity, while heavily investing in human capital accumulation to increase the country's long-term growth potential.

PEOPLE: A "SILENT" HUMAN CAPITAL CRISIS

13. **Pakistan faces severe human development challenges in all dimensions of the Human Capital Index, which—at 41 out of 100—is much lower than it should be at Pakistan's income levels.** At an average of 38 percent (and more than 60 percent in the poorest rural districts), the stunting rate of children under five remains among the highest in the world[3] and affects even those in the highest income quintiles. These high stunting rates persist despite two decades of poverty reduction and are the result of multiple adverse factors: principally poor health, nutrition, and family planning services (fertility rates remain very high at 3.4 on average, with low birth spacing and a prevalence of early pregnancies); insufficiently diversified agriculture with declining nutritious content; and severe lack of access to safe water and sanitation facilities (one-quarter of the population has limited or no access to water and sanitation, and it is vastly absent in the poorest rural districts and some neglected urban settlements).

14. **Educational attainment rates are low across the board, and an estimated 25.4 million children[4]—one out of three children between 5–16 years—remain out of school, the majority of whom are girls** (with possibly 2.6 million more children dropping out following COVID-19 and the 2022 floods). At 78 percent, Pakistan's learning poverty rate has worsened due to the learning losses from the COVID-19 pandemic. Learning poverty in Pakistan is over 16 percentage points higher than the average for South Asia and more than 19 percentage points higher than the average for lower-middle-income countries. Access to education is lower for girls, with gross enrollment rates for primary education 10 percentage points lower for girls than for boys, and with dropout rates that are higher for girls than for boys in lower secondary. Only 26 percent of girls aged 14–15 are enrolled in secondary school.

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[2] World Bank Group. 2022. *Pakistan Country Climate and Development Report*. CCDR Series. Washington, DC: World Bank. p.4.

[3] Regional disparities prevail with almost half the children under five stunted in Sindh and Balochistan. World Bank Group. 2022. *Pakistan Human Capital Review Overview: Building Capabilities Throughout Life*. Washington, DC: World Bank. p.5.

[4] Pakistan Bureau of Statistics. 2024. *Population and Housing Census 2023: 'The Digital Census'.* Government of Pakistan.

15. **With poverty largely concentrated in rural areas, more attention is needed on food security, service delivery, and income-generation opportunities in these areas.** Pakistan maintains its status as a hunger hotspot of high concern by the Food and Agriculture Organization of the United Nations, and food insecurity is projected to escalate in the rural areas of KP, Sindh, and Balochistan (particularly areas affected by the 2022 floods). Pakistan lags in terms of agricultural growth and food systems transformation, which are critical for economic growth as well as for women's economic participation. Most formal and informal small and medium enterprises (SMEs) are engaged in the agri-food sector, which is in the process of transforming from subsistence to higher-value and market-oriented agriculture.

PLANET: CASCADING RISKS OF CLIMATE CHANGE

16. **Pakistan's varied climate and topography already exposes it to a range of climate-related impacts, including increased frequency of droughts, floods, and heatwaves, with combined estimated impacts of up to 9 percent loss in GDP by 2050 (and 17 percent for agriculture).** The country is already warming at a rate far higher than the global average. Human actions and impacts are unfortunately exacerbating the situation. Loss of vegetation cover and excessive use of fertilizers and pesticides have contributed to soil degradation; unmanaged grazing and fuel wood harvesting have put stress on rangelands; and the expansion of crop and urban areas threatens critical ecosystems and water flows. Carbon sequestration is also of critical concern and requires careful management.[5]

17. **Climate change acts as a multiplier of environmental threats.** In the past three decades, climate-related disasters have been severe and regular enough to precipitate a reversal of development gains and economic losses of US$29 billion. The 2022 floods are a stark warning of the type of climate disasters that are increasing in frequency and intensity. With no action, poverty could stagnate from around 2040 as climate damages intensify. There could be no further rural poverty decline between 2025 and 2050.

18. **The use of water for non-agricultural purposes is likely to increase significantly with climate change.** Under a high-growth (4.9 percent per year) and high-warming (3°C by 2047) scenario, water demand is projected to increase by 60 percent. Climate warming will account for up to 15 percent of this increase. In the next three decades, about 10 percent of all irrigation water will need to be repurposed to meet non-agricultural demand. Freeing up such quantities without compromising food security is a considerable challenge that will require substantial policy reforms to incentivize water conservation, increase water use efficiency in the agricultural sector, and shift away from water-intensive crops.

19. **Pakistan is among the worst air polluted hotspots in the world and damage from air pollution is estimated to impose an additional yearly loss of 6.5 percent of GDP.**[6] High pollution levels are significantly impacting human health and economic performance, shortening the average Pakistani's life expectancy by 4.3 years and costing the country approximately 10 percent of GDP. The country's fine particulate matter (PM2.5) concentrations levels are on average five times higher than the World Health Organization's (WHO) limits, with higher averages in Punjab and Sindh. In the highly urbanized cities, especially Lahore, Multan, and Peshawar, millions are at increased mortality risk from air pollution.

20. **Pakistan stands to gain from increasing efficiency and reducing overall generation costs of its power sector, particularly by transitioning faster to an energy mix that taps into its significant renewable energy potential.** In line with its ambitious commitments under the updated Nationally

[5] World Bank Group. 2022. *Pakistan Country Climate and Development Report*. CCDR Series. Washington, DC: World Bank. p.28.
[6] World Bank Group. 2022. *Pakistan Country Climate and Development Report*. CCDR Series. Washington, DC: World Bank. p.17.

Determined Contributions for 2021, it could accelerate its transition to cleaner, cheaper renewable energy, invest in energy efficiency technologies, and expand and strengthen its transmission grids to support this transition. Accelerating this transition away from thermal generation towards renewable energy—including through hydropower, solar, and, potentially, networked surface geothermal heating and cooling—would provide significant efficiency gains and costs reduction, in addition to reducing air pollution. Complementary investments and institutional and regulatory reforms in power transmission and distribution will be needed, in particular to attract private sector participation. Coupled with significant energy efficiency measures (e.g., in buildings and appliances, construction, and industry) and the decarbonization of key sectors (transport, construction, brick kilns, agriculture, and home cooking), this would provide further efficiency gains, lower costs and, importantly, less air pollution.

PROSPERITY: LOW AND VOLATILE GROWTH, LOW PRODUCTIVITY AND INVESTMENT

21. **Pakistan's current model of growth rests on two interrelated and fundamental weaknesses: its fiscal framework and low private investment and productivity.** The country faces a structural fiscal deficit resulting from partly inefficient and regressive expenditures that consistently exceed revenues (parts of which stem from regressive fiscal policies) with weak intergovernmental fiscal coordination. Revenues are inadequate and collected from a narrow compliant base. Expenditures are also misallocated through fragmented and overlapping expenditure systems. Persistent deficits lead to high debt and government borrowing that crowds out private sector credit, while high debt servicing costs crowd out public investment in basic services. Policy distortions, trade protections, and a large inefficient state footprint limits productivity and export competitiveness. In the absence of private investment and export growth, consumption-driven growth fuels external imbalances. The resulting frequency and depth of economic crises have been increasing, deterring private investment and muting long-term growth potential. This pattern is precisely what the current reform program of the government is trying to reverse, as numerous credible and coordinated achievements can help change expectations for the better.

22. **Fiscal imbalances persist because of low revenue collection due to multiple regressive tax exemptions and a complex tax system, and inefficient and regressive public spending.** The 11 percent tax-to-GDP ratio is well under what is needed to increase productive and progressive public investments in critical infrastructure and basic services, human capital development, and social safety nets. The tax base is narrow due to, *inter alia*, a complex tax regime that encourages informality and tax evasion, insufficient taxation of sectors such as agriculture, real estate, and retail, and weak and fragmented tax policy and compliance, including at the provincial and local levels. The tax-to-GDP ratio needs to raise durably above 15 percent, and expenditures on regressive subsidies, federal spending on provincial mandates, and overgenerous benefits to civil servants need to be redirected towards more efficient, productive, and progressive public spending on education and health, water and sanitation, critical basic infrastructure, and other public goods. Simplifying the taxation system can also benefit the private sector, especially SMEs, while encouraging compliance and formalization. The government has recently started turning around the macroeconomic situation with a large fiscal reform program that aims to address these longstanding issues, given the need for new fiscal resources to invest in human capital and infrastructure to durably improve the long-term growth outlook. Improving the effectiveness and progressivity of public spending should also provide savings to contribute to increased fiscal space.

23. **Productivity is low in large part due to distortionary policies constraining investment and exports.** Despite progress in business environment reforms, firm growth and expansion continue to be constrained by high transaction costs, red tape, and anti-competitive practices. Few formal SMEs are growth oriented

or have access to finance for growth. While the economy is relatively open to FDI, it attracts less than 1 percent of GDP every year due to unpredictable and often volatile economic policy regimes that heighten risks and offer insufficient legal protections for investors. Lack of adequately skilled workforce is also limiting productivity and hence competitiveness.

24. **The state has a large footprint in the economy.** The government owns over 200 state-owned enterprises (SOEs) and state entities, valued at about 48 percent of GDP. Many are engaged in commercial activities, crowding out a private sector that is often subject to unfair competition with SOEs that often have preferential access to finance, subsidies, assets, and public contracts. Inefficiencies are particularly prevalent in public infrastructure SOEs, such as in power distribution and transmission, roads, and railways. A new privatization program is underway. Early successes will be key to strengthen the reform momentum and generate a positive cycle of expectations and credibility strengthening.

25. **The limited depth of the financial sector undermines its capital intermediation role.** Pakistan's financial sector is failing to effectively deliver on its critical intermediation role of channeling savings into productive investment. Credit to the private sector has dropped from a high of 29 percent of GDP in 2008 to 13.8 percent in 2022, less than half the South Asian average and significantly lower than Pakistan's aspirational peers. Access to credit is highly uneven, with 56 percent of outstanding credit to the private sector held by the corporate and manufacturing sector, compared to just 5.4 percent to SMEs, which make up majority of the firms in Pakistan. The government's financing needs have also crowded out bank lending to the private sector and increased fiscal vulnerabilities.

26. **Pakistan is currently among the top 10 percent of the world's most protected economies, as measured by the average rate of duties levied on imports.** The current government has announced a strong ambition to reverse longstanding inward oriented and protectionist trade policies. Increasing trade openness would be key to reducing the anti-export bias that limits competition and productivity growth. This should be done in tandem with improvements to the domestic business environment and supporting domestic firms' productivity so that the expected impact of reduced tariffs on increased exports and reduced trade deficits actually materializes.

INFRASTRUCTURE: THE IMPERATIVE TO LEVERAGE MORE PRIVATE CAPITAL

27. **Pakistan needs to address its large infrastructure deficit.** The World Economic Forum ranked Pakistan 110 out of 141 countries in 2020 in terms of infrastructure quality. Improvements in the power sector requires reductions in the cost of generation and the country's dependence on imported fossil fuels, increasing cost recovery levels, improving supply side efficiency, and strengthening regulatory capacity. While some infrastructure investments are being addressed, Pakistan can leverage its huge renewable energy potential, improve power transmission and distribution, and support water and waste sectors. Filling the infrastructure deficit will require robust mobilization of the private sector, particularly through public-private partnerships (PPPs) that are insufficiently leveraged due to a weak enabling environment, limited PPP capacity at the provincial levels, absence of bankable and balanced PPP frameworks across most sectors, and a lack of trust between public and private sector stakeholders, particularly when entering into longer-term contractual arrangements. In areas where the private sector will not invest, increased fiscal space will need to be generated to fill the public infrastructure gap, especially in areas such as rural water and sanitation, rural transport, and irrigation.

DIGITAL: MAJOR OPPORTUNITIES FOR IMPROVED GOVERNANCE, SERVICE DELIVERY, AND USE-CASES DEVELOPMENT

28. **Pakistan ranks low in nearly all global indicators on governance.** In 2023, Pakistan ranked 133 out of 180 countries in Transparency International's Corruption Perceptions Index, despite progress in areas such as public financial management (PFM), access to information, and citizen engagement. The current government structure is complex, with limited incentive to improve performance. Multiple entities at federal, provincial, and local levels results in poor coordination and budget management, unclear mandates, and duplicated responsibilities.

29. **Against this background, the digital transformation of Pakistan's public services offers huge potential economic and public sector governance benefits.** Significant strides in digitalization have helped improve performance, including the development of a digitized national registry, expansion of digital payments systems, land records digitalization, digitalization of public investment processes, some progress in the digitalization of taxation (with upcoming General Sales Taxes digital collection in all jurisdictions), the development of the dynamic National Socio-Economic Registry, digital grievances/citizen engagement portals, and progress in e-procurement. Much remains to be done, especially in terms of connecting various institutional databases while ensuring data privacy and security. But the main building blocks are in place and the transformational potential of developing Pakistan's Digital Stack is considerable in terms of improved governance and the development of new use cases in various sectors (e.g., agriculture, health, etc.), with associated private sector job creation potential.

30. **Realizing the digital development potential of the country will require massively expanding broadband connectivity, particularly in rural areas.** Pakistan faces high coverage gaps in mobile internet connectivity and fixed broadband subscriptions, together with massive gender gaps. At the current pace of investment in the fixed broadband infrastructure, it will take Pakistan five years to reach the average connectivity level of middle-income countries.[7] Some segments of the information and communication technology industry will need to open further to private investment, while a conducive framework will need to be developed to incentivize investments in broadband infrastructure in secondary cities, allowing public investments to be directed to rural or peri-urban areas that may not be commercially viable.

II. PROPOSED COUNTRY PARTNERSHIP FRAMEWORK: SELECTIVITY AND AMBITION

A. SELECTIVITY IN THE FACE OF MULTIPLE COUNTRY CHALLENGES

31. **Pakistan's many development challenges call for coordinated and sustained reforms and investments at scale.** Plans and strategies have been announced in several key sectors (e.g., energy, digital, water, climate), including in provinces. A national vision, the *5E Framework to Turnaround Pakistan*,[8] has been developed but is yet to be translated into clear sectoral plans shared by all tiers of government, including provincial governments. The federal government has also recently adopted a comprehensive and ambitious economic reform plan. But previous attempts at steadily implementing such plans have often been stalled by the need to address lingering short-term macroeconomic challenges or by changes in government. The CPF attempts to take a long-term view to increasing investment and supporting reforms in priority areas and sticking to a select set of outcomes in order to shield the program from the past pattern of short-lived planning and frequent changes. The idea is to help sustain critical

[7] World Bank. 2024. *Pakistan: Evaluating Private Capital Mobilization Potential for Resilient Digital Connectivity*. p.12
[8] Ministry of Planning, Development & Special Initiatives. *5Es Framework to Turnaround Pakistan*. Government of Pakistan.

development outcomes and achieve greater impacts, notably by durably leveraging WBG, government, and other partners' resources and the private sector, focusing on a few priorities over a decade. Alignment with other key partners of Pakistan on some of the selected priorities will be key (see below).

32. **The main development challenges and priorities are shared across the political spectrum and between federal and provincial stakeholders,** even though the polity often prevents translating these into sustained reforms and investments. These include human development, especially education and health; infrastructure investments, especially in water and sanitation as well as for irrigation, energy, and transport; agriculture; private-led growth (including digital sector) and exports; and a stable macroeconomic and fiscal environment. CPF consultations with federal and provincial governments, civil society, academia, and private sector stakeholders between July and August 2024 revealed strong consensus for a long-term approach to overcome Pakistan's development challenges.[9] Shared perspectives include: reducing child stunting through proactive interventions in health, nutrition, fertility and water, sanitation, and hygiene services; reducing learning poverty by improving foundational learning, teacher training, and school infrastructure; enhancing resilience to climate change with better water management, urban infrastructure, and sustainable agriculture; transitioning to a cleaner, cheaper energy mix, while addressing the sources of severe air pollution; supporting financial inclusion of underserved segments, creating more inclusive job opportunities for women and persons with disabilities; and improving governance through gender inclusion, digitization, and addressing accountability and transparency gaps. The consultations echoed the findings of a widespread policy dialogue series conducted in 2023 titled "Reforms for a Brighter Future"[10] and the Country Opinion Survey in 2024.

33. **Lessons from implementation have also been key (Box 1).**

Box 1: Lessons from the past decade of engagement (2015–2024)

- *Increase selectivity and focus*. Resources should be deployed strategically and selectively with long-term objectives in sight. Time-bound, short-lived engagements with no consistent programming are to be avoided.
- *Frequent reversal of reforms has shown the importance of fit-for-purpose use of instruments* that combine policy reforms with longer-term, largely irreversible investments to sustain reform.
- *A whole-of-country approach* that encompasses the different federating tiers and sectors, with more alignment with government and other partners' programs, is key to achieve national development outcomes.
- *Lagging regions require more attention*. The program should build on the experience of the expanded engagement in KP working with local governments to improve service delivery to underserved populations.
- *WBG instruments to be leveraged more to crowd in private capital.* Application of the "cascade" approach is key to scaling impact and will require innovative use of WBG balance sheets to leverage private investment.
- *The results framework needs more specific indicators* to address the disconnect between higher level country outcomes/indicators and interventions of a limited geographic scope. The results framework will focus on WBG scorecard results; intermediate indicators will not be used.
- *Sustained outcomes require longer-term support and stability of focus.* It has been the case for energy, social protection, and education. Stable focus is needed to shield the program from demand volatility.
- *Spatial and thematic platforms can support multi-sector solutions, ensuring wider ownership and leveraging partners*. The Karachi and Stunting Platforms can be expanded to other thematic areas such as water and sanitation, family planning, and air quality management.

[9] See https://www.worldbank.org/en/country/pakistan/brief/world-bank-group-consultations-in-pakistan
[10] See www.worldbank.org/en/country/pakistan/brief/reforms-for-a-brighter-future-time-to-decide#1 for the related policy notes.

34. **The following standard CPF filters were used to design the new strategy:**

i. **Alignment with the New WBG Mission:** The CPF focuses on the "basics" or the foundations for **poverty reduction** in areas where Pakistan is falling behind peers, such as health and education. The CPF also clearly aims to target the bottom quintiles of the population, particularly in lagging regions, while increasing progressivity of fiscal policy to improve **shared prosperity**. It also focuses on climate resilience and improving air quality for a **more livable planet**.

ii. **Country Development Goals:** CPF outcomes are aligned to the government's *5E Framework* priorities of Exports, Equity and Empowerment, E-Pakistan, Environment and climate change, and Energy and Infrastructure. They are also well aligned with provincial government priorities expressed in numerous strategic documents and goals. The selected outcomes draw from areas receiving broad support along the political spectrum.

iii. **WBG Solutions and Knowledge:** Selected CPF outcomes draw from country,[11] regional, and global knowledge, experience, and solutions, and are well placed to leverage WBG-wide financial solutions, knowledge, and partnerships. In particular, the selection of CPF outcomes draws from **core analytics** such as the Country Climate and Development Report (CCDR), the Pakistan Human Capital Review, the Country Economic Memorandum, the Country Private Sector Diagnostic, and other country analytics as well as from global knowledge. The 2023 national policy dialogue "Reforms for a Brighter Future" further helped nuance the sequencing and importance of priorities with academia, private sector, students, and development partners.[12]

35. In addition to learning from past experience and aiming for lasting impact at scale, **the following two criteria will guide the operationalization of the CPF and the selection of projects and engagements**:

***1. Scalability, leverage, and track record*:** Priority will be given to areas prone to scalable solutions, including via the leverage of other public resources (government and other partners and international financial institutions/IFIs) as well as private capital. The World Bank will finance larger programs on average, including multi-phase programs that cover multiple provinces, with more frequent expansion and scale-ups of successful operations and fewer pilots and one-off projects. Using lessons from the existing portfolio and the previous CPS, we propose to phase out from a dozen areas in order to be more selective and impactful. Areas more prone to private investment, especially in infrastructure (e.g., urban water, telecoms, mining, power transmission and some urban infrastructure), would in many cases see increased focus of IFC investments and advisory, with potential MIGA and World Bank guarantees for foreign and potentially local investment. Identifying these areas will be done upstream, early on, via close engagement of the World Bank, IFC, and MIGA with the government and private stakeholders; this will in particular identify policy changes needed to open sectors to private investment.

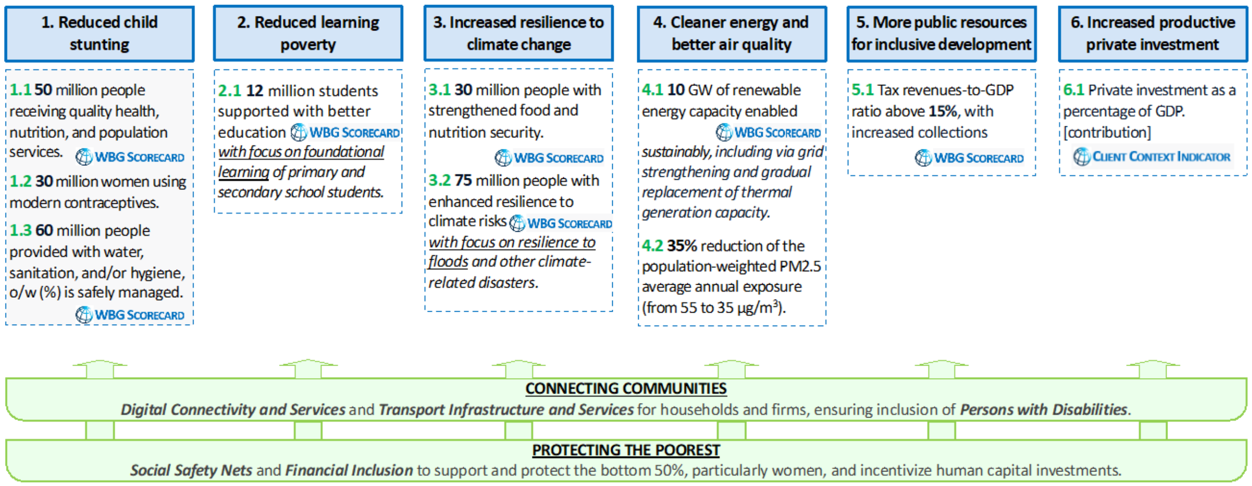
***2. Irreversibility*:** Focus on prioritized "no-regret" lasting impact investments that are less prone to changing priorities. Given the track record of frequent policy reversals and short-lived sectoral plans, it is important to anchor the CPF on long-term outcomes that usually enjoy sustained political ownership, for which investments and capacities built are less prone to reversals and which have lasting impacts that can hardly be erased. The objective is to sustain CPF engagement on a small set of tangible outcomes (six), over a decade, and shield these from reversals or shifting priorities.

[11] Including from implementation of the previous Country Partnership Strategy FY15-20 (Report No. 84645-PK) and lessons learned during the interim period between the previous CPS and the current (see Box 1 for the main findings of this review).
[12] Reports that formed the analytical base of the CPF, the CPS *Completion and Learning Review*, and readouts from the consultations are available at: https://www.worldbank.org/en/country/pakistan/brief/world-bank-group-consultations-in-pakistan

B. Proposed World Bank Group Country Partnership Framework

36. **The CPF's aim is to support Pakistan's transformation to a higher growth path that is inclusive, resilient, and sustainable through six outcomes linked to 10 country-level targets** (Figure 2).

Figure 2. CPF Outcomes, Indicators, and Cross-cutting Areas



37. **Cross-cutting Areas.** Improving the CPF outcomes will require coordinated policies and co-located investments in a number of sectors, including in the following cross-cutting areas which will be needed to reach each of the 10 targets—these cross-cutting areas will only focus on supporting the six outcomes, and will not have targets of their own:

1. **CONNECTING people and communities:** (i) *physically* via **transport** infrastructure/services (including for persons with disabilities). Transport interventions would only be considered where they support CPF outcomes, such as to improve access to rural health clinics (Outcome 1), or to improve access to schools in rural areas (Outcome 2), reducing air pollution such as through electronic vehicles (Outcome 4), or, for IFC, in ports and logistics infrastructure to access markets (Outcome 6); and (ii) *virtually* via better **digital** infrastructure and institutional and regulatory capacity that enhance service delivery and transparency (all Outcomes), or enable private capital (e-commerce, digital payments, financial sector) and innovation (Outcome 6), or to provide digital use cases to reach certain outcomes (Outcomes 1 and 2 in health and education in particular). Developing *Digital Pakistan* and the country's digital stack will enable to leverage digital solutions across WBG interventions (including, for example, using high frequency data and artificial intelligence methods in disaster preparedness, agriculture (digital) extension services, or better targeting of social programs).

2. **PROTECTING the most vulnerable and underserved** (particularly women) from shocks—including economic and climate-induced shocks—and increase resilience via social safety nets and financial inclusion. Operations will include unconditional or conditional cash transfers (CCTs) that support Outcomes 1, 2, and 3, and enable increased access to finance to support Outcomes 3 and 5.

38. **Jobs and Gender.** All CPF interventions will contribute to more and better jobs (including "green jobs" via investments in climate adaptation and mitigation under Outcomes 3 and 4). The CPF will also

support women's empowerment, in line with the new WBG Gender Strategy 2024-2030 [13], by supporting human capital development, especially as it disproportionally impacts mothers and girls (Outcomes 1 and 2), more and better jobs (Outcomes 2 and 6), wider access to services and participation in decision-making (all Outcomes). Resilience to climate change (Outcome 3) also aims to disproportionally benefit women, who are more adversely prone to the impacts of climate change. Finally, social protection programs in support of all Outcomes are all targeted at women as primary beneficiaries.

39. **"Differentiated selectivity" across World Bank and IFC or MIGA interventions.** Interventions will use the "cascade" approach, focusing on interventions that were identified upstream and early on as areas more prone to IFC's and MIGA's support, where there is potential to crowd in the private sector, as well as in areas where the World Bank is exiting (for example tertiary healthcare, higher education, vocational and technical training, logistics, entrepreneurship, and some urban infrastructure). This will allow World Bank resources (including financing and guarantees) to be directed towards areas where the likelihood of private sector participation at scale is limited. Priority areas for joint WBG support will be included in a set of six JEPs that will be used to coordinate cross-WBG interventions and identify a mix of policies or public sector interventions that could help catalyze and crowd in private investment. The figures under each outcome below highlight key areas of joint and differentiated support: interventions expected to be largely supported through the World Bank (in **black**); where a joint WBG approach is expected (in **red**); and those to be primarily led by IFC and MIGA (leveraging the WBG Guarantee Platform) in **blue**.

40. **The CPF focus areas and overall approach were informed by the new WBG Evolution Roadmap,** which supports increased focus on enabling and mobilizing private capital through a One WBG approach, increasing selectivity, and leveraging more public and private resources to achieve scaled impact. The CPF will also contribute to addressing the following global challenges: *Energy Access* through Outcome 4, *Climate Change Adaptation and Mitigation* and *Water Security and Access* through Outcomes 1 and 3, *Food and Nutrition Security* though Outcomes 1 and 3, and *Enabling Digitalization* (as a Cross-cutting Area). The CPF outcomes are also aligned with World Bank priorities in the South Asia Region, including on *increasing access to clean and affordable energy* (Outcome 4) as well as *clean water* (Outcome 1), and *improving air quality* (Outcome 4). Finally, increasing collaboration with other development partners of Pakistan and IFIs will be prioritized to increase synergies as well as parallel and co-financing on shared objectives. The two-year rolling Business Plans will be prepared in consultation with other partners to identify such areas of joint engagement.

CPF OUTCOME 1: REDUCED CHILD STUNTING

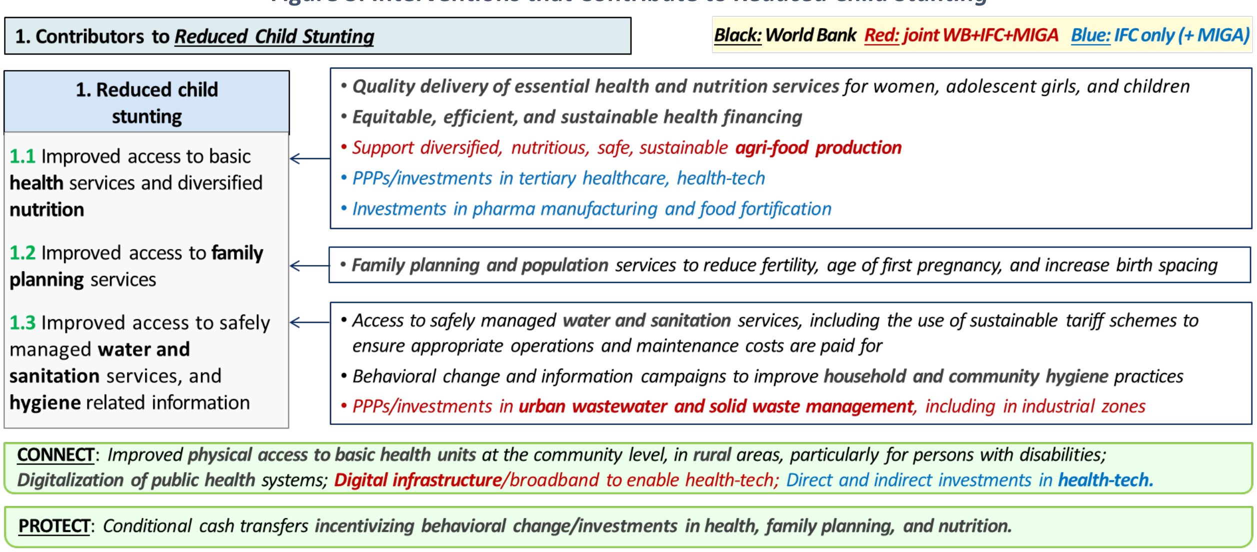
41. **This outcome will contribute to reducing child stunting by 30 percent in targeted districts in the coming decade.** It will contribute to Sustainable Development Goal (SDG) 3 – *Good health and wellbeing*; SDG4 – *Clean water and sanitation*; SDG5 – *Gender equality*; and SDG10 – *Reduced inequalities*. Child stunting has lifelong and intergenerational impacts, such as decreased cognitive ability and lower productivity, and requires a multipronged approach at the local level. Pakistan's persistently high levels of stunting are attributable to various factors—poor nutrition and undiversified diets; widespread lack of access to safe water, sanitation, and hygiene (WASH); high fertility, low birth spacing, and prevalence of early pregnancies; and low access to quality health care—that are especially critical in the first 1,000 days

[13] World Bank Group. 2024. *World Bank Group Gender Strategy 2024-2030: Accelerate Gender Equality for a Sustainable, Resilient, and Inclusive Future*. Washington, DC: World Bank Group.

since conception. Following experience from similar programs in Indonesia and elsewhere,[14] an ambitious multi-sectoral approach is proposed to reduce stunting rates. It will require convergence at the local level of interventions in WASH; health and nutrition, especially for pregnant women, adolescent girls, and infants; and family planning and early childhood development. Expanding quality healthcare services will require reforms and increased resources to ensure equitable, efficient, and sustainable health financing.

42. **Health and nutrition interventions will have muted impact without addressing the critical environmental factors that expose children to chronic infection and inflammation.** Demand and supply side interventions (behavior change and communication, CCTs, transport) will support improved access to WASH and better household and community practices around water use, sanitation, and solid and animal waste management. World Bank interventions will help provide improved access to safe drinking water, treat wastewater in rural areas, and increase access to piped water and drainage in urban areas, with a focus on low-income communities. Following lessons from global experience, infrastructure investments will be supported by institutional capacity strengthening for service delivery. IFC and the suite of instruments under the WBG Guarantee Platform housed at MIGA will aim to support PPPs/concessions and investments in water, wastewater treatment, and solid waste management in urban and industrial areas and help develop the bankable frameworks required to crowd in domestic and foreign private capital. These will require a transition towards a viable water pricing policy and improved financial capacity of provincial authorities and local governments/utilities. Figure 3 details how these different interventions collectively contribute to reach the three main target areas that determine child stunting. The theory of change is that if these are coordinated well at the local level and co-located, they would successfully lead to reduced child stunting rates over time.

Figure 3. Interventions that Contribute to *Reduced Child Stunting*



CPF OUTCOME 2: REDUCED LEARNING POVERTY

43. **The goal is to contribute to <u>reducing learning poverty to under 60 percent in the coming decade</u>.** It will contribute to SDG4 – *Quality education*; SDG5 – *Gender equality*; and SDG10 – *Reduced inequalities*.

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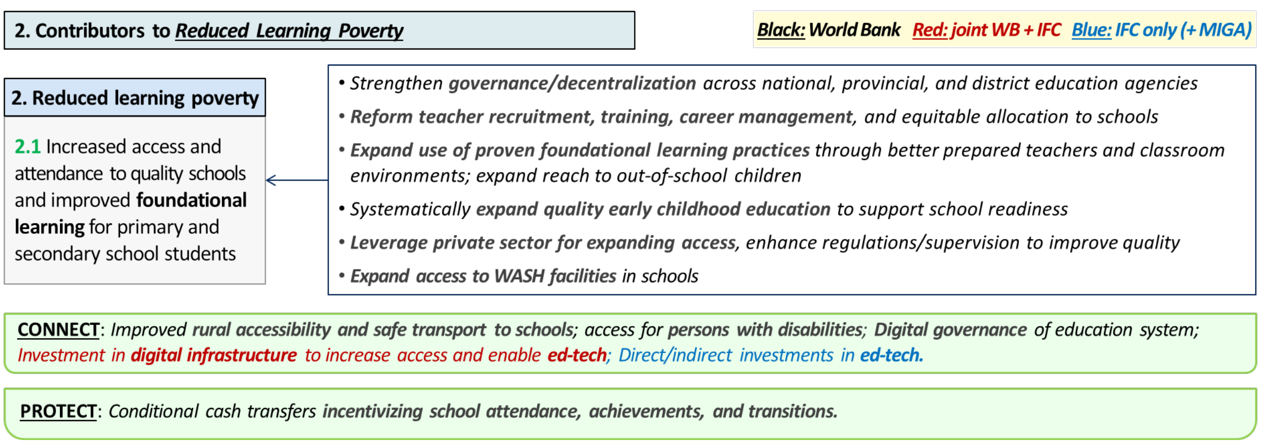
[14] Global knowledge from programs in Indonesia, Peru, Senegal, and other countries found several best practices, including strong coordination across ministries and levels of government; reprioritizing financing to vulnerable communities; and strong monitoring and data systems to promote continuous adaptation and accountability.

One-third of Pakistan's children are out of school, and two-thirds of schooled children cannot read an age-appropriate text. Key barriers to attendance and learning (especially in rural areas) include distance and safe transportation to schools (especially for girls), poor quality of education with high opportunity costs of attendance, and shortage of trained teachers. The CPF will support the government's education emergency plan to reduce by half the stock of out-of-school children. It will continue to support provincial education departments to focus on the above challenges to learning poverty in the targeted areas.

44. **Based on global and country evidence, better learning and enrollment outcomes require increased focus on foundational learning (including early childhood education) and multisectoral solutions that facilitate access and connectivity to quality and climate resilient schools** (Figure 4), including rural roads, safe transportation (particularly for girls), adequate WASH facilities, and demand side incentives such as CCT programs. It will also require recruiting a higher proportion of female teachers, developing remedial learning programs for out-of-school children, leveraging the non-formal education sector, private sector participation, and pedagogical improvements, including through use of technology. Interventions under this outcome will focus especially on supporting the retention of girls in primary school and their transition to secondary school.

Figure 4. Interventions that Contribute to *Reduced Learning Poverty*



CPF OUTCOME 3: INCREASED RESILIENCE TO CLIMATE CHANGE

45. **The overall goal of this outcome is to <u>improve resilience to climate change of more than 100 million people over the coming decade</u>.** It will contribute to SDG2 – *Zero hunger*; SDG5 – *Gender equality*; SDG10 – *Reduced inequalities*; SDG11 – *Sustainable cities and communities*; and SDG13 – *Climate action*. Pakistan ranks among the top 10 countries worldwide most affected by climate change and natural disasters. Its already hot climate is disproportionately affected by global warming. As the 2022 floods demonstrated, the adverse impacts of climate change on Pakistan's growth and its human and natural capital are likely to be severe. The CCDR estimates that the total investment needs for a comprehensive response to Pakistan's climate challenges between 2023 and 2030 amount to US$350 billion, or nearly 10 percent of cumulative GDP for the same period. This consists of an estimated US$153 billion for adaptation and resilience, and US$197 billion for mitigation via decarbonization.

46. **This outcome will support increased agricultural productivity and resilience in the face of water scarcity, droughts, heatwaves, and changing rain patterns that require major shifts in the agriculture system.** The World Bank will support improvements in sustainable water and irrigation management to

achieve productivity gains while reducing environmental degradation. Smallholder producers will be supported through better organization, access to finance, and inclusion in agribusiness value chains, including livestock. IFC will aim to facilitate development of post-harvest infrastructure, including through PPPs and investments in climate smart agribusiness companies (e.g., in dairy, aquaculture, and animal protein). A joint WBG engagement will support a market-driven and resource-efficient growth of the agri-food sector to increase farmers' incomes and resilience, create jobs (including for women), capture export opportunities, improve nutrition, and yield environmental benefits. Interventions will encourage gradual reductions in distortive state interventions (e.g., in wheat and other markets) and regressive and inefficient subsidies to redirect them to core public goods that increase efficiency and equity (e.g., research and extension, access to markets, etc.) and in high-potential but neglected subsectors.

47. **This outcome will also focus on increased resilience to floods and other natural disasters, particularly climate-related, through better preparedness, and more climate resilient services and infrastructure.** CPF interventions will support improved planning, prevention, and response, including by supporting the government in exploring climate and disaster risk finance instruments, social protection, and monitoring; and adopt nature-based solutions and ecosystems (to adapt to and mitigate the impacts of heatwaves, floods, natural disasters, and water scarcity) to ensure that access to livelihoods and public goods is not disrupted by calamity. Interventions will also support the strengthening of national social protection systems to ensure that the most vulnerable are protected in the event of shocks. IFC will invest in adaptation solutions for industry and construction, and support climate resilient urban infrastructure investments. It will also build the capacity of regulators, industry participants, and financiers to adopt strong environmental, social, and governance (ESG) systems and sustainable financing banking practices to increase access to climate finance. IFC and the WBG Guarantee Platform will also facilitate mobilization of climate blended finance funds to de-risk climate resilient investments and enable the deployment of green capital markets instruments.

Figure 5. Interventions that Contribute to *Increased Resilience to Climate Change*

3. Contributors to *Increased Resilience to Climate Change*

Black: World Bank *Red: joint WB + IFC* *Blue: IFC only (+ MIGA)*

3. Increased resilience to climate change

3.1 A more **diversified agriculture**, resilient to water scarcity, droughts and changing rain patterns

- ***Reduce distortions and subsidies to repurpose public spending to core public goods*** *(agriculture research and development and infrastructure) to* ***promote climate-resilient solutions*** *(especially against droughts, e.g., heat-resistant varieties and breeds) and the* ***adoption of climate-resilient farming practices*** *(water use efficiency, sustainable soil fertility management, fertilizer-use efficiency, post-harvest loss reduction, etc.)*
- ***Develop high-potential agri-value chains*** *(smallholder livestock, horticulture, aquaculture, agri-processing) and address challenges of smallholder farmers to* ***increase productivity and inclusion into agri-food value chains***
- ***Invest in climate-smart agri-food companies*** *(animal protein, dairy, aquaculture, livestock); and in* ***agri-logistics*** *sector (including via PPPs)*

3.2 Increased **resilience to floods** and climate-related disasters

- ***Flood-resilient infrastructure*** *and nature-based solutions (e.g., reducing deforestation), and improved early warning systems and disaster risk information and management systems*
- *Mobilizing blended climate finance and green financing instruments to support* ***climate-resilient urban infrastructure and adaptive real sector investments****; strengthening environmental, social, and governance regime and capacities*

CONNECT: *Rural roads and transport infrastructure that is more resilient to floods; Investment in* ***cold chain agricultural storage and transport*** *Direct/indirect investments in* ***agri-tech;*** *Investment in* ***digital infrastructure to enable ag-tech/digital use cases in agriculture.***

PROTECT: ***Unconditional cash transfers*** *that protects the bottom 50%;* ***Adaptable social protection*** *that can respond to shocks and expand access for emergencies;* ***Savings schemes*** *for the poorest quintiles;* ***Financial inclusion*** *solutions, including microfinance.*

CPF OUTCOME 4: CLEANER ENERGY AND BETTER AIR QUALITY

48. **This outcome will <u>support the transition to a cleaner, cheaper, and more sustainable energy system, and to addressing the multiple sources of air pollution</u>.** It will contribute to SDG7 – *Affordable and clean energy*; SDG11 – *Sustainable cities and communities*; SDG12 – *Responsible consumption and production*; and SDG13 – *Climate action*. The potential to reduce energy costs by transitioning to a cleaner, less carbon-intensive energy mix is huge. In addition to reducing GHG emission intensity from energy, it will support reduced air and atmospheric pollutants from other sectors of the economy, including transport, construction, residential cooking, industry, agriculture, and land use.

49. **The CPF will support the transition towards a financially sustainable energy sector, using a cleaner, more reliable, and affordable energy mix—<u>enabling 10 gigawatts (GW) of renewable energy capacity</u>.** This will be achieved through reforms and investments to improve the sector's supply and demand efficiency and resilience, including investments and reforms in the transmission and distribution (T&D) sector to reduce losses and geographical imbalances between consumption and generation; and transitioning from fossil fuel-based generation towards sustainable sources of renewable energy, including hydropower and solar. Investments in energy efficiency, industrial decarbonization, and, potentially, networked surface geothermal heating and cooling will accelerate this energy transition. The CPF will also support a "just" transition to protect the poor and vulnerable and ensure increased access to energy. A joint WBG approach, building on global knowledge and the experience of other countries, will focus on enabling sustainable and reliable evacuation of power, especially in T&D which is critical to the transition to renewable energy, in particular when private sector participation is needed to complement public investment. Building on continued progress of the energy sector reform agenda, MIGA, through the suite of instruments under the WBG Guarantee Platform, will selectively explore opportunities for private investment in new renewable energy projects based on the need for generation capacity, and potential for de-risking PPP projects in T&D.

Figure 6. Interventions that Contribute to *Cleaner Energy and Better Air Quality*

4. Contributors to *<u>Cleaner Energy and Better Air Quality</u>*

<u>Black:</u> World Bank <u>Red:</u> joint WB + IFC <u>Blue:</u> IFC only (+ MIGA)

4. Cleaner energy and better air quality

4.1 Improved affordability, reliability and sustainability of **energy** with lower GHG emissions per unit of GDP

- *Power and gas sector reforms*
- ***Transition to clean energy**, including hydropower, solar, and other potentials (wind, geothermal, etc.)*
- *Investment in **power transmission and distribution** sectors, including via **private participation***

4.2 Reduced sources of **air pollution**, with focus on: *transport, industry, energy, construction, agriculture and residential (cooking).*

- ***Decarbonization of key polluting sectors:** <u>transport</u> (electric vehicles), <u>industry</u>, <u>construction</u> (brick kilns), <u>residential</u> cooking stoves, and <u>agriculture</u>*
- ***Reduce crop residue burning, more low-emission fertilizer** and **manure use**, less **GHG intensity of livestock production***
- *Enhance capacity to develop and invest in projects to **promote a viable carbon credits market***
- ***Energy/resource efficiency** and decarbonization advisory/investments in sectors (manufacturing, green buildings, etc.)*

<u>**CONNECT**</u>: ***Decarbonization of transport** (e-buses, railway freight, etc.); Investments to **decarbonize telecoms infrastructure**, solarization of towers.*

<u>**PROTECT**</u>: ***Social safety nets** that protect the poorest from price shocks, phasing out of energy subsidies or transitions to cleaner technologies.*

50. **This outcome will also target Pakistan's high levels of air pollution, focusing on key contributing sectors such as transport, construction, residential cooking, industry, agriculture and land use—<u>the target is to reduce the population-weighted PM2.5 average annual exposure by 35 percent in a decade</u>** <u>(from 55 to 35 micrograms per cubic meter (μg/m^3))</u>. The World Bank will support abatement measures

via policy reforms, regulatory measures, and public investments in the most polluting sectors. IFC will focus on increasing resource efficiency of infrastructure and industries—including green buildings, green manufacturing, e-mobility infrastructure and standard setting, and adoption of energy efficient technologies—by deploying a mix of instruments such as green Risk Sharing Facilities and green/sustainability-linked loans. MIGA will seek to deploy WBG Guarantee Platform instruments to complement these efforts. Carbon markets will be explored as a means to fund emissions reductions. The World Bank is exploring a monitoring, reporting, and verification system for carbon markets and registry development, along with a roadmap for compliance and voluntary markets. IFC will seek to develop investment and advisory solutions to private sector stakeholders enabling monetization of carbon credits for investments, including adaptive industrial projects, afforestation, and/or blue carbon projects (e.g., mangrove plantations); and MIGA will seek to support the development of carbon markets through the deployment of guarantees in support of private sector projects generating carbon credits. It will be important to ensure that monetization of any carbon credits is done in a way that will not negatively affect the tracking of Pakistan's emissions reductions efforts or be detrimental to Pakistan's compliance with the European Union's Carbon Border Adjustment Mechanism or other similar schemes that may be launched in the future.

CPF OUTCOME 5: MORE PUBLIC RESOURCES FOR INCLUSIVE DEVELOPMENT

51. **The overall goal of this outcome is to support increased fiscal space for more progressive social and development spending—including by durably increasing the tax-to-GDP ratio above 15 percent.** It will contribute to SDG7 – *Affordable and clean energy*; SDG11 – *Sustainable cities and communities*; SDG12 – *Responsible consumption and production*; and SDG13 – *Climate action*. Major fiscal reforms will be key to macroeconomic stability and to generate the fiscal space needed to invest more public resources in basic services, human capital development, and resilient infrastructure. The CPF will support sustainably improving revenues to international benchmark levels required to achieve basic service provision, economic growth, and fiscal progressivity. This will be done in close coordination with the IMF, including via joint advisory support as part of the new *Joint Domestic Revenue Mobilization Initiative* (JDRMI), which includes Pakistan as a pilot country. It will also be closely coordinated and jointly provided with other key partners of Pakistan in this policy space, particularly the ADB and the Foreign, Commonwealth & Development Office (FCDO). At the provincial and federal levels, interventions will focus on: (i) critical revenue policy measures, including reform of the withholding tax regime, simplification of federal personal and corporate tax systems thereby supporting increased formalization of the SME sector, and more effective and equitable taxation of capital gains; (ii) reducing tax expenditures, including transparency on the costs of tax exemptions; (iii) strengthened administration, including investments in critical tax administration information technology infrastructure, aligned with government digitization plans. At the provincial level, the World Bank will maintain and scale up support for mobilization of new revenue sources in line with government reform plans, including through effective taxation of real estate and agriculture. Interventions will draw on international lessons regarding the need for effective tax reforms to take account not only of revenue needs, but also distributional and efficiency considerations.

52. **The World Bank will continue to provide critical support to improve the quality of public expenditure and address the unnecessarily high costs and risks of debt, in alignment with Performance and Policy Actions under IDA's Sustainable Development Finance Policy.** Technical assistance and potential operational support at the federal and provincial level will support strengthened budgeting, improved public investment spending, management and monitoring, cash management, and progress with the devolution agenda. Analytical support will be provided for the reform of current energy and productive sector subsidies, including detailed distributional analysis. The World Bank will continue to

provide support to the establishment of a unified and coherent debt management function, reducing the costs and risk associated with the large debt portfolio. It will provide technical assistance to the ongoing reform of pensions at the federal and provincial levels, and (with the ADB and other partners) continue to provide analytical and advisory support on SOE reforms, including in relation to the effective identification and management of fiscal risks. IFC will aim to provide advisory support to enable private sector participation in SOEs (e.g., via privatization) to help improve SOE performance and reduce losses.

53. **The CPF will help strengthen fiscal federalism, improved coordination, and accountability.** The World Bank will continue to support coordination between federal and provincial tax entities, including towards full harmonization of the General Sales Tax regime and effective mobilization of new provincial revenue sources. It will continue to support the implementation of a nationally coordinated fiscal policy through technical assistance and capacity building to improve coordination between federal and provincial finance departments. Finally, it will support fiscal federalism reforms, including on the role of local and municipal governments; alignment between expenditures, revenues, and constitutionally mandated responsibilities; accountability; and public expenditure management.

Figure 7. Interventions that Contribute to *More Public Resources for Inclusive Development*

5. Contributors to *More Public Resources for Inclusive Development*

***Black:* World Bank *Red:* joint WB + IFC *Blue:* IFC only (+ MIGA)**

5. More public resources for inclusive development

5.1 Increased **fiscal space** more progressive and efficient taxation and expenditures, for increased, more stable and inclusive public spending on development

- ***Increased tax and non-tax revenues*** *(including reducing tax exemptions); increased provincial and local governments' revenues, including from agriculture income, real estate, and retail*
- ***Rationalized expenditures and improved spending efficiency:*** *reduced regressive subsidies, inefficient expenditures and SOE losses (**advisory services to privatization/increased private sector participation in SOEs**); improved debt and public investment management; improved fiscal coordination; increased efficiency, progressivity, and inclusiveness of public spending*

CONNECT: ***Digitalization*** *of transactions, tax administration, public investment, and financial management.*

PROTECT: ***Improved targeting of social safety nets*** *to increase spending progressivity of social transfers.*

CPF OUTCOME 6: INCREASED PRODUCTIVE PRIVATE INVESTMENT

54. **The overall goal of this outcome is to contribute to significantly increasing the private investment-to-GDP ratio over the coming decade.** It will support SDG5 – *Gender equality*; SDG8 –*Decent work and economic growth*; SDG9 – *Industry, innovation and infrastructure*; and SDG12 – *Responsible consumption and production*. Policy and institutional weaknesses undermine the productivity of Pakistan's economy, curtailing investment, exports, and growth. Due to pervasive controls, regulations, subsidies, taxes, trade protections, and a heavy presence of SOEs in key productive sectors, productivity is low and stagnant. This in turn results in investments being low, averaging around 10 percent of GDP compared to 20–25 percent in India and Bangladesh. With low investment and competitiveness, exports have fallen from around 16 percent of GDP during the 1990s, to around 10 percent today.

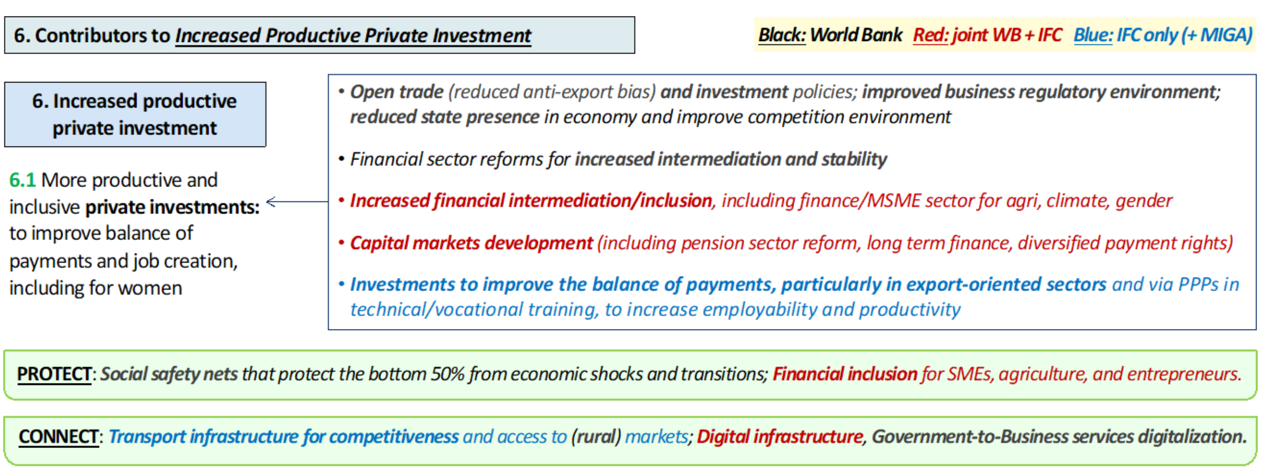
55. **The WBG will work to address the causes of low productivity and low investment, supporting the transition towards a more open, export-oriented economy.** Pakistan's current export potential has been estimated at US$60 billion more annually. Achieving this potential will require improvements in the current business environment such as through the simplification or harmonization of complex and overlapping regulatory frameworks administered by more than 40 entities across federal and provincial

levels, maintenance of a market-determined exchange rate, an export-oriented trade policy, and reducing tax-compliance costs. Advisory support will aim to simplify regulations, increase the use of Government-to-Business digital services, and reduce the loopholes and opportunities for discretion and arbitrary implementation of regulations. The CPF will also aim to address the anti-export bias in Pakistan's trade policy. Pakistan remains one of the most protected economies in the world, with an average Most Favored Nation tariff of 19.6 percent, although pockets of excellence such as in Sialkot and elsewhere demonstrate the private sector's ability to circumvent these challenges. In line with the government's ambition to reduce protections and encourage exports, the World Bank will continue supporting the National Tariff Commission through the development of a new National Tariff Policy and support reforms to export facilitation schemes and credit finance for exporters.

56. **CPF interventions will also help strengthen the financial sector for increased stability, inclusion, and access to finance.** Credit to the private sector only amounts to 12 percent of GDP—one-quarter of the South Asia average—while only 6 percent of the credit to the private sector flows to the SME sector. Improving financial intermediation and inclusion of underserved segments (including. M/SMEs, women, agriculture sectors) is critical. World Bank interventions will include addressing capacity and regulatory constraints to effective financial intermediation and stability, strengthen credit enforcement and insolvency frameworks, and facilitate the development of capital markets. IFC and the World Bank will engage jointly on a long-term vision for the development of the microfinance sector, including in terms of developing instruments to mitigate climate-related shocks. IFC will continue its support for trade finance and aims to develop viable local currency solutions and scale up funded and unfunded financing solutions for financial intermediaries to encourage lending to underserved segments including M/SMEs, climate finance, women-owned businesses, and agriculture sectors. IFC interventions will also include supporting the nascent start up, digital finance, venture capital, and private equity ecosystem with a focus on female beneficiaries. Through the suite of instruments under the WBG Guarantee Platform, MIGA will seek to complement these initiatives, including through capital optimization and trade finance guarantees.

57. **IFC and the World Bank will support private sector participation in SOEs.** The WBG will engage with provincial authorities to strengthen bankable PPP frameworks to help crowd in private investment in critical areas of infrastructure such as waste, water, energy, and agri-logistics sectors. IFC will aim to support technical and vocational training to address gaps in workforce skills and productivity. IFC interventions will help improve productivity and uptake of value-addition investments, including in manufacturing and agri-value chains, particularly those with high export potential.

Figure 8. Interventions that Contribute to *Increased Productive Private Investment*



III. IMPLEMENTING THE CPF: A BUSINESS PLANNING APPROACH

A. Size and Ambition: US$30–40 Billion of WBG Financing over the Decade

58. **The World Bank's indicative lending envelope for FY26–35 will total around US$20 billion**:

Indicative IDA(*): ~US$14 billion	Indicative IBRD: ~US$6 billion
Note: Indicative figure based on the assumption that the IDA available in the coming cycles remains constant in real terms and about the average of IDA18, IDA19, and IDA20 amounts. The figure includes potential access to IDA special windows.	*Note*: Actual IBRD lending volumes will depend on country demand, overall macroeconomic performance, global economic/financial developments that affect IBRD's financial capacity, and demand by other Bank borrowers.

(*) *Including potential access to IDA windows (Regional, Scale-up, Host Communities and Refugees, Crisis Response windows). Actual lending volumes will depend on the future evolution of IDA funding, Pakistan's standing and performance, including with respect to the Sustainable Development Finance Policy introduced in IDA19 to help address key debt vulnerabilities.*

59. **Transitioning from Blend to IBRD.** Due to Pakistan's relatively low gross national income per capita, low socioeconomic indicators, institutional and fiscal challenges, and vulnerability to climate shocks, it is not expected to graduate from IDA during the coming cycles that span the CPF period. However, the CPF aims to address some of the key country specific factors that would need to improve for a successful and sustained graduation from IDA. These are: its macroeconomic outlook and risk of debt distress (Outcomes 5 and 6), vulnerability to shocks, including from climate events (Outcome 3 and Cross-cutting Area 2), institutional constraints, level of poverty and social indicators (Outcomes 1 and 2) and access to finance (Cross-cutting Area 2) that would contribute to successful and sustained graduation from IDA.

60. **Subject to the macroeconomic outlook and an improving business environment, IFC aims to sustain its recently scaled-up program,** notably by diversifying its portfolio/product mix, while MIGA will seek to leverage the WBG Guarantee Platform instruments to support private investment. IFC will continue to emphasize its countercyclical role while ramping up PPP and advisory work. Annual commitments are expected to remain in the US$1.5 billion to US$2 billion range, with increased leveraging of World Bank lending as well as the suite of guarantees instruments, to support cross-border investment, lending, and trade finance. It will also strive to leverage blended finance to help de-risk projects and encourage private sector participation in underinvested priority areas, including sectors that require affordable local currency to ensure a more sustainable model of financing. MIGA will continue to support its US$205 million portfolio and will explore new opportunities leveraging the WBG Guarantee Platform.

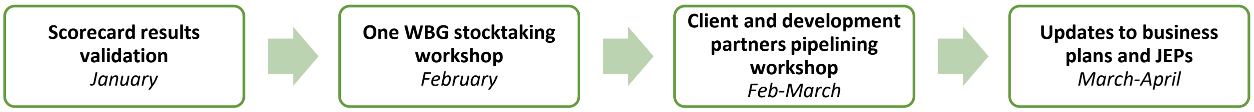
B. Operationalizing the CPF

61. **"Constrained flexibility" over a longer-term approach.** The CPF is designed as a long-term approach with the flexibility to adjust to evolving circumstances and shocks. The CPF period currently runs from FY26 up to FY35, with a PLR in late FY30 to assess progress, course-correct if priorities or circumstances change significantly (including lack of sustained traction in certain areas), and to decide whether the CPF will cover the whole 10-year period or a new CPF will need to be designed.

62. **Business Planning.** Annual business planning exercises with client governments and partners before the end of each fiscal year will inform pipeline programming, knowledge and analytical needs, and advisory services through two-year rolling Business Plans. The business planning process will take stock of progress through a review of results, reassess risks, and adjust the program and pipeline to respond to

emerging opportunities as well as IDA policy priorities. The exercise will also ensure early and continuous consultation with the Planning Commission to ensure alignment with government programs and plans. A two-part process will be followed, with internal One WBG programming workshops followed by a progress review and pipeline workshop with federal and provincial counterparts and development partners.

Figure 9: Annual Business Planning Process



63. **A One WBG approach.** Six JEPs have been developed jointly between the World Bank, IFC, and MIGA to identify priority areas to mobilize private capital using the “cascade principle,” whereas policy reforms are supported and, when appropriate, complementary public investments are mobilized to open sectors for private investment. Initial JEPs have been prepared for *Energy*, *Financial Inclusion*, *Water*, *Agriculture*, *Transport*, and *Digital* sectors. The plans identify needed reforms to attract private investments in these sectors and outline the coordinated engagements of each of the World Bank’s, IFC’s, and MIGA’s suite of advisory and financing instruments to achieve private capital mobilization targets. These will be updated as part of the annual business planning exercise. Project preparation at the World Bank will involve IFC and MIGA before project design starts to identify “cascade” opportunities in the CPF priority areas, supported by upstream analytics.

64. **“IF and THEN” approach will drive ambition and instrument selection.** A phased approach will be applied in critical areas where progress in structural reforms will determine the choice of engagement instruments— limiting potential future policy-based lending to selected macro-critical areas where reform progress has credibly been sustained and where the macroeconomic environment warrants the use of such instruments. The two-year Business Plans will make explicit expected priority reforms in each outcome area. Progress—especially in the power sector (T&D in particular), agriculture and water sectors, and the trade and fiscal policy frameworks—will guide the extent of WBG investment and advisory work.

65. **Scale, replicability, and impact.** The CPF period will aim to scale and replicate what works, including across provinces, building on the experience of implementation of the current portfolio and future evaluations. It is expected that **a significant share of new World Bank commitments in FY26–27 will focus on scale-ups.** The stepped-up focus on measurement and evaluations will inform these choices. The preparation of new operations will aim to increase readiness for implementation, by adopting readiness filters to be developed with the government, to help fast track results. Also, programs will systematically emphasize support to country systems and institutions for more effective project implementation and building the capacity to sustain and expand impacts beyond World Bank interventions.

66. **Increased focus on lagging areas.** The CPF outcomes require increased focus on lagging areas, particularly in rural districts and poorer urban areas. Poverty and other socioeconomic indicators help target interventions at the local level, and more projects will rely on community level schemes implemented by local governments and, sometimes, reputable non-governmental partners that have strong field presence. Implementation will require strong capacity building at the local level, and clear plans to address affordability and fiscal constraints to service levels needed to achieve desired outcomes. IDA Private Sector Window will be sought to de-risk private investments in eligible sectors and provinces.

67. **Leveraging partnerships and increasing joint financing programs.** The implementation of the CPF will need to be closely coordinated and complemented by the government’s programs, other partners’

programs, and the private sector when private capital can be mobilized to reach the decade's ambitious targets. The World Bank aims to significantly increase the average annual level of co-/parallel financing over the CPF period (eventually doubling the current average level). It will in particular closely coordinate with the ADB, the Asian Infrastructure Investment Bank (AIIB), the European Investment Bank (EIB), the Islamic Development Bank (IsDB), United Nations (UN) agencies—particularly the United Nations Children's Fund (UNICEF), United Nations Development Programme (UNDP), and World Food Programme (WFP)—as well as global programs, such as the Bill and Melinda Gates Foundation (BMGF), the Global Partnership for Education, Gavi, the Vaccine Alliance, the Green Climate Fund-IFC Global Resilient Water Infrastructure Facility, and the Global Financing Facility (GFF) and bilateral aid agencies (building on ongoing joint engagements with France, Germany, Japan, the United Kingdom, and others).

68. **Embedding partners' alignment and joint programs in the annual business planning process.** Key partners of Pakistan will be associated to the annual business planning process to identify early on opportunities for co-/parallel financing or other forms of joint programs. Further, structured coordination mechanisms, such as thematic country platforms that bring partners together, will foster joint engagement and analytics to leverage comparative advantage of development partners and IFIs. The new *Full Mutual Reliance Framework* agreed with the ADB as a model will be leveraged, including if it eventually gets expanded to other IFIs. IFC will aim to explore and leverage donor platforms to support engagements on climate resilience, PPPs, agribusiness, and sector specific investment climate work.[15] It will also aim to enhance collaboration with private sector focused teams in other development partners (e.g., ADB, FCDO, AIIB, IsDB, Agence Française de Développement (AFD), United States Agency for International Development (USAID), etc.) in order to encourage joint engagement in areas of shared priorities, and also promote a similar application of the cascade principle with a focus on private capital mobilization. MIGA will continue to work with regional development finance institutions, export credit agencies, and reinsurers to support FDI in Pakistan.

Table 2. Partnerships During the CPF Period

CPF TARGET	WBG	ADB	AIIB	FCDO	IMF	AFD	USAID	Others
1.1 Improved access to health and nutrition and **1.2 Population services**	✓	✓		✓		✓	✓	UNFPA, WHO, UNICEF, BMGF, JICA, GFF, Gavi
1.3 Improved access to safe WASH	✓	✓	✓					IsDB, EIB, AFD
2.1 Reduced learning poverty	✓	✓		✓			✓	UNICEF, GIZ, JICA
3.1 Strengthened food/nutrition security	✓	✓				✓	✓	JICA, IFAD, WFP, FAO
3.2 Enhanced resilience to climate risks	✓	✓		✓	✓	✓		EIB, IsDB, JICA, UNDP
4.1 Renewable energy capacity enabled	✓	✓	✓		✓		✓	IsDB, KfW, EIB, AFD
4.2 Reduction in air pollution	✓	✓		✓		✓		AFD, KfW, WHO, ESMAP, GIZ
5.1 Increased tax revenues to GDP	✓	✓		✓	✓			UNDP, EU
6.1 Increased private investment-to-GDP	✓	✓		✓	✓			GIZ

Note: UNFPA = United Nations Population Fund; JICA = Japan International Cooperation Agency; GIZ = Deutsche Gesellschaft für Internationale Zusammenarbeit; ESMAP = Energy Sector Management Assistance Program; EU = European Union.

[15] For example, Pakistan is included in the global Green Climate Fund-IFC Water Resilient Facility and a new blended finance facility with the FCDO (CIFPAK) focused on attracting private climate finance and de-risking climate adaptation investments.

69. **<u>Crisis preparedness and response</u>.** Given the exposure of Pakistan to climate-related and other disaster risks, the CPF will use the tools offered by the new Crisis Preparedness and Response Toolkit, particularly the possibility of quick repurposing of parts of the unspent portfolio (as part of the Rapid Response Option) and other contingency resources that can be deployed quickly. To identify measures to prepare better for conflict, a Risk and Resilience Assessment will be conducted and operationalized.

C. Knowledge, Data, and Monitoring and Evaluation Agenda

70. **The CPF will implement the Knowledge Compact—an AAA suite of instruments in support of all engagements: *Analytics*, *Assessment* of outcomes and impacts, and just-in-time *Advisory*.** Two-year rolling Business Plans will outline how these three types of knowledge services will be rolled out.

71. **In addition to WBG core Analytical products informed by global knowledge, the CPF will prioritize short-term analysis** (less than six months) that responds to specific and clearly identified client demands, instead of multi-year advisory services and analytics, except when deep, time-consuming analysis is needed, or the collection of large, sophisticated, and original survey data is required.

72. **Assessing impact: a *Pakistan Data and M&E Lab* to scale up the measurement agenda.** With a CPF anchored into achieving a set of 10 measurable and attributable targets in support of six outcomes, it is imperative to step up the measurement agenda and systematize rigorous data collection, monitoring, and impact evaluations across the WBG portfolio. Dedicated resources will be pooled into a new *Data and M&E Lab* that will support this effort, with a particular focus on gender outcomes (with support from the South Asia *Gender Innovation Lab*). When feasible, rigorous impact evaluations will be embedded in key operations in support of specific country outcomes (e.g., stunting and learning).

73. **Advisory services in support of policy reforms design and implementation.** Both the World Bank and IFC (and, when relevant, jointly) will prioritize just-in-time policy design and implementation support in its suite of knowledge services. The CPF will actively support client needs in terms of policy design and implementation, such as in energy sector reforms, domestic revenue mobilization (including in provinces), pensions reforms, expenditure management, air quality management, opening up sectors to PPPs and privatization, developing Pakistan's Digital Stack, climate finance, and sector strategies. Building on earlier policy notes, updates focused on the CPF outcome areas could be prepared regularly to track progress in reform and program implementation and identify gaps and ways forward.

IV. MANAGING RISKS

Table 3. CPF Risk Ratings

Category	Rating	Category	Rating
Political and Governance	High	**Fiduciary**	High
Macroeconomic	High	**Environment and Social**	High
Sector Strategies and Policies	High	**Stakeholders**	Substantial
Technical Design	Substantial	**Other: Fragility, conflict and violence**	High
Institutional Capacity for Implementation and Sustainability	Substantial		
<u>OVERALL:</u> HIGH			

74. **Political and Governance risk [HIGH].** Polarization of the polity has led to frequent government changes and short political cycles that often led to stalled implementation of programs and lack of persistence in policy direction. The risk of this track record continuing is high, and new episodes of heightened political tensions could lead to fiscally unsustainable policy decisions, especially in terms of energy subsidies and tax exemptions. Difficult coordination and often incoherent policy stances between the federal government and provinces exacerbate these risks. The design of the CPF—highly selective and focused on fewer outcomes endorsed across the political spectrum—should mitigate this risk and partly shield the WBG's engagement from a resurgence of short political cycles and frequent government changes. A series of two-year rolling Business Plans and the PLR will allow for adjustments to changing circumstances and to decide whether the CPF should be extended to cover the whole 10-year period. Fragility may increase over the CPF period if the security situation deteriorates in the border provinces. Increased engagement to improve service delivery and institutions in KP and Balochistan provinces may help respond to this risk.

75. **Macroeconomic risk [HIGH].** Pakistan has a high debt burden, heavy financial sector exposure to government debt, large external financing needs, and weak investor confidence. While the government is currently engaging on an ambitious structural reform agenda—including in the fiscal, energy, and privatization areas—risks of a slowdown in implementation in the face of resistance remain. The World Bank will continue to work closely with the IMF and IFIs to support steady implementation of reforms. Other macroeconomic risks include potential worsening of external conditions and international price shocks, and natural and climate disasters.

76. **Sector Strategies and Policies risk [HIGH].** Political will and governance constraints may result in shifting priorities, while capacity constraints and inadequate financing (including by counterparts) may impact implementation on sector strategies and policies. Macroeconomic and investment climate conditions may limit private sector appetite to invest in critical sectors, including in much needed PPPs in infrastructure as well as export-oriented industries—both areas in which IFC aims to scale up investments and the WBG Guarantee Platform aims to provide guarantees. The WBG will also continue to provide technical assistance and advisory support for the development and implementation of key sector strategies and policies. Programming under the CPF will focus on improved client capacity, including for monitoring systems. Policy dialogue at federal and provincial levels will aim to retain support for sector initiatives to ensure that reform momentum is maintained and is credible.

77. **Technical Design risk [SUBSTANTIAL].** Achieving gains in multisectoral areas (such as stunting) is complex and will require consensus, technical knowledge, and policy inputs for support. Global knowledge, including from experience from implementation in other similar contexts, will help mitigate this risk. In addition, funding and co-financing for key elements of the CPF may not fully materialize (e.g., the *Data and M&E Lab*) and will be mitigated by continued dialogue with development partners.

78. **Institutional Capacity for Implementation and Sustainability risk [SUBSTANTIAL].** Insufficient federal-provincial and inter-ministerial coordination represent risks to effective implementation as well as to the momentum of reforms. Continued dialogue underpinned by analytical/advisory engagements with broad groups of stakeholders should mitigate this risk. Capacity building at all levels will be a core part of the program and interventions. In addition, Country Platforms (such as for disaster management or stunting) should help coordinate between counterparts and stakeholders. The pace and scale of implementation required to match the level and scope of ambition of this CPF will be a major challenge for the government. Implementation capacity, though it exists, is severely dissipated and requires systematic supervision, using a wide range of instruments and resources to achieve a sustained focus on results.

79. **Fiduciary risk [HIGH].** While there have been recent improvements in overall PFM, key constraints such as weak institutional effectiveness, widespread perceptions of corruption, low levels of openness and citizen participation, and inefficiencies in the public procurement system and service delivery remain. There is insufficient integration of capital and recurrent budget, resulting in poor planning and poor debt management. Public procurement laws and rules have not been updated to reflect recent good practices, while new challenges such as sustainable procurement and climate change have also been ignored. Budget releases to service delivery units are often insufficient and delayed. Mitigating fiduciary risks will require further revisions of the New Accounting Model, enhancing the comprehensiveness of the unified Chart of Accounts, digitizing payment and procurement systems for the entire public sector, expansion of the Integrated Financial Management Information System at all levels, modernization of the public procurement legal framework, full use of e-procurement systems, as well as capacity strengthening of project staff and agencies.

80. **Environment and Social risk [HIGH].** Infrastructure sectors have complex environmental and social issues (e.g., on resettlement), requiring continued stakeholder engagement and strong grievance redress mechanisms. The increased focus on local development, especially in rural areas and in districts exposed to conflict, raises additional risks. Government capacity and systems will need to be strengthened over the CPF period to match the new requirements of the Environmental and Social Framework. The financial and real sectors also need to adhere to minimum standards for Environmental and Social Risk Management to be eligible for IFC investments. Support will be provided to the regulators (the Securities and Exchange Commission of Pakistan, the State Bank of Pakistan) and client firms for deployment of best international ESG practices.

81. **Stakeholders risk [SUBSTANTIAL].** Pakistan is a federal country with a complex power structure. Major political parties govern federal and provincial governments, while other interest groups concurrently continue to influence development outcomes. Political economy analysis will be key to identify champions and upstream risks and their mitigation. The WBG will continue to expand outreach and engage across interest groups to identify issues, communicate better, and mitigate risks throughout the CPF period.

82. **Other risks: Fragility, conflict, and violence [HIGH].** These risks have heightened in KP and Balochistan, areas that also suffer from poor human development outcomes. These warrant increased focus, even if project implementation and supervision will be more challenging in these areas. A Risk and Resilience Assessment will be conducted during the first CPF year to identify specific challenges and to recommend mitigation measures.

ANNEX: CPF RESULTS AND ENGAGEMENT FRAMEWORK

Mapping of CPF Outcomes to WBG Scorecard

PAKISTAN RESULTS FRAMEWORK: CPF OUTCOMES, TARGETS, AND THE WBG CORPORATE SCORECARD

SCORECARD OUTCOMES	1 Reduced child stunting	2 Reduced learning poverty	3 Increased resilience to climate change	4 Cleaner energy and better air quality	5 More public resources for inclusive development	6 Increased productive private Investment
2 *No Learning Poverty*		❑ 2.1 Millions of students supported with better education				
3 *Healthier Lives*	❑ 1.1 Millions of people receiving quality health, nutrition, and population services ○ 1.2 Millions of women using modern contraceptives					
4 *Effective Macro-economic and Fiscal Management*					❑ 5.1 Tax revenues-to-GDP at or above 15%	
5 *Green and Blue Planet and Resilient Populations*			❑ 3.2 Millions of people with enhanced resilience to climate risks	○ 4.2 Population-weighted PM2.5 average annual exposure		
6 *Inclusive and Equitable Water and Sanitation Services*	❑ 1.3 Millions of people provided with water, sanitation, and/or hygiene, of which (%) is safely managed					
7 *Sustainable Food Systems*			❑ 3.1 Millions of people with strengthened food and nutrition security			
9 *Affordable, Reliable and Sustainable Energy for All*				❑ 4.1 GW of renewable energy capacity enabled		
15 *More Private Investment*						❖ 6.1 Private investment as a percentage of GDP

❑ WBG Scorecard indicator ○ Non-Scorecard indicator ❖ Client context indicator

Outcome 1: **Reduced Child Stunting**[16]	**5-Year Target:**	**10-Year Target:**
Indicator **1.1**: **Millions of people receiving quality health, nutrition, and population services**	**11**	**50**
Indicator **1.2**: **Millions of women using modern contraceptives**	**6**	**30**
Indicator **1.3**: **Millions of people provided with water, sanitation, and/or hygiene, o/w (%) is safely managed**	**12**	**60**

Goal: Reduce stunting by 30% in targeted districts

Intervention Logic: Reducing child stunting will require a policy shift from the current nutrition-only approach to a multi-sectoral approach coordinated at the local level that aims at: (i) better access to safe **WASH** services (clean water, better waste management, improved sanitation, as well as behavioral change to improve hygiene); (ii) better **nutrition** and a more diversified diet; (iii) improved access to quality **primary healthcare**, particularly for pregnant mothers and newborns (first 1,000 days); and (iv) wider access to quality **family planning** services to reduce fertility (more birth spacing) and early pregnancies.

1.1. Millions of people receiving quality health, nutrition, and population services. WB projects will support improving the delivery of quality essential health and nutrition services for women, adolescent girls, and children, with a focus on the first 1,000 days since conception; via equitable and sustainable health financing. Digital solutions will enhance efficiency of service delivery (health-tech) and spending, while rural roads will ensure better access to health facilities. Cash transfers will incentivize behavior change and support the demand for services. IFC will explore PPPs and private investments in tertiary healthcare, health-tech, as well as in manufacturing of pharmaceuticals, nutrition supplementation, and food fortification.

1.2. Millions of women using modern contraceptives. WB will support improved family planning and population services to reduce fertility and the age of first pregnancy and to increase birth spacing. This indicator contributes to 1.1. It is presented separately to allow tracking under a focused set of operations.

1.3. Millions of people provided with water, sanitation, and/or hygiene, of which (%) is safely managed. WB interventions will mostly support increased access to safely managed water and sanitation services in rural and urban areas (particularly low-income areas), including the use of sustainable tariff schemes to ensure sustainable operations and maintenance. Behavioral change and information campaigns will be supported to improve household and community hygiene practices. IFC will explore PPPs/investments in urban wastewater and solid waste management, including in industrial zones.

Lessons Learned: Scattered, uncoordinated interventions (including in past WB operations) have failed to reduce stunting rates for decades. Environmental factors, particularly access to safe WASH, have been largely ignored, as has family planning. Lack of sustained, coordinated, and long-term focus on multi-sector interventions co-located at the local level (as in successful countries such as Indonesia) has led to no progress in reducing stunting. Duplication of uncoordinated interventions (e.g., nutrition CCTs) at the federal level and in some provinces is jeopardizing efficiency and impact.

Knowledge Gaps: Identifying the governance scheme to ensure coordination among different sectoral interventions. Combined impacts of WASH, family planning, social protection, and health, nutrition, and population interventions to be evaluated by a rigorous impact evaluation. Advisory and capacity building will help identify the right funding model to pay for the maintenance of rural WASH infrastructure, especially in rural areas, as well as to structure viable PPP transactions in urban water.

[16] Unless specified otherwise, all scorecard indicators measure the “flow” of results over the CPF period rather than the stock, hence the default baseline starts at 0.

POLICY REFORM PRIORITIES: (i) healthcare finance and monitoring systems; (ii) revitalization of community level health services; (iii) new institutional arrangements for family planning; (iv) shifting to a utility model for sustainable rural WASH service delivery; (v) water pricing and urban PPPs; (vi) expansion, harmonization, and better federal-provincial coordination of health and nutrition CCTs.

PARTNERSHIPS: A stunting country platform will coordinate efforts between government and partners (ADB, UN, EIB, AIIB, BMGF, Gavi, GFF, and multiple bilaterals).

RISKS AND MITIGATION: Limited fiscal space may impact budget allocations to the stunting agenda. Fiscal and PFM reforms will help mitigate this risk.

KEY ONGOING ENGAGEMENTS:

[WB]

- Federal/provincial primary healthcare projects and technical assistance (KP, Punjab, Sindh).
- Nutrition and maternal healthcare CCTs and technical assistance (Punjab, Sindh).
- WASH projects (or components of) in Punjab (urban and rural) and rural KP.
- Rural health centers accessibility project (KP).
- Family planning project (Punjab).

[IFC]

- Two tertiary healthcare investments.

FORWARD LOOK:

The CPF will expand stunting and healthcare operations in KP and Balochistan, with focus on rural accessibility, social protection to incentivize behavior change. Urban WASH programs in FY25–26 will support access to WASH in Karachi and secondary cities. A rural Sindh WASH project may scale similar interventions from Punjab. Phase 2 of a rural investment operation in KP will focus on WASH. Operations will also support strengthened institutional sustainability and efficiency (tariffs, operations and maintenance). IFC will focus on urban and industrial areas through PPPs and investments in solid waste disposal, water and wastewater treatment, while its Cities Platform will help develop bankable frameworks to crowd in private capital. MIGA will seek opportunities to support foreign investor participation in water/sanitation projects and other related sectors.

POTENTIAL NEW ENGAGEMENTS OVER THE COMING 24 MONTHS [indicative]:

[WB]

- New health/stunting projects in Balochistan and KP (possibly including social protection/cash transfer support to demand for health, nutrition, and population services).
- Urban WASH Multiphase Programmatic Approach (MPA): Karachi (KWSSIP) and Punjab Inclusive Cities Program.
- Rural WASH MPA (Punjab and Sindh).
- Expansion of Sindh Emergency Housing Reconstruction (including water and sanitation).
- Balochistan Water Security and Productivity Improvement Project.
- KP Rural Investment and Institutional Support Project MPA (phase 2, focused mostly on WASH investments).

[IFC]

- Nutrition supplementation/fortification and Pharma manufacturing.
- Tertiary healthcare/health-tech.
- PPP/investments in urban wastewater/solid waste in Sindh/Punjab.
- Industrial wastewater recycling.

[MIGA]

- Leverage WBG Guarantee Platform to potentially support private investment (e.g., in WASH PPPs, agriculture and infrastructure including wastewater, solid waste treatment), potentially in conjunction with WB and/or IFC operations.

Outcome 2: **Reduced Learning Poverty**	**5-year target:**	**10-year target:**
Indicator **2.1**: **Millions of students supported with better education,** *foundational learning of primary and secondary school students. .*	**3.6**	**12**

Intervention Logic: Decades of underinvestment led to high learning poverty (with strong regional variations). COVID-19 and rising poverty have accelerated dropouts, resulting in one of the largest out-of-school populations in the world (mostly girl children). Key barriers to access, enrollment, and learning are: high costs and distance, poor quality of teaching, shortage of teachers (especially female), and lack of adequate sanitation. These are more severe in rural areas, which also suffer from demand side constraints, particularly with regards to girls' enrollment and their transition to secondary schools.

2.1 Millions of students supported with better education (with a focus on foundational learning in primary and secondary education). WB will support improved governance of the education system at all levels; reform human resource management (including for teacher retention, training, and allocation); increase access to early, pre-primary education; reaching out-of-school children and improving foundational learning through improved classroom environment and teaching (e.g. through improved curriculums, potentially in Science, Technology, Engineering, and Mathematics). Interventions will leverage the private sector as well as digital solutions (ed-tech). Demand side interventions will include cash transfers to support and incentivize attendance as well as the transition to secondary education (particularly for girls). Investments in safe transportation, including rural roads, will be essential to improve accessibility in rural areas, especially for girls, as will providing WASH facilities in schools.

Lessons Learned: Past interventions were not implemented at scale and lacked performance incentives, measurement, and accountability. WB focus was broad, spanning all levels, including higher education and skills/vocational training. Budget allocations are insufficient and declining (in relative terms).

Knowledge Gaps: Global knowledge on "best buys"/impactful interventions in education will inform engagement in Pakistan. Evaluations are needed to better understand local context barriers, e.g., in terms of demand for (girls') education (including safe transportation to schools), and regulation of private education. Further evaluations on support and incentives for attendance via cash transfers will help refine interventions during implementation.

Policy Reform Priorities: Implementation of federal and provincial foundational learning policies. Improved federal-provincial policy coordination (including on education CCTs). Harmonizing provincial reporting on education attainment and increased transparency on performance for increased accountability of the education system.

Partnerships: FCDO (including through Multi-Donor Trust Fund for advisory and analytics). GPE grants in Punjab and Balochistan in collaboration with UNICEF. Joint engagement with partners (FCDO, UNICEF, USAID, GIZ, JICA, etc.) on foundational learning (the global Foundational Learning Compact) and in support for the Prime Minister's Emergency Task Force on Education.

Risks and Mitigation: Limited fiscal space may impact budget allocations to education, while economic conditions and climate shocks may result in increased dropouts. The CPF will prioritize strong coordination with fiscal PFM reforms, as well as demand side interventions for school retention.

KEY ONGOING ENGAGEMENTS:	**POTENTIAL NEW ENGAGEMENTS OVER THE COMING 24 MONTHS [indicative]:**
[WB] · Support to federal government on improved standards, monitoring, and evidence-based decision-making, as well as to incentivize better performance in provinces. · Improved resource allocation and education budget management (KP). · Accessibility and safe transportation to rural schools (KP). · Improved teaching practices, as well as provision of new classrooms and climate resilient school facilities via PPPs (Punjab, Sindh). **FORWARD LOOK:** At the federal level, WB will leverage private sector and collaborate with the non-formal sector to help enroll children who cannot avail formal schooling and to support improved governance, early education, better classroom learning environment, new approaches to reach out-of-school children, and teacher quality. Grants for Punjab and Balochistan will support improved systems for learning (digitalization), content, and human resource management. Interventions (starting with Balochistan) will also support the availability of climate resilient schools, safe transportation in rural areas (especially for girls and students with disabilities), WASH, and incentives to support increased demand. IFC will explore investments in ed-tech.	**[WB]** · Expansion of ASPIRE federal education program (Additional Financing). · Access and Delivery of Quality Education Project in Balochistan. · Global Partnership for Education *System Transformation Grant* (Punjab, Balochistan). · Global Partnership for Education *System Capacity Grant* (Punjab). **[IFC]** · Potential investments in ed-tech.

Outcome 3: INCREASED RESILIENCE TO CLIMATE CHANGE	**5-YEAR TARGET:**	**10-YEAR TARGET:**
Indicator **3.1**: **Millions of people with strengthened food and nutrition security**	**15**	**30**
Indicator **3.2**: **Millions of people with enhanced resilience to climate risks** *(with focus on resilience to floods and climate-related disasters)*	**15**	**75**

INTERVENTION LOGIC: The increasing frequency of droughts, floods, and heatwaves has cascading impacts on development, including on food security and human capital. The agriculture sector is particularly exposed, as are the populations living in flood-prone areas. It is critical to support the transformation of the agriculture sector towards a more sustainable, water resilient, and climate resilient agri-food system. It is equally critical to invest in infrastructure, nature-based solutions, and institutions and policies (including for water management) to strengthen resilience to floods and other climate disasters.

3.1 Millions of people with strengthened food and nutrition security. The CPF will support a diversified agriculture sector that is resilient to water scarcity, droughts, and changing rain patterns. WB interventions will support the repurposing of inefficient, distortive, and poorly targeted agriculture subsidies to spending on public goods (research and extensions services, infrastructure, seeds development, etc.), and promote climate resilient solutions, climate smart farming practices, and efficient use of water resources. Savings schemes, financial inclusion, and cash transfers will help protect the poorest for the impact of droughts and flooding. One WBG interventions will help develop high-potential agriculture value chains and processing, including in livestock and aquaculture. Focus will increase on supporting small farmers' alliances to supply value chains, as well as on financial inclusion of poor farmers and female farmers. IFC will invest in climate smart agri-food companies and agri-logistics, including via PPPs. MIGA will seek to leverage WBG Guarantee Platform to support private investment in connection with food and nutrition security. Digitalization will help enable ag-tech solutions. Interventions under this indicator will contribute to CPF Outcome **1** on improved nutrition and diversified diets, and on Outcome **6** on private investment (and jobs, including for women).

3.2 Millions of people with enhanced resilience to climate risks *(resilience to floods and climate-related disasters)*. WB will support flood and disaster resilient infrastructure as well as nature-based solutions, particularly targeting deforestation. Improved and digitalized early warning systems and disaster management will ensure sustainable management of severe climate events, while social protection interventions (cash grants, financial inclusion, savings schemes, etc.) will provide safety nets to those impacted. IFC will invest in adaptation solutions, climate resilient urban infrastructure investments, along with building capacity of the market intermediaries and regulators for adoption of robust ESG mechanisms and enhancing access to climate finance. MIGA will seek to leverage WBG Guarantee Platform to support private investments in infrastructure that increases resilience to floods and other climate disasters.

LESSONS LEARNED: Decades of investment in agriculture has failed to transform the sector because major policy distortions prevailed (e.g., wheat procurement and pricing policies; fiscal, water pricing, and land tenure distortions); public resources (including through inefficient subsidies) are distributed inequitably, with less focus on wide-impact public goods such as agricultural research and extension. Also, piecewise farm-level interventions that lacked proper incentives for climate adaptation did not have the expected transformational impact (e.g., heavily subsidizing high efficiency irrigation technologies when access to water is free or highly subsidized, including through solar tubewells). In terms of resilience to floods and climate disasters, insufficient attention has been devoted to improving management information systems for post-disaster reconstruction and rehabilitation, and for crisis preparedness (including for large infrastructure needs). Improved targeting and capacitated delivery mechanisms for social assistance have helped respond quickly during disasters and highlight the need for better coordination at federal and provincial levels.

KNOWLEDGE GAPS: Impact evaluations and trial pilots will be needed to identify the right policy mix to incentivize farmers to diversify towards higher-value, nutritious, and water thrifty crops. Analysis of the distributional implications of key policy reforms (such as water pricing and management) will be key to sequence reforms. Supporting the transition of the social protection system from one that is dominated by a federal unconditional cash transfer program towards expanded provincial social protection programs will require learning from global experiences and adapting them to the Pakistan context.

POLICY REFORM PRIORITIES: Water and agriculture priority reforms: (i) water pricing and management; (ii) wheat procurement and pricing; (iii) agriculture taxation; (iv) land tenure; (v) repurposing subsidies towards public goods such as agricultural research and extension or targeted transfers to small farmers; (vi) defining the proper incentive structure for climate adaptation, water resource management; (vii) policy and regulatory framework to attract private investments in agriculture value chains. Institutional reforms and capacity building (including monitoring systems) to improve disaster preparedness.

PARTNERSHIPS: Joint policy dialogue/coordinated investments with ADB, FAO, USAID and IFAD. Parallel financing by ADB, IsDB, and (potentially) EIB to support flood-resilient housing reconstruction in Sindh. A FCDO-IFC blended climate finance facility will help de-risk IFC investments in climate resilient infrastructure

RISKS AND MITIGATION: The increasing impact of climate change is likely to place greater burden on existing infrastructure and limit the fiscal space for an appropriate response. Opposition to agricultural reforms may limit progress and will require continued dialogue and evidence to inform reform sequencing.

KEY ONGOING ENGAGEMENTS:

[WB]

- Support to agri market reforms (Punjab) and climate resilient agriculture (KP).
- Rural investment for improved climate resilient livelihoods, irrigation, and communities (KP).
- Support to sustainable livestock and aquaculture (Sindh).
- Improved management of water resources and agricultural water productivity (Sindh).

[IFC]

- Advisory on grain storage and agri-logistics infrastructure (Sindh), and climate resilience in corporate farming and animal protein.
- Advisory on green and resilient buildings, sustainable banking, ESG.

FORWARD LOOK:

Engagement in Punjab will support access to markets and value chains to spur climate resilient agricultural transformation, coupled with agriculture policy and water management reforms. Operations in Balochistan and Sindh will support flood resilience (capacity to channel flood flows for productive use and groundwater recharge) and strengthened infrastructure in flood affected areas. IFC will increase focus of agriculture investments in value chains development. WB and IFC will jointly support climate finance mobilization efforts in line with the National Climate Finance Strategy and explore options to facilitate access to international climate finance and private capital, with a focus on adaptation.

POTENTIAL NEW ENGAGEMENTS OVER THE COMING 24 MONTHS [indicative]:

[WB]

- Strengthening Markets for Agriculture and Rural Transformation in Punjab (phase 2).
- New Balochistan operation on resilience to floods.
- Expansion of Sindh Emergency Housing Reconstruction; potential expansion of floods-resilient infrastructure reconstruction project.
- KP Rural Investment and Institutional Support MPA (phase 2).

[IFC]

- Potential investments in ag-tech and agri-value chains, including storage and logistics.
- Advisory/investment in climate resilient and adaptive urban and industrial infrastructure (via PPPs).

[MIGA]

- Leverage WBG Guarantee Platform to support private investment (e.g., in climate resilient agri and infrastructure), possibly in collaboration with WB/IFC.

Outcome 4: Cleaner Energy and Better Air Quality	**5-year target:**	**10-year target:**
Indicator **4.1**: **GW of renewable energy capacity enabled** *(sustainably, including via grid strengthening and gradual replacement of thermal generation capacity)*	**4 GW**	**10 GW**
Indicator **4.2: Population-weighted PM2.5 average annual exposure (Baseline: 55 μg/m^3)**	**45 μg/m^3**	**35 μg/m^3**

Intervention Logic: Pakistan's fossil-fuel heavy power sector is expensive and inefficient and contributes 46 percent of GHG emissions. High levels of air pollution from residential sources, transport, industry, and agriculture and solid waste have major health impacts in certain areas of the country, particularly in Punjab. Interventions will support a just energy transition focusing on renewable energy, T&D, and efficiency of providers, while also targeting the key sources of air pollution through interventions in transport, cleaner technologies, agriculture, and solid waste management.

4.1 GW of renewable energy capacity enabled *(sustainably, including via grid strengthening and gradual replacement of thermal generation capacity)*. WB will continue to support the transition to renewable energy, as well as the overall energy sector efficiency via advisory and policy support (including reforms to reduce the sector's losses stemming from high costs of power generation, low bill collection, and T&D losses). The decarbonization of the energy mix will help reduce the cost of power generation. IFC will focus on enabling sustainable and reliable evacuation of power, with investments and/or advisory in T&D, working with the WB to develop bankable frameworks to crowd in private sector investment, along with exploring the potential of surface geothermal deployment. MIGA will continue supporting existing foreign investments in hydropower and will explore opportunities to utilize the suite of instruments under the WBG Guarantee Platform to support private investment, including in T&D. Interventions under this indicator will contribute to Outcomes **5** and **6**, as reductions in the sector's losses will help public finances, and reduced energy costs and better T&D systems will help growth and competitiveness. Decarbonizing power production away from geothermal will also reduce air polluting emissions (contributing to indicator **4.2**).

4.2 Population-weighted PM2.5 average annual exposure. Interventions will contribute to the reduction of average exposure to fine particulate matter, with an initial focus on Punjab that would sustain over a decade to ensure significant impact in the most affected areas. WB will support pollution abatement in key sectors such as transport (e-vehicles), industry (cleaner technology and brick kilns), residential cooking, construction, and agriculture and solid waste management (crop residue and waste burning). Low emission fertilizer and livestock solutions will also be supported. One WBG interventions will enhance capacity for viable carbon credits markets and support energy efficiency in key sectors. Interventions under this indicator will also contribute to Outcome **1** given the documented impact of poor air quality on child stunting.

Lessons Learned: Power generation needs to be accompanied with measures to improve sector efficiency and T&D with support from private sector to ensure sustainability. Air quality interventions require sustained regulatory enforcement and investments in multiple contributing sectors, drawing from experiences of countries that have successfully and durably improved air quality. Coordinated interventions in multiple countries that contribute to the same polluted airshed is critical. Enforcement of regulations mandating private actors to transition to cleaner technologies need to be supported by adequate incentives (adapted to the local context) and transitions should be phased to allow time to adapt, especially for the most vulnerable sectors.

Knowledge Gaps: Enhanced poverty and social inclusion analytics are needed to better understand the distributional impacts of energy subsidy reform and to improve the targeting and reach of compensatory cash transfers. Further studies are needed to identify the potential of surface geothermal. More knowledge and analytical tools are needed to better assess reform options to the gas sector. Analytics are needed to develop a more granular understanding of the incentives needed to help private actors (2–3 wheelers, farmers, brick manufacturers, industry, etc.) switch to cleaner technologies.

POLICY REFORM PRIORITIES: (i) power and gas sector reforms (to reduce losses, generation costs, inefficient subsidies, and distortions, as well as to open the power sector to competition); (ii) regulatory framework and capacity to increase private sector participation in power T&D; (iii) policy, governance, and regulatory frameworks for improved air quality management (including contributing sectors' policies and regulations, as well as their enforcement).

PARTNERSHIPS: Ongoing coordination with IMF, ADB, AFD and others in the energy sector (power T&D, gas). Ongoing collaboration and potential co-/parallel investments with ADB on air quality improvement as well as power T&D, and technical discussions with WHO, ESMAP GIZ and KfW.

RISKS AND MITIGATION: Weakening of the current reform momentum in the energy sector is a risk given the past track record of incomplete reforms or policy reversals. Strong coordination with development partners (including the IMF) will help mitigate this risk. Efforts to improve air quality may be impacted by external sources of air pollution and will be dependent on regional collaboration to improve. It may also be challenged by insufficient budget resources allocated to finance the transition to cleaner technologies. Coordinated and significant partners' engagement to support this area will be critical.

KEY ONGOING ENGAGEMENTS:	POTENTIAL NEW ENGAGEMENTS OVER THE COMING 24 MONTHS [indicative]:
[WB] · Hydropower projects in Dasu, Tarbela, and regional CASA-1000. · National T&D projects. · Solar and renewable energy (KP, Sindh). **[IFC]** Investments in wind and hydropower projects. **[MIGA]** Political risk guarantees in two hydropower projects. **FORWARD LOOK:** WB will support efforts towards strengthened air quality governance and abatement measures to reduce PM2.5 in energy efficiency, industry, residential cooking, construction, solid waste burning, agriculture (crop burning), and transport (electronic vehicles expansion) through a multisector 10-year air quality program, starting in Punjab. An urban operation in Punjab will also help reduce solid waste burning. WB will also support increased energy distribution efficiency at the federal level, increased availability of solar power, and a phase 2 transmission project. IFC will focus on T&D sectors, geothermal opportunities, climate resilient infrastructure (such as green buildings), cleaner production technologies, e-mobility and green financing mechanisms. By utilizing the suite of instruments under the WBG Guarantee Platform, MIGA will explore investment opportunities in decarbonization, including green buildings, smart agriculture, and manufacturing using energy efficient practices.	**[WB]** · Expansion of distribution efficiency project (federal). · Second phase of power transmission project. · Punjab Clean Air Program. · Punjab Inclusive Cities Program (solid waste management component). **[IFC]** · Advisory and investments/PPPs in T&D. · Upstream/investments in decarbonization across sectors (aviation fuel, complex manufacturing, e-mobility, etc.). · Upstream engagement in networked geothermal heating and cooling. **[MIGA]** · Leverage WBG Guarantee Platform to potentially support private investment in T&D and green infrastructure.

Outcome 5: **MORE PUBLIC RESOURCES FOR INCLUSIVE DEVELOPMENT**	**5-YEAR TARGET:**	**10-YEAR TARGET:**
Indicator **5.1**: **Tax revenues-to-GDP at or above 15%** (with increased collections considering equity)	**15%**	**15%**

INTERVENTION LOGIC: A weak fiscal framework with large structural fiscal deficits and high and inefficient expenditures restricts the availability of resources for investments in the social sectors and infrastructure. Improvements in revenue collection and expenditure management at federal, provincial, and municipal levels are critical and need to be supported by the rationalization of expenditures and improved spending efficiency, better public debt management, and fiscal coordination across government. Also, most tax expenditures are costly and highly distortive for investment and productivity.

5.1 Tax revenues-to-GDP at or above 15%. WB will support policy reforms and their implementation to increase fiscal space through progressive and efficient taxation and expenditures, which will eventually create space for increased expenditures that benefit the bottom 50 percent of the population, notably through investments in basic social services, WASH, and infrastructure. Investments, technical assistance, and policy dialogue (including jointly with IMF as part of the WB-IMF JDRMI, as well as with ADB and other partners) will support increased revenues at all levels (national, provincial, and local) through withholding tax reform, systems simplification, digitalization, transparency, tax administration improvement, own source revenues, and mobilization of new revenue sources (e.g., real estate and agriculture). Interventions will support the rationalization of expenditures and improved spending efficiency (particularly through digitalization efforts), better public debt management, and fiscal coordination across all tiers of government. WB and IFC will support reforms and privatization of SOEs.

LESSONS LEARNED: More than two decades of support and programs in the fiscal area has not led to an improvement of the tax-to-GDP ratio. Continuity of reforms and better fiscal coordination across all levels of government is key. Global experience highlights the need for a nationally integrated approach to tax policy and administration reform; mobilization of new tax bases; and interventions that facilitate taxpayers alongside improved enforcement. Programmatic operational engagements between federal and provincial levels are critical to ensure impact on revenues. Addressing overlaps, gaps, and missing accountability mechanisms in current fiscal federalism and public finance arrangements will be key for improved service delivery.

KNOWLEDGE GAPS: Analysis of the distributional impacts of subsidy reforms (including energy) will be key to assess reform options, phasing, and compensating affected vulnerable segments of the population. Options for pensions reforms (federal and provincial) need to be developed and quantified. Deepen knowledge on effective implementation of underutilized and devolved tax sources (agriculture, land). Build knowledge on opportunities to address PFM constraints at service delivery level. Deepen knowledge on priorities for improved fiscal federalism arrangements.

POLICY REFORM PRIORITIES: Coordination of tax bases, creating a single tax market, and reducing the number of required interactions between taxpayers and revenue authorities. Support for progressive agricultural income taxation, land taxation, harmonizing valuation systems, increasing property tax rates, and inclusion of peri-urban settlements. Strengthen PFM systems for last-mile delivery, including through appropriate decentralization. SOE reform, and adoption of Treasury Single Account for better cash management.

PARTNERSHIPS: Fiscal and policy reforms are strongly coordinated with the IMF (as part of the JDRMI), ADB, and FCDO.

RISKS AND MITIGATION: Policy reversals or weakening reform momentum may inhibit progress in fiscal reforms, especially in face of expected resistance of

undertaxed sectors. Strong coordination with the IMF and other partners, better understanding of distributional implications of reforms, engagement with a broad range of stakeholders, and clear evidence-based communications on the benefits of reforms will help mitigate this risk.

KEY ONGOING ENGAGEMENTS:	**POTENTIAL NEW ENGAGEMENTS OVER THE COMING 24 MONTHS (INDICATIVE):**
[WB] · Projects supporting improvements in federal and provincial revenue administration (KP, Punjab). · Projects supporting improvements in PFM systems for service delivery at federal and province levels (KP, Punjab). · Strengthened systems for land tax administration and property tax collection (Punjab, Sindh). · Digital Economy project (in support of the development of digital payments and digital infrastructure, which will eventually increase tax revenues from retail sector). **FORWARD LOOK:** WB will support a potential federal operation to coordinate fiscal operations at federal and provincial levels, with focus on increasing expenditure efficiency and tax policy and administration reform. Joint advisory engagement on domestic revenue mobilization with the IMF (JDRMI) will be undertaken, particularly in the areas of agriculture and real estate taxation, tariff reform, and federal tax policy reform and administration (including via digitalization). Ongoing dialogue and technical assistance for alignment of fiscal institutions and PFM systems will support improved debt management, service delivery, and transparency.	**[WB]** · Fiscal and public expenditure reforms projects. · Pakistan Raises Revenue Additional Financing. · Analytical and advisory support on macro-fiscal and macro-financial analysis.

Outcome 6: INCREASED PRODUCTIVE PRIVATE INVESTMENT	**Baseline**	**Target**
Indicator **6.1**: **Private investment as a percentage of GDP (Client Context)**	**10.2% (2022)**	**Contribution**

INTERVENTION LOGIC: A competitive/export-oriented private sector is critical for Pakistan as it needs to increase its investment-to-GDP ratio to durably raise its growth rate. Policy and institutional weaknesses (cumbersome regulations, distortionary taxation, high trade protections, heavy presence of SOEs in productive sectors) undermine productivity, curtailing investment, exports, and growth. WBG will focus on improving the business environment, trade reforms, financial intermediation and stability, capital markets development, investing in export-oriented sectors (including in export manufacturing and agri-value chains), and crowding in private investment in infrastructure, all potentially de-risked by MIGA via the WBG Guarantee Platform.

6.1 Private investment as a percentage of GDP: IFC will invest to facilitate improvement in balance of payments and in export-oriented sectors (or in import substitution) and support via advisory and investments increased private sector participation across sectors, including infrastructure. WB will address capacity and regulatory constraints for effective financial intermediation and stability, strengthen credit enforcement and insolvency frameworks, and facilitate the development of financial and capital markets (in coordination with IFC) with a potential focus on long-term infrastructure financing and pension reform. IFC and WB will engage jointly on a long-term vision for the development of the microfinance sector, including instruments to mitigate climate-related shocks. IFC will explore support for connectivity to markets. Through the suite of instruments under the WBG Guarantee Platform, MIGA will seek opportunities to de-risk private investment and complement initiatives in the financial sector through its capital optimization and trade finance instruments. Joint interventions will support increased financial inclusion of MSMEs and digitalization of Government-to-Business services. WB and IFC will jointly support the government's *Pakistan Regulatory Modernization Initiative* to help improve the business environment and regulation, and provide advisory to industrial and sectoral policies and instruments such as industrial zones. This is a client context indicator and will measure WBG **contributions** to improved private investment as a percentage of GDP over the CPF period.

LESSONS LEARNED: Fundamental underlying constraints will need to be addressed to change investors' expectations and attract private capital—piecemeal reforms have failed to change expectations and business sentiment in the past, especially when reform momentum slows down or expectations raised by a new reform cycle are unmet. It will be critical to work more effectively as One WBG, with joint WB-IFC-MIGA teams mobilized around clear engagement targets (including policy reforms to enable private participation), as outlined in rolling JEPs (starting with six sectors: *Energy, Financial Inclusion, Digital, Water, Agriculture*, and *Transport*) that will be updated regularly and form the framework of the One WBG joint approach.

KNOWLEDGE GAPS: Sector-specific knowledge to identify policy and regulatory constraints as well as coordination failures and public good investment needs.

POLICY REFORM PRIORITIES: Regulatory simplification; reducing anti-export bias and the state footprint in the economy; sector-specific regulatory frameworks and policies to enable private investment and PPPs (e.g., in waste, digital, water, energy, and agri-logistics); financial infrastructure and stability; capital markets/pensions reform; policy framework to attract investments in mining, especially copper resources that are still underdeveloped.

PARTNERSHIPS: Regulatory reforms with FCDO; capital markets/agriculture with ADB; tariff reforms with IMF.

RISKS AND MITIGATION: Entrenched interests' opposition to competition and openness reforms. Political, macroeconomic, and security circumstances remain risks to future investments and the investment climate. WBG Guarantee Platform instruments could reduce some of these risks. Structural policy reforms

and systems that are difficult to revert should be prioritized, as well as investing in emerging sectors that face less entrenched interests (e.g., digital).

Key ongoing engagements:	**Potential new engagements over the coming 24 months [indicative]:**
[WB] · Digital Economy project (regulatory digitalization component). · KP Economic Corridor project. · Advisory on trade reforms and regulatory simplification. **[IFC]** · Trade finance. · On-lending to MSME/start-ups through commercial banks and venture capital/private equity funds. · Investments in rice, dairy, textile, digital infrastructure, port logistics, and manufacturing sectors. **[MIGA]** · Guarantees in energy and automotives. **Forward Look:** WB will provide advisory support to relevant entities at federal and provincial levels to simplify regulations, increase the use of digital services, improve the intermediation effectiveness of the financial sector, and reduce the loopholes and opportunities for discretion and arbitrary implementation of regulations on businesses. IFC interventions will also support the digital finance, venture capital, and private equity ecosystem with a focus on female beneficiaries. WBG will engage with provincial authorities to strengthen bankable PPP frameworks and capacity building/advisory support (to regulators) on MSME and agri finance, along with on creditor rights and enforcement. IFC will also develop viable local currency solutions and scale up funded/unfunded offerings for financial institutions. The WBG Guarantee Platform housed at MIGA will seek opportunities to support private investment.	**[WB]** · Trade and business environment reforms support (advisory and potentially a Program-for-Results operation). · Resilient and Accessible Microfinance Program. · Digital development advisory. · Macro-fiscal analytics and reform advisory. · Financial sector stability and resilience advisory. **[IFC]** · AS/IS engagements in manufacturing/services sectors. · Advisory in technical-vocational education and training. · Diversified Payments Rights. · MSME bank portfolios (agri., women, underserved segments, etc.). · Venture capital funds for tech-enabled start-ups, especially women. · AS/IS in manufacturing/services sectors (e.g., agri., aquaculture, corporate farming, complex manufacturing, export sectors). · Upstream/investment in Reko Diq Mine. **[MIGA]** · Leverage the WBG Guarantee Platform to potentially de-risk private investment and trade finance.