



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 06-Oct-2019 | Report No: PIDC27980

**BASIC INFORMATION****A. Basic Project Data**

Country Pakistan	Project ID P171850	Project Name Resilient Institutions for Sustainable Economy (P171850)	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Board Date Mar 19, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Economic Affairs Division	Implementing Agency Finance Division, Ministry of Finance		

**Proposed Development Objective(s)**

The program's development objectives are: (i) enhancing the policy and institutional framework to improve fiscal management, and (ii) improving the regulatory framework to foster growth and competitiveness.

**Financing (in US\$, Millions)****SUMMARY**

<b>Total Financing</b>	500.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	500.00
World Bank Lending	500.00

## Decision

The review did authorize the preparation to continue

**B. Introduction and Context**

## Country Context

Pakistan's frequent boom and bust cycles have constrained the country's economic prosperity. Pakistan is once again in a macroeconomic crisis which repeats every four to five years. Short periods of relatively fast growth are followed by severe deceleration. The main factors that cause the crises are the incomplete implementation of structural reforms, inappropriate policy responses to macroeconomic imbalances, and a federal structure that exacerbates challenges of coordination of institutions and harmonization of policies nationwide. The proposed operation in the amount of US\$500 million is the first in a programmatic series of three operations focused on: (i) enhancing the policy



and institutional framework to improve fiscal management, and (ii) improving the regulatory framework to foster growth and competitiveness. The proposed series will be complementary to the two-year development policy series Securing Human Investments to Foster Transformation (SHIFT). The government is currently implementing a 39-month Extended Fund Facility (EFF) of the International Monetary Fund (IMF) and has frontloaded many challenging policy reforms in macro-economic and fiscal adjustment<sup>1</sup>. RISE and SHIFT will support the government to achieve medium-term structural reforms over the next three years focusing on fiscal management, growth and competitiveness, and human capital outcomes for productivity gains.

#### Relationship to CPF

The proposed operation supports three pillars of the FY15-FY20 Country Partnership Strategy (CPS). Firstly, it supports the first CPS pillar of transforming the energy sector through actions aimed at improving the performance of DISCOs and, in turn, reducing the fiscal burden on the government. Secondly, the program aims to increase competitiveness, reduce informality and create an environment conducive for private sector development in Pakistan which supports the second CPS pillar. Third, by creating fiscal space and institutionalizing better coordination between the federal and provincial governments, the operation supports improving the quality of service delivery across Pakistan, the fourth CPS pillar. With the overall objective of accelerating growth while protecting the poor, this DPC series supports the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity.

### **C. Proposed Development Objective(s)**

The program's development objectives are: (i) enhancing the policy and institutional framework to improve fiscal management, and (ii) improving the regulatory framework to foster growth and competitiveness.

#### Key Results

The operation will support the government's efforts to maintain macroeconomic stability while putting in place the foundations for sustainable growth. Reforms in the first pillar will support fiscal management by: (i) establishing effective institutions and coordination mechanisms between federating units for a consolidated fiscal framework, (ii) improving debt transparency and management, (iii) broadening the tax base by resolving inconsistencies in tax policy, (iv) dealing with contingent liabilities from state owned enterprises (SOEs), and (v) lowering electricity generation costs and eliminating arrears in the energy sector. Reforms in the second pillar will support competitiveness and growth by: (i) improving the business environment and simplifying business regulations, (ii) harmonizing the sales tax across the country, (iii) enhancing the transparency and depth of the financial sector, (iv) supporting the digital economy, (v) creating an enabling environment for housing finance, and (vi) reducing the anti-export bias of the national tariff policy

### **D. Concept Description**

The policy reform program underpinning RISE aims to achieve its policy objectives through two pillars. First aims at enhancing the policy and institutional framework to improve fiscal management; and second aims at improving the regulatory framework to foster growth and competitiveness. The first pillar aims to support reforms aimed at

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<sup>1</sup> <https://www.imf.org/en/News/Articles/2019/05/12/pr19157-IMF-Reaches-Staff-Level-Agreement-on-Economic-Policies-with-Pakistan-for-a-Three-Year-EFF>



improving credibility of fiscal policy through effective establishing effective institutions and intergovernmental coordination mechanisms, enhance debt transparency and management, broadening the tax base and reducing distortions in tax policy, improving the financial viability of the energy sector through resolution of circular debt, and reduce the fiscal burden on the budget and contingent liabilities arising from SOEs. The second pillar aims to support reforms to improve the regulatory framework to foster growth and competitiveness. Private investment is severely constrained due to the way GST is administered across the country, an opaque and overregulated business environment, a shallow financial sector, and significant anti-export bias of the national tariff policy. The government has put enhancing private investments and exports at the top of the economic transformation agenda. In this regard the government has committed to harmonizing the GST across the country, significantly improve the regulatory environment related to ease of doing business, implement policies for unlocking digital finance, and reduce the anti-export bias.

### **E. Poverty and Social Impacts and Environmental Aspects**

#### Poverty and Social Impacts

Policy measures supported by the operation will, for the most part, have no or a positive effect on the poor and the vulnerable. The only policy action that may have a negative impact is related to measures included in the FY20 budget to broaden the tax net, the increase in the immovable property valuation for tax purposes and the reduction in the personal income tax threshold. Further analysis will be conducted to better assess whether this is the case. Potential adverse effects by the reforms supported by this operation and/or the broader ongoing economic adjustment are expected to be mitigated through the reforms supported by the accompanying Securing Human Investments to Foster Transformation (SHIFT) DPF focusing on human capital. Other policy actions are expected to have positive poverty and social impacts through securing macroeconomic stability, promoting economic growth and competitiveness.

#### Environmental Impacts

The proposed operation is likely to have an overall positive effect on the environment. Pakistan has adequate legislative cover, policy guidelines, and institutional mechanisms in place for managing the environment. This operation is not likely to cause any significant effects on Pakistan’s environment, forests and other natural resources, and there are systems in place for reducing any eventual adverse effects. Reforms in the energy sector, particularly the approval of the renewable energy policy (but also improvements in the performance of the DISCOs) are likely to have a positive impact on the environment. Particular attention will be paid so that the process to abolish redundant regulations does not affect the country’s institutional setting to protect the environment.

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#### **CONTACT POINT**

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**APPROVAL**

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**Approved By**

Country Director:	Melinda Good	17-Nov-2019
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