

**Statement by the Asian Development Bank
Pakistan Development Forum Islamabad
25 - 26 April 2005**

His Excellency Prime Minister, Heads of Delegations, Distinguished Ladies and Gentlemen,

It gives me great pleasure to be once again in Pakistan to represent the Asian Development Bank at the Pakistan Development Forum. We look forward to an enlightening and interactive exchange of views and perspectives with the Government on achievements to-date and issues and challenges for the future.

Ladies and Gentlemen, it is gratifying to witness the continuing improvements in Pakistan's economic situation. The macroeconomic fundamentals in fiscal year (FY) 2004 were better than at any time in the past decade. The growth target of 6.6% for 2005 is likely to be exceeded. The medium-term growth prospects of 8% is achievable, as long as the government continues its commitment to governance and economic reforms and sound macroeconomic management. There are certainly challenges, such as the recent rise in inflation. We are, however, encouraged that the Government and the State Bank are taking necessary steps to contain the inflationary pressure on the economy that has been accentuated by the steep increase in international oil prices.

This overall revived focus on economic growth is the result of the Government's imperative of translating recent macroeconomic improvements into substantive betterment in the quality of lives of the poor. The Poverty Reduction Strategy Paper (PRSP) has articulated a comprehensive strategy for poverty reduction. There are encouraging trends in the achievement of the PRSP expenditure targets for pro-poor development, which increased to 4.7% of GDP in FY 2004 as compared to 4.3% in FY2003 and 3.8% in FY2002. PRSP expenditures in FY2005 are also on track. More importantly also, intermediate indicators identified by the Government to monitor progress under the PRSP generally show some improvements.

Most recently, the Government has prepared a Medium-Term Development Framework (MTDF) for 2005-2010, which articulates the Government's strategy and action plan for achievement of its goals for economic growth, poverty reduction, and sustained human development. We expect the final MTDF document to provide an overall integrated framework for Pakistan's development and poverty reduction strategies and action plans over the next five years.

Mr. Prime Minister, Ladies and Gentlemen,

Let me now turn to some other important aspects of Pakistan's development strategy and ADB's ongoing and planned assistance to the country. Infrastructure development and rehabilitation have emerged as a high priority of the Government. ADB is providing assistance for rehabilitating and upgrading of existing infrastructure in irrigation, roads, and urban centres, as well as addressing critical gaps in the power sector. In addition to the approximately \$840 million that ADB has provided in assistance for transport sector during 2001-2004, ADB will provide an additional \$2.7 billion in for the infrastructure sector during 2005-2008.

Rapid urbanization in Pakistan has put severe pressure on the environment. ADB has been providing assistance for urban infrastructure improvement and institutional capacity building in selected major cities and satellite urban centres. More recently, ADB, in coordination with the Government of Japan, is preparing a special assistance package for the urban renewal and development of the city of Karachi, to improve service to the 14 million residents of this city.

Ladies and Gentlemen

Reducing rural poverty is a major priority both for the Government and ADB. ADB is working on an innovative "Rural Modernization" approach whereby rural growth will be promoted through developing specific investment opportunities in village clusters that

demonstrate competitive advantage in sectors such as small-scale manufacturing and crafts and value-added agriculture. To this end, ADB involvement will promote sound policies to facilitate private-sector investment, improve access of SIMEs to technical support services and financing in rural areas, facilitate market development for diversified rural based and labor intensive products, strengthen institutional capacity, and develop rural industry standards. We are of the view that only a holistic approach could address the entrenched poverty and livelihood dynamics of Pakistan's rural areas.

ADB's strategic focus on social sectors will continue to support progress towards attainment of MDGs. Assistance in this regard will be provided through direct province-based support for social sector development, and through the provincial resource management programs to expand fiscal space and prioritize social sector spending. This support will be targeted at providing increased resources to assist the local governments to implement their mandated functions in the education, health, and water supply sectors, and build their capacity to provide effective and efficient services in these sectors on a sustained basis.

We will also continue to provide support for governance reforms. In addition to the ongoing Access to Justice Program (AJP), the Decentralization Support Program (DSP), and the provincial Resource Management Programs, ADB is providing support for the second-generation reforms. It is critical to complete the federal-to-provincial devolution process. It is also important to introduce civil service reforms to address management issues at the district, provincial, and federal level to strengthen the devolution process. In this regard, citizen participation and empowerment, and gender mainstreaming must be stressed to ensure broad stakeholder representation and participation at the local level.

It should be recognized that the reassignment of responsibilities through devolution has not been fully achieved in some areas and this issue should be addressed. The new system has to demonstrate its credibility in the eyes of the public and especially the poor. The Government must ensure that the new direct empowerment institutions be sufficiently equipped with adequate financial and human resources. Finally, we expect that the

government will take a pro-active approach to address issues related to expenditure transparency, accountability, governance and anticorruption.

ADB attaches importance to promoting the private sector development in Pakistan. We will support a wide range of private sector operations. We are considering supporting public-private partnerships in infrastructure development, through a public-private infrastructure financing facility.

We are encouraged by the improvement in the bilateral relationship between Pakistan and India. President Musharraf's recent historic visit to India and the statement that the peace process had become "irreversible" will definitely further strengthen the prospects of increased economic cooperation between the two countries. To promote regional cooperation among countries in South and Central Asia, ADB is facilitating high level policy dialogue on improving infrastructure and removing non-infrastructure barriers to enhance trade cooperation. ADB is also financing projects to improve regional connectivity between Pakistan, Afghanistan and the Central Asian countries, and is supporting regional cooperation in the energy sector.

Excellency Prime Minister, Ladies and Gentlemen,

I would like to conclude by reaffirming that ADB will continue to improve its effectiveness and efficiency in delivering its development assistance. ADB's proposed assistance pipeline to Pakistan during 2006-2008 is close to \$3.6 billion or about \$1.2 billion annually. It is vital that both ADB and the Government further strengthen their partnership to achieve better results.

Thank you.