

More aid, less utilization

By Sultan Ahmed

Pak-Eco Dawn
3.2.05

PAKISTAN has been quick to ask for large financial aid for mega projects but slow, or too slow, to utilize that. Hence, some of the aid funds for essential projects are often forfeited, leaving them incomplete. And if the unutilized aid is in the pipeline after the donors had committed that, that could mean a penalty of half a per cent interest on that.

Instances of misused or unused assistance are many, one of them being that of the Kalabagh dam project for whose feasibility study we had obtained financial assistance from the World Bank. The large Ghazi Barotha hydel project, also funded by the World Bank, was also delayed for a long time despite the fact that there is acute shortage of power in the country. Similar is the case of the National Drainage Programme, costing Rs 31 billion and funded by the World Bank, the Asian Development Bank and the Japan Bank for International Cooperation. The project should have been in operation in all its details by the end of the last year but may not start for one to two years unless the best efforts are put in and every stakeholder involved cooperates readily.

The problem with such projects is that while the planners and experts come up with them with their sunny visions,

on December 31.

The Pakistan government has asked the Bank to extend the loan sanctioning period by a year, but the experts don't think the programme would be completed in a year. Hence the pragmatic Japanese have extended their part of the assistance until December, 2006. The World Bank has already diverted 100 million dollars of its assistance to drought relief in Sindh.

The provincial governments have asked the federal government to arrange for Rs. 1.35 billion from other sources to complete some parts of the programme under execution or provide that from its own resources. The centre instead has decided to ask the Asian Development Bank to provide this extra amount as well to wind up some of the loose ends of the projects under execution. The ADB has said it would consider the

delay in the start-up of the aided projects. It wants to reduce the time gap between the approval of the loan and actual implementation of the development projects.

The ADB is concerned with the delay as it has already given 55 loans to Pakistan with a total aid of 5.2 billion dollars. Under its country strategy for 2005-2006 the ADB is committed to provide about 2 billion dollars through 23 loans. And it wants Pakistan to get the best out of such prolonged assistance.

Now we have aid for early start of projects. We have large and varied aid funds for reforms to make the projects a success. And it seems Pakistan needs a prize for completing the projects on time and not delaying it unduly. At the moment there is a penalty for delaying the completion in the form of forfeiture of the loans or a penal interest of half a per cent on the loans not used in time as agreed.

Now we are raising funds from the donors for a whole variety of reforms. We have borrowed large sums for judicial and police reforms. We have got aid for tax reforms or CBR reforms, including 100 million dollars from the World Bank in December last. We recently received 300 million dollars for banking reforms.

In May last year we got 55 million dollar assistance for a public sector capacity-building project designed to support the government's economic reforms. The project will help train 500 public servants and enhance their

Instances of misused or unused donors assistance are many, one such being that of the Kalabagh dam project for whose feasibility study we had obtained financial assistance from the World Bank. The large Ghazi Barotha hydel project, also funded by the World Bank, was also delayed for a long time. Similar is the case of the National Drainage Programme, costing Rs 31 billion and funded by donors.

them with their sunny visions, the donors approve them with some changes and the external funds are also lined up. Those who are charged with executing them fail to go ahead as the requisite funds are not made available to them or there are too many mid-way shuffle of officials or sudden policy shifts following a change of government or that of the minister concerned. Meanwhile, the funds lapse as the loan closing time has reached without the project being ready for the next instalment of the aid as has happened in case of the National Drainage Programme.

The programme was launched in 1998 in Lahore with the World Bank and WAPDA as primary sponsors with a great deal of fanfare at a two-day conference. The programme estimated to cost Rs. 31 billion then was to rid the country, particularly Punjab and Sindh of two of the worst cancers of our agriculture — salinity and water-logging. The scheme aimed at throwing the saline waters of the two provinces into the sea.

This writer attended the highly instructive conference with some of the best irrigation experts taking part. I asked the then chairman of WAPDA, Shamsul Mulk, if the project did not work as smoothly as envisaged, would Sindh not be left with the saline waters of Punjab? I also asked him whether the excess of salt water from Punjab and Sindh pumped into the sea would not add to the salinity of the sea water at the mouth of the river and destroy the coastal marine life, like shrimps, prawns and lobsters found in the coastal waters?

He said the sea was too large to be made more saline by the waters of the river with excess salinity. I said the sea around Karachi has already the problem of excess salinity because of the little water flowing into the sea and shrimps, prawns and lobsters have become scarce and small in size. Evidently, though well meaning, he or his experts had not given a thought to this problem.

The manner the left Bank and right Bank outfall drainage systems fouled up the ecosystem in southern Sindh last year following the rains is too well known to need repetition. The design of the system was faulty and needs careful revision. Now about a third of the programme has been completed, work on another third is in progress and the remaining third has to be tackled. But the World Bank has stopped the loan after six years as the loan sanctioning period expired

request and let the centre know the answer later. In all, 30 per cent of the World Bank's fund remains unutilized.

The overall cost of the project of Rs. 31.4 billion was reviewed by the military regime and revised downwards to Rs. 28.7 billion about three years ago by eliminating the high consultancy cost, which is a feature of the World Bank aided projects.

In Sindh projects under the UNDP worth Rs. 700 million are affected now. Of these projects worth Rs. 80 million are in progress. The projects costing Rs. 500 million have not yet started. Projects for Rs. 150 million more are in the tendering stage. Evidently six years after the programme was launched with a great deal of fanfare it is a patchwork quilt — with 30 per cent of the work completed, 30 per cent more under partial execution and 30 per cent yet to start. And this has been despite the insistent official stress on lining the canals to prevent seepage and the spread of salinity and water-logging. Sindh wants the current year's financial allocation by the Centre to be raised by Rs. 500 million to keep drainage programme going in full speed.

How can we achieve seven per cent economic growth this year and eight per cent next year as desired by Prime Minister Shaukat Aziz if the basic schemes which contribute to that were abandoned or neglected midway in spite of the availability of foreign assistance? Surely basic agricultural projects demand far more attention than they do and the machinery at the bureaucratic level has to cooperate with him.

Lack of capacity to execute large projects in time has become a marked feature of our economic life, particularly in the public sector. So the World Bank has been talking of capacity building. The Bank's vice-president for South Asia Praful C. Patel is regarded as an expert in this areas, after his success in this field in Africa. The World Bank is giving technical assistance to develop such capabilities. We need such capacity creation all the more in areas where the centre and provinces have to work together on the same project and coordinate their efforts.

Along with that there is delayed start of the projects for which aid is made available. To overcome this problem the Asian Development Bank came up with technical assistance grant of 450,000 dollars. The Bank wants to eliminate the current excessive

will help train 500 public servants and enhance their capacity in key ministries and agencies. After all that, the World Bank protests that the key services often fail the poor people. It maintains that the donors must deliver foreign aid in ways that promote better services for the poor. In countries like Pakistan, let apart the poor, even the middle class does not get the basic services. Worse still while those who pay for the services do not get them like water supply or regular power supply, those who do not pay get the services by force, stealth or through official rules.

The World Bank and the ADB think that if they sweeten their advice to the officials with a certain amount of aid, in fact a loan most of the time, the advice would become more acceptable even if that may not be put into practice in full. Hence more and money is coming forth to implement the reforms, though most of the reforms are the good of the people and the welfare of the poor to need such sweeteners.

The issue now is not only of receiving the aid but also of monitoring its use and ensuring that it fulfils its purpose and delivers the service it promises to the people, particularly the poor and low incomes groups in the middle class. If banking reforms mean the banks will eliminate the small saver or penalise him for trying to save small money, while the top bosses of the banks get increasingly large salaries and perquisites, that is the reverse of reforms. The poor need some cushion in the form of savings with reasonable interest rates that does not ignore the real inflation rate or the basic cost of living.

A newspaper report says that the IMF now insists that the real inflation in Pakistan is close to double digit, and not seven per cent as officially claimed. So, the new financial year would begin with a double-digit inflation unless effective anti-inflationary measures are adopted at this stage. But the Pakistani officials are reported to have opposed that suggestion arguing that would affect the public sector growth.

The fact is that the market reality and the experience of the people show that the IMF officials are right in this regard, and that inflation cannot be controlled through the monetary mechanism of the State Bank alone exercised through the banks. We need a far larger package than what the State Bank provides and the Bank itself admits its inadequacy in this area even while doing the best it can without hurting economic growth.