

Performance  
Evaluation Report

# Pakistan: Road Sector Development Program



Performance Evaluation Report  
December 2013

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Reference Number: PPE: PAK 2013-19  
Project Number: 32058  
Loan Number: 1891  
Independent Evaluation: PE-768

Independent  
Evaluation  ADB

Note: In this report, "\$" refers to US dollars.

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# Abbreviations

ADB	–	Asian Development Bank
HDM	–	Highway Development and Management
MOC	–	Ministry of Communications
MOCR	–	Ministry of Communications and Railways
MOF	–	Ministry of Finance
NHA	–	National Highway Authority
RSDP	–	Road Sector Development Program
PPER	–	program performance evaluation report
SOP	–	standard operating procedures

# Currency Equivalents

Currency Unit – Pakistan rupee/s (Pre/PRs)

At Appraisal	At Project Completion	At Independent Evaluation
(September 2002)	(December 2008)	(December 2012)
PR1.00 = \$0.0169	\$0.01464	\$0.0104
\$1.00 = PRs56.00	PRs59.00	PRs95.94

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# Acknowledgements

A team of staff and consultants from the Independent Evaluation Department prepared this study. The team consisted of Ma. Juana Dimayuga and Jenelyn Mendez-Santos. Peter Darjes and Luqman Sarwar are the consultants.

Valuable inputs and comments at various stages were received from Valerie Reppelin-Hill, Renato Lumain, and Toshiyuki Yokota.

The report benefited from the guidance of Vinod Thomas and Hemamala Hettige.

For their time and opinions, the team would like to thank ADB staff, as well as officials interviewed in the Islamabad and Sindh provincial governments in Pakistan.

# Basic Data

## Loan 1891-PAK: Road Sector Development Program

Key Project Data (\$ million)	As per ADB	
	Loan Documents	Actual
	1891	1891
Total project cost	50.0	50.8
Foreign exchange cost	50.0	50.8
Local currency cost		
ADB loan amount and utilization	50.0	50.8
ADB loan cancellation		

ADB = Asian Development Bank.

Key Dates	Expected	Actual
Fact-finding		15 Feb–14 Mar 2001
Appraisal		10 Sep–10 Nov 2001
Loan negotiations		21–24 Nov 2001
Board approval		19 Dec 2001
Loan agreement		1 Feb 2002
Loan effectiveness	2 May 2002	27 Jun 2002
First disbursement		28 Jun 2002
Loan closing	30 June 2007	30 Jun 2007
Years (effectiveness to closing)	5.2	5.0

Borrower Islamic Republic of Pakistan  
 Executing Agency Ministry of Finance

### Mission Data

Type of Mission	No. of Missions	No. of Person-Days
Project administration		
Inception		
Review before midterm	1	18
Midterm review		
Review after midterm		
Pre-project completion	1	2
Project completion	1	8
Independent evaluation		

# Executive Summary

This program performance evaluation report presents the findings from an evaluation of the Road Sector Development Program (RSDP) in Pakistan, which had been approved on 19 December 2001. The RSDP had two components and was financed with three loans together totaling \$200 million. The first component supported road sector policy and institutional reforms at the national level and involved a program loan of \$50 million. The second component was funded by two loans totaling \$150 million and aimed to improve and rehabilitate important sections of the provincial highway and rural access road networks in Sindh Province along with provincial institutional and policy reforms. Following a request of the government, ADB added the program loan component at a late stage in processing the Sindh component. This largely explains why the two components were distinct and had few linkages and synergies between them. The results of the components are therefore presented in two separate project completion reports and two separate performance evaluation reports. This report presents the evaluation results for the program loan component.

Severe fiscal and external imbalances had dominated the economic policy agenda in Pakistan throughout the 1990s. After the events of 11 September 2001, Pakistan became a quasi-frontline state in the war against terrorism. This added to the problems already existing. The government had expected that in the wake of 11 September 2001 the balance-of-payments deficit would widen due to declining exports and the withdrawal of foreign direct investment. To ease the foreign exchange shortage, the government requested that ADB consider adding a quick-disbursing program loan component to the RSDP, which, when the request was made, had been at its final stage of processing. ADB linked provision of the program loan component to implementation of national road sector reforms, whereby the budgetary support provided by the program loan was to help the government undertake sector reforms by defraying the costs associated with those reforms.

The program loan is assessed *less than successful* based on the ratings – *less than relevant, less than effective, less than efficient, and less than likely sustainable*. The component was rated *less than relevant* due to inadequacy of the program design and of time allotted to implement the reforms, particularly in the areas of road safety and axle load control. The *less than effective* rating reflects the fact that some policy conditions had not been met as of the time of the independent evaluation mission. The program was rated *less than efficient* mainly in view of delays encountered in meeting the conditions for the tranche releases. The prospect for the program to be *less than likely sustainable* resulted from the inadequate outcomes of the reforms in asset preservation. By contrast, the program completion report had come to an overall rating of *successful*, assessing the program as *highly relevant, efficient, effective, and likely sustainable*. The positive ratings had ensued from that report's tacit assumption that ADB's program loan had been instrumental in achieving the reforms at the time. Because major reforms included in the policy matrix had been completed prior to processing of the program loan, however, such accomplishments are not attributable to the ADB intervention (para. 9).



The link between the purpose of program lending, as reflected in the policy loan component, and its use in practice has emerged as the main issue. The government's overriding concern was a swift transfer of funds to alleviate the prevailing foreign exchange imbalance, whereas the expressed intent of the program loan was to reform transport policies and institutions at the national level. Policy reforms are an integral part of a program loan. Meanwhile, the perceived urgency to provide quick balance-of-payments relief was incompatible with the much longer time horizon needed to successfully implement policy and institutional reforms in the transport sector. The conditions attached to the program loan appear to have been those that were easily and quickly attainable. The approach that was taken detracted from the credibility of the reform program.

The program period was too short to allow for the expected depth of reforms. ADB could have envisaged that reforms require a longer implementation period and should have focused on a smaller number of specified reform issues.

# CHAPTER 1

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## Introduction

1. This chapter summarizes the purpose of the evaluation, states the results from the project completion report, and provides details of the program to be evaluated.

### A. Evaluation's Purpose and Process

2. The program performance evaluation report (PPER) on the Road Sector Development Program (RSDP)<sup>1</sup> was included in the Independent Evaluation Department's work program for 2013. The program was evaluated according to the program performance evaluation guidelines of the Asian Development Bank (ADB) on the basis of relevance, effectiveness, efficiency, sustainability, institutional development, and impact.<sup>2</sup> The PPER on the program aims to provide lessons and recommendations to a country assistance performance evaluation for Pakistan planned for 2013 and subsequently for the regional department's sector strategy and program under the next country partnership strategy. The completion report for the program loan was prepared in 2008 and had rated the program *highly relevant, effective, efficient, and likely sustainable*, thus arriving at an overall rating of *successful*.<sup>3</sup> Those positive ratings had ensued from the project completion report's tacit assumption that ADB's program loan had been instrumental in achieving the reforms. Because major reforms included in the policy matrix had been completed prior to processing of the program loan, however, the accomplishments are not attributable to the ADB intervention (para. 9).

3. An independent evaluation mission reviewed the national reform program in Islamabad during December 2012. In completing the report, the views of relevant ADB departments and offices and those of the government and executing agency have been considered and incorporated where relevant.

### B. Expected Results

4. The national policy reform program was to support ongoing initiatives in the road sector aiming to define national policy directions, establish efficient resource management systems, preserve road assets, increase road safety, and improve governance. The expected main output was initiated or implemented reforms identified in accordance with target dates.

*The program outputs included defining road sector policy directions, establishing efficient resource management systems and improving governance*

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<sup>1</sup> ADB. 2001. *Report and Recommendation of the President on Proposed Loans to the Islamic Republic of Pakistan for the Road Sector Development Program*. Manila.

<sup>2</sup> Independent Evaluation Department. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila: ADB.

<sup>3</sup> ADB. 2008. *Completion Report: Road Sector Development Program in Pakistan*. Manila (Loan 1891-PAK; Project No. 32058).

## CHAPTER 2

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# Design and Implementation

5. This chapter summarizes details related to the design of the program, including its rationale, the way the program was formulated, and the resource assumptions underlying the program design. The purpose of the chapter is to assess how program quality at entry was assured. The chapter also compares implementation arrangements as designed and as actually adopted.

### A. Rationale

*To ease the foreign exchange shortage, the government requested that ADB consider adding a quick-disbursing program loan component to the planned project*

6. The program loan addressed prevailing constraints at the level of policies and institutions. Policy and institutional reforms were needed to increase efficiency of the road sector at the national level by addressing the main sector issues in the following broad areas: (i) road asset management and funding, (ii) road safety, (iii) truck overloading, (iv) institutional reform of road agencies, (v) adoption of a road sector policy, and (vi) private sector involvement to relieve development funding constraints.

7. Crisis management in relation to public finances and external balances had dominated the economic policy agenda in Pakistan throughout the 1990s. The country had been struggling with severe macroeconomic imbalances, declining economic growth, rising poverty, and poor social indicators. The events of 11 September 2001 in the United States, which caused Pakistan to become a frontline state in the war against terrorism, added to the existing problems. The processing of the RSDP was nearing completion when in November 2001 the government advised ADB of the likely detrimental impact of the events on the country's economy. The government expected that the balance-of-payments deficit would widen as a result of declining exports and the withdrawal of foreign direct investment.<sup>4</sup> To ease the foreign exchange shortage, the government requested that ADB consider adding a quick-disbursing program loan component to the RSDP.

8. ADB did not explicitly use the foreign currency and budgetary constraints as a rationale for the program loan. Rather, it linked provision of the program loan component to implementation of national road sector reforms, whereby the budgetary support provided by the program loan was to help the government undertake sector reforms by defraying the costs associated with those reforms. The reforms were to indirectly help rectify the observed macroeconomic imbalances by creating a new off-budget financing modality for road maintenance and by promoting higher quality construction of roads. Both measures were expected to reduce the burden on national and provincial budgets.

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<sup>4</sup> Exports were expected to drop because international shipping and airline companies would have to carry war risk insurance that would result in increased freight charges and a sharp reduction in air cargo capacity.

## B. Formulation

9. In view of the urgency that the government had attached to the provision of a quick-disbursing loan, the reform program under the policy component had to be formulated in a very short time without the benefit of preparatory technical assistance.<sup>5</sup> The available time would not have been sufficient if ADB had to design and agree on the sizeable reform agenda from scratch. ADB drew on the substantial work that the government had largely completed over the previous years. For example, the reform process for the roads sector had already gained momentum under a transport development initiative of 2000 supported by the World Bank. That had resulted in a draft of a transport policy, completion of which was included into the ADB reform agenda. Similarly, a national road asset management system had been initiated as early as 1988 and completed in various stages during 2000.<sup>6</sup> In summary, with few exceptions, the substantive conditions for implementing the reform program had been established well before ADB adopted the policy agenda under the program loan.

*To provide a quick-disbursing loan, the reform program under the policy component had to be formulated in a very short time*

## C. Costs and Financing

10. ADB provided the policy loan of \$50 million to contribute financing for the national reform program. The loan was released in two tranches, based on fulfillment of tranche conditions set out in the policy reform program matrix (Appendix 1).

11. Table 1 presents an estimate of the costs (\$83.2 million) that were to be incurred by implementing the reforms (also in Appendix 1 as policy conditions). As the link between the reforms and costs were tenuous, the basis for the cost estimates could not be established. Most reforms had been completed and costs of unknown amounts already incurred when ADB started processing the program loan and when the respective costs were estimated. Those costs were therefore of a historical nature and ADB made at best a retroactive contribution to the government's budget in the amount more or less related to the reform items. For example, the implementation of two major reform components—the toll collection program and the road asset management system (items 1 and 2 in Table 1)—had been completed at the time that the program loan component was processed.<sup>7</sup> The National Highway Authority (NHA) was unable to validate the cost estimates, as prior to 1996 tolls had been collected on selected national roads by provincial authorities.<sup>8</sup> In summary, while the program loan made a contribution to supporting the budget of the central government, direct links between this contribution and the cost of the sector program are highly tenuous.

<sup>5</sup> As delaying the date for project approval had not been an option, the time available to formulate the reform program spanned two months from November to December 2001.

<sup>6</sup> Farrukh Javed, National Highway Authority. 2005. Sustainable Financing for the Maintenance of Pakistan's Highways. *Transport and Communications Bulletin for Asia and the Pacific. No. 75*. Islamabad.

<sup>7</sup> The toll collection program started in 1996 and the road asset management system has evolved since 1988.

<sup>8</sup> When, in 1999, NHA completed its road asset management system, the government transferred to NHA the authority to collect tolls on all national roads.

Table 1: Adjustment Cost of the Reform Program

No.	Reform Item	Cost (\$ million)
1	Establishment and operations of the Road Asset Management Directorate	2.0
2	Implementation of toll collection program on national highways	15.0
3	Installation of weigh stations on the national highways for axle load control	15.0
4	Nationwide Road Safety and Axle Load Awareness Program	1.0
5	Establishment and operating cost of National Highway and Motorway Police	10.0
6	Establishment and operating costs of accident reporting centers nationwide	8.0
7	Staff rationalization program in the National Highway Authority	2.5
8	Black spot mapping and road safety audits on the national highway network	5.0
9	Establishment and operating cost of a secretariat for the National Road Safety and Urban Transport Council	2.2
10	Establishment and operating costs of driving instructor training schools	14.0
11	Establishment and operating costs of accident evaluation laboratories	2.5
12	Establishment and operating cost of police officers' training wing	5.0
13	Nationwide stakeholder consultations by the National Highway Authority	1.0
	Total	83.2

## D. Executing Arrangements

12. The Ministry of Finance was the executing agency for implementing the national policy reform program component. It was supported by the Ministry of Communications (MOC)<sup>9</sup> and NHA in ensuring that the policy loan requirements and targets were met.

## E. Procurement, Construction, and Scheduling

13. The program loan was to be disbursed in two tranches. Release of the first tranche (\$35 million) was linked to compliance with the requirements for loan effectiveness and a number of specific policy actions as recorded in the policy matrix. ADB's support resulted from its strong commitment to a program led by the International Monetary Fund, which attempted to alleviate the country's severe external financing situation. Nonetheless, compliance with some new reform requirements was delayed by 5 months.<sup>10</sup> The second tranche (\$15 million) was released in November 2003, 17 months after the target date of June 2002. This was due to the government's delay in completing 5 of the 10 second-tranche policy actions.

<sup>9</sup> The Ministry of Communications (MOC) was formed after 2003, spinning off from Ministry of Communications and Railways (MOCR).

<sup>10</sup> The government had difficulties to (i) obtain an interministerial clearance of the draft transport policy, (ii) establish sound financial management practices that ensure proper accountability for use of funds, and (iii) meet three specific institutional conditions related to road accident prevention.

## F. Design Changes

14. The program design determined at appraisal was followed.

## G. Outputs

15. The policy matrix had 24 deliverables in 5 policy areas (Appendix 1). Those areas were (i) transport policy, (ii) road sector resource management, (iii) road asset preservation, (iv) institutional efficiency improvement, and (v) road safety. The government complied with most of the 24 items in the policy matrix, thus enabling release of the two loan tranches. Substantively, however, the envisaged road asset preservation and road safety reforms were not implemented.

16. Transport Policy. The envisaged output was a draft transport policy that was to have passed an interministerial review. Because the result of the review did not become known, it remained unclear whether or not the reviewing agencies had agreed with the draft. More importantly, the purpose of the draft in the context of transport planning was not specified: was the draft expected to eventually become a policy action to be sanctioned through the legislative process or just a policy direction adopted by interministerial consent? There is no evidence that ADB engaged in a dialogue on the strategic vision and key policy principles of the policy to be adopted. That neither the government nor ADB was satisfied with the output is evidenced by a series of subsequent interventions including technical assistance from ADB and the Japan International Cooperation Agency, all of which were aimed at preparing an acceptable transport policy.<sup>11</sup> In 2007, consultants working under other technical assistance from an ADB project prepared a comprehensive transport policy.<sup>12</sup> That policy still awaits approval by the Cabinet.

17. Road Sector Resource Management. This policy area included eight deliverables, all of which have been accomplished. Most of these had been achieved prior to commencement of the reform program pursued under the loan. Road asset management in NHA has evolved over the past 25 years. The latest stage was to establish an advanced road asset management system in 2006/2007.<sup>13</sup> The eight deliverables were the following:

- i. *Medium-term plan to be agreed and approved by all agencies concerned.* NHA started using a systematic maintenance planning and management approach as early as 1988, when the “maintenance intervention level system” was introduced using an early version of the Highway Development and Management model (Version 3). This system was augmented and refined until 1999. The asset management system is based on medium-term plans, which are submitted to the National Highway Executive Board for approval. NHA is continuing this practice.<sup>14</sup> In summary, while the formal target of the policy matrix was

*The envisaged output was a draft transport policy that was to have passed an inter-ministerial review*

*This policy area included eight deliverables, all of which have been accomplished*

<sup>11</sup> ADB. 2003. *National Transport Policy—Assessment of Critical Transport Sector Needs*. Manila.

<sup>12</sup> ADB. 2004. *Technical Assistance to the Islamic Republic of Pakistan for Transport Policy Support*. Manila (TA No. 4400-PAK, approved on 30 September for \$290,000).

<sup>13</sup> NHA. 2006–2007. *Road Asset Management System*. Islamabad.

<sup>14</sup> NHA. 2012. *Annual Maintenance Plan. FY2012–13*. Road Asset Management System. Islamabad.

*The objective of this reform area was to protect road pavements against overloaded trucks*

*This policy area included the following five deliverables, all of which have been accomplished*

- met, the target itself had been anticipated, given the historical accomplishments in this area.
- ii. *Allocation of road sector revenues for road development and maintenance to be based on medium-term plan.* Since introducing the road asset management system, the budget allocations have been based on NHA's medium-term development framework.<sup>15</sup>
  - iii. *NHA to initiate a financing mechanism for road maintenance through tolls on the national highway system.* In 1996, NHA was granted its own financial resources and started "off-budget" financing of maintenance operations on the national highway network.<sup>16</sup> Most of the national highways have been brought under a tolling regime. In 1999, toll revenues generated on national highways hitherto collected by the provinces were also transferred to NHA.
  - iv. *Standard operating procedures (SOP) for road maintenance fund approved by NHA Board and submitted to the government for notification.* Having obtained its independent source of financing, the creation of a road maintenance fund was a natural development. However, the actual achievement fell short of an effective road fund. Rather, a road maintenance account was established, for which SOP were developed as required. The transformation of that maintenance account into a third-generation road maintenance fund is opposed by the International Monetary Fund, as doing so would constitute extra-budget financing of recurrent costs.
  - v. *NHA to adopt the new policy approach on economic priorities.* With the adoption of the Highway Development and Management (HDM) model as the core of its road asset management system, NHA has complied with this requirement.<sup>17</sup> The model is being used to estimate the economic and engineering viability of proposed projects, evaluate alternatives, and generate a list of priorities. As a result, more than two-thirds of NHA's road works are economically viable.
  - vi. *Overall road maintenance allocations for NHA roads to increase to PRs2.5 billion in FY2002.* This requirement was complied with. In 2012, NHA allocated PRs19 billion to maintenance. There still remains, however, a maintenance backlog of about PRs10 billion.
  - vii. *Road Asset Management Directorate at NHA fully functioning with core staff.* The RMDA is one of five NHA directorates under the supervision. The directorate is still fully operational today.
  - viii. *Road asset management system to be used as the basis for allocating FY2002 maintenance expenditures (31 October 2001).* As evidenced by NHA's annual plans, the road asset management system is the basis for fund allocations to road maintenance. The annual maintenance plan is based on detailed condition surveys as well as HDM IV network level strategy and program analysis focusing on preventive maintenance.

18. Road Asset Preservation. The objective of this reform area was to protect road pavements against overloaded trucks. Axle load controls have been largely unsuccessful since 1996, due to obsolete truck technology coupled with an inability to issue effective legislation and enforce the existing axle load legislation. The policy area included the following five deliverables, all of which have been accomplished:

<sup>15</sup> NHA. 2008. *Business Plan 2008–2012 with Business Projections up to 2020*. Islamabad.

<sup>16</sup> NHA revenues consist of proceeds from highway tolls, police fines, weigh station fees, and right-of-way income (hotels, petrol stations, etc.).

<sup>17</sup> World Road Association (PIARC). 2002. *HDM-4 Version 2*. Paris.

- (i) *National Highway Safety Ordinance to be enacted.* The Ordinance has been enacted. Schedule 6 of the Ordinance sets legal axle load limits.
- (ii) *Nationwide axle load awareness program initiated by NHA.* The axle load awareness program was initiated during August 2000 to February 2001 and has continued from August 2002 onward.
- (iii) *Weigh stations to be installed at 30 strategic locations in the national highway system during 2002.* The construction of 112 weigh stations at strategic locations had been planned in three phases. Under the RSDP, 42 weigh stations have been constructed and are operational.
- (iv) *MOCR to extend the jurisdiction of the National Highway and Motorway Police for enforcing axle load control to the national highways, starting with 320 km of National Highway 5 (N5), which will be increased by 300–400 km each year until fully covered by 2004.* The National Highway and Motorway Police has been responsible for better traffic management along motorways and national highways.
- (v) *Set schedule of penalties for violation of load levels.* A more effective fine collection system has been developed and submitted to Parliament. The system would have prevented trucks from continuing on their journeys after paying a substantial fine. The draft legislation has so far not been considered by Parliament, however, and the independent evaluation mission learned that the prospects for its being passed by Parliament were broadly considered to be poor.

*This objective had been substantially achieved even before ADB embarked on the reform program*

19. Institutional Efficiency Improvement. The objective was to turn NHA into a commercial road agency operating on a fee-for-service basis. To achieve this, the following four deliverables were expected:

- (i) *NHA to begin a rightsizing exercise, and reduce staff strength from 1,670 to 1,219. A 22% reduction in the officer cadre and 28% reduction in staff below Grade 16.* This was achieved, at least temporarily. NHA's current staff numbers about 3,500. The increase reflects the growing highway network, rehabilitation, developmental projects, and the reorganization of 2007.
- (ii) *NHA to revise SOP.* This has been achieved.
- (iii) *Qualified financial management expertise to be recruited to enhance in-house financial management capability.* Qualified employees with financial skills have been recruited.
- (iv) *Technical review of NHA's financial manual to be completed to ensure revision and conformity with updated SOP.* The technical review and updating of the financial manual have been completed.

*The National Highway Authority was to introduce measures to reduce the large numbers of deaths and accidents on roads*

20. This objective had been substantially achieved even before ADB embarked on the reform program. NHA had been granted its own revenue sources in 1996, had opened a commercial account similar to a road fund, and had contracted out most of its businesses that hitherto had been attended to by NHA. A notable exception is that the updated financial manual was introduced under the reform program.

21. Road Safety. NHA was to introduce measures to reduce the large numbers of deaths and accidents on roads in Pakistan and to increase awareness of road safety among road users and communities. To this end, five policy actions had to be undertaken. These were the following:



- (i) *Establishment of a National Highway Safety Committee.* The committee was established in 2001 for road safety and implementation coordination on the national highways. MOCR, NHA, and the National Highway Motor Police were supposed to participate as members in the committee's work. The committee never had a permanent secretariat, however, and the secretariat that was temporarily established had to close due to lack of funds. A safety cell has been established in the Road Asset Management Directorate and NHA's design section.
- (ii) *Establish road design standards and conduct black spot mapping and road safety audits throughout national and provincial highways systems.* This has not been implemented consistently.
- (iii) *Accident reporting center to be established in 2002 for creating a comprehensive accident database.* Action was initiated to establish an accident reporting center, but this was not fully completed.
- (iv) *Creation of a driving instructor training school and an accident evaluation laboratory for forensic investigations by 2002.* While preparatory work was completed, including organizational arrangements and budget estimates, the training facility and the laboratory were not implemented.
- (v) *Structured stakeholder consultations on a regular basis as part of institutional public awareness campaigns and feedback on performance in road services.* Consultation with stakeholders is reportedly conducted regularly, and this has contributed to greater road safety awareness.

## H. Consultants and Contractors

22. The policy and institutional reform program was carried out without support from consultants and contractors.

## I. Loan Covenants

23. Many of the conditions were complied with. This seemingly positive result was made possible because of the weak link between targets of the policy matrix and the related loan covenants, on the one hand, and the expected outcomes, on the other. The link was necessarily weak because ADB had to reconcile the conflict between swift provision of budget support and the presentation of a somewhat credible sector reform program. The solution was to lower the bar and to stipulate easily achievable loan covenants. Some covenants were not complied with. The requirement was not met to provide sufficient funds for the establishment of institutions under the road safety component, while compliance with the requirements for loan effectiveness, as a condition for release of the first tranche, was delayed. This affected release of the first tranche by 4 months versus the original scheduled release of February 2002. The second and final tranche was released 17 months later than the target of June 2002. This was due to the government's delay in completing the second-tranche policy actions. The compliance status on covenants and conditions are described in Appendix 2.

*Many of loan covenant conditions were complied with*

## J. Policy Framework

24. In 2001, when the program was designed, Pakistan was experiencing severe macroeconomic instability. Successive years of fiscal and external deficits had resulted in large accumulated domestic and external debts. In 2000, the country's ratio of all foreign exchange obligations to foreign exchange earnings had stood at over 300%. Subsequent debt rescheduling reduced this ratio to about 30%. Complementary reforms included a far-reaching macroeconomic stabilization and restructuring initiative. The program was intended to support this initiative.

*When the program was designed, Pakistan was experiencing severe macroeconomic instability*

25. The main policy issues in the transport sector are (i) the continued need for sustainable asset management; (ii) improving road maintenance regimes and road safety; (iii) controlling excessive axle loads, or truck overloading, which causes rapid road deterioration; (iv) institutional reform of road agencies to achieve greater service efficiency that is coupled with the formal establishment of a road sector policy to help guide future development while overcoming fragmentation of responsibility and lack of coordination within the sector; and (v) increasing private sector involvement to help relieve development funding constraints and further enhance efficiency.

26. Trucks comprise almost one-half of nonurban road traffic, while 30% consists of cars and light vehicles and 20% of buses. Trucks are the preferred mode of transport, because these permit single-person responsibility for delivery and payment. Services provided are simple and mostly consist of direct movements between factories and the ports. With an estimated 500 road haulers, it is a competitive business. There is uninhibited access to the industry, and small firms have limited market power in relation to their clientele. Ninety-five percent of the industry is said to be in the informal sector. Operators belonging to the informal group are not registered, apparently do not pay taxes, rely on informal and costly means of financing to purchase vehicles, and their drivers are not well trained.

*Complementary reforms included a far-reaching macroeconomic stabilization and restructuring initiative*

27. The trucking fleet consists of an estimated 200,000 vehicles. The fleet is diverse with respect to its composition by models, types, and age structure. Fleet productivity mirrors the legacy of Pakistan's import substitution policy that, while protecting the local assembly of trucks, has in the past impeded road haulers' access to more modern and efficient truck technology. As a result, the existing fleet still has a sizeable share of two- and three-axle rigid trucks and tractor-trailer units contributing substantially to the axle load problem and premature deterioration of road pavements. The photo shows the traditional Bedford two-axle truck that is assembled in Pakistan.



28. Reforms of the sector's institutions have been initiated with ADB assistance. The thrust of the reforms is to transform those institutions into service departments aimed at marshaling limited funds to produce the best possible conditions for efficient, safe, and comfortable transport while using private sector operators under contract to

do much of the work. Important related targets are improved governance, the development of performance-based maintenance contracts to facilitate maintenance by private contractors in place of departmental work gangs, and encouraging private sector involvement in funding and operating highways.

## CHAPTER 3

# Performance Assessment

29. This chapter rates the performance of the program based on individual evaluation criteria as explained below.

### A. Overall Assessment

30. The policy component is rated *less than successful*, based on a review of its relevance, effectiveness, efficiency, and sustainability, as well as on separate assessments of its subcomponents. As shown in Table 2, the overall performance rating applies an equal 25% weight to each of the four criteria. Possible rating values for individual criteria range from 0 to 3.

Table 2: Overall Performance Assessment of the Policy Component

Criterion (weight)	Rating	Weighted Rating	Description
Relevance (25%)	1	0.25	Less than relevant
Effectiveness (25%)	1	0.25	Less than effective
Efficiency (25%)	1	0.25	Less than efficient
Sustainability (25%)	1	0.25	Less than likely
Overall		1.00	Less than successful

Overall Rating: Highly successful  $\geq 2.7$ ;  $2.7 > \text{successful} \geq 1.6$ ;  $1.6 > \text{less than successful} \geq 0.8$ ; unsuccessful  $< 0.8$ .

Source: Independent Evaluation Mission.

### B. Relevance

31. The policy component is rated *less than relevant*. Clearly, the quick-disbursing program loan was relevant in alleviating the anticipated foreign exchange shortage. As such, it might have been relevant to the country (para. 36).<sup>18</sup> Rather than to alleviate the balance-of-payments problem, however, the intent of the program as reflected in its results framework was to reform transport policies and institutions at the national level. As ADB had linked the loan to the sector reform program, it is in this context that relevance must be discussed.<sup>19</sup> A transport policy, road asset management system, and development of an independent financing source for NHA were at the heart of the reforms. NHA had started and largely completed these reforms before the program loan component was added to the RSDP. According to information gathered, therefore,

<sup>18</sup> There is no consensus in Pakistan whether or not such financial assistance was relevant to improving the country's economic situation. Some argue that the increase in such assistance ensuing from 11 September 2001 was actually counterproductive, as this led to a relaxation of fiscal discipline. See, for example, Farooq Tirmizi. 2011. Post 9/11: Dollars and sense. *The Express Tribune, Sunday Magazine*. Karachi.

<sup>19</sup> The swift fund transfer, which was the government's overriding concern, could only have been realized by lowering the bar for meeting the transport policy conditions of the loan. This is a result of the dichotomy inherent in the program lending modality aiming to provide swift balance-of-payments and budget support, on the one hand, and to achieve development results through sector reforms, on the other. The conditions attached to the program loan had to be such that they were easily and quickly attainable (para. 23).

*The policy component is rated less than successful*

*The intent of the program was to reform transport policies and institutions at the national level*

*The policy component is rated less than effective*

the ADB intervention added little value for NHA. The subcomponent related to road traffic safety, on the other hand, did address a vital concern and was rated *relevant*. However, the respective program design was inadequate to implement road safety and axle load control reforms. The responsible agencies did not have the capacity to carry out those reforms, and the program period was too short to allow for the expected depth of reforms.

### C. Effectiveness

32. The policy component is rated *less than effective*. The government has complied with a number of the policy conditions. Of the 24 policy conditions, 3 conditions were not met and 6 were met in part. Most of the related outputs had been achieved before the ADB program was launched. Accordingly, some of the reforms had only to be initiated, rather than completed, while past or ongoing reforms were drawn upon to enhance the reform agenda and, at the same time, facilitate the desired resource transfer. The arrangements were not sufficient to implement the road safety and axle load control reforms, which could have added value to the government's reform efforts. The envisaged policy actions for road safety were small projects in and of themselves and would have required more resources, better institutional capacity, and more time to be successfully implemented.<sup>20</sup>

*The envisaged policy actions for road safety were small projects that would have required more resources, better institutional capacity, and more time to be successfully implemented*

### D. Efficiency

33. The policy program is rated *less than efficient*. This rating is based on the marginal reform progress attributable to the program and the delays encountered in meeting the conditions for the tranche releases.

### E. Sustainability

34. Sustainability of the reforms is rated *less than likely*. While NHA has a functioning road asset management system and its own funding sources, its resource endowment is insufficient to ensure sustainable road maintenance. The reform activities to support asset preservation through mitigation of truck overloading are unlikely to be successful.

<sup>20</sup> The policy actions required to improve road safety, including the establishment of a driving instructor training school and an accident evaluation laboratory for forensic investigations, constituted small projects in their own right. They needed to be properly planned, designed, and implemented, and resources to construct and operate each needed to be provided.

# Other Assessments

35. This chapter assesses the program’s development impact with regard to institutions, as well as the socioeconomic and natural environments. The performance of ADB and the borrower are subsequently examined.

### A. Impacts

36. **Macroeconomic Impact.** Given the size of the program loan in relation to that of Pakistan’s economy, it is difficult to assess the loan’s impact on the overall economy. Apart from this difficulty, there is no consensus in Pakistan whether or not such financial assistance was beneficial in improving the country’s economic situation. Some argue that the increase in foreign assistance might have been counterproductive to the macroeconomic reforms, which had gathered momentum before the events of 11 September 2001. The argument is, of course, only hypothetical as counterfactual evidence cannot be provided. Pakistan’s balance-of-payments situation has consistently been precarious, and it has recently assumed a new dimension with a net outflow of long-term capital.

37. **Institutional Impact.** The program’s impact on institutions is *negligible*. The objective was to turn NHA into a commercial road agency which would operate on a fee-for-service basis. ADB did not add value in this regard. The “rightsizing” of NHA left only a temporary impact, and the continued use of SOP and an improved financial manual for NHA may only marginally be attributed to the policy component.

38. **Socioeconomic Impact.** The program had no discernible socioeconomic, gender, or environmental impacts.

### B. Asian Development Bank Performance

39. The performance of ADB was *less than satisfactory*. ADB displayed dedication and support to the client’s macroeconomic stabilization efforts, and it provided assistance expeditiously when the client requested help. In doing so, however, ADB faced the dilemma of having to use a policy-based lending approach, which, while helping to alleviate foreign currency and budgetary constraints, would need effectively to address policies and institutional concerns to achieve development results.<sup>21</sup> The transport sector was the most promising candidate to serve as a basis for the program loan, as the government had already demonstrated its firm commitment to road sector reforms at the national level—so much so that it already had completed crucial reforms. Given the time pressure, ADB did not ensure that the contents of the reform program were appropriate or that those components that were still worth pursuing could be completed within the short program period.

*The institutional impact of the program was negligible*

*The performance of ADB was less than satisfactory*

<sup>21</sup> ADB. 2011. Policy-Based Lending. *Operations Manual*. OM D4/BP. Manila.

### C. Borrower Performance

*The performance of the borrower was less than satisfactory*

40. The performance of the borrower was *less than satisfactory*. The requirements with which the borrower had to comply under the policy component were less than onerous, as ADB had endeavored to enable an expeditious release of the two loan tranches. Nonetheless, delays were encountered with the release of both tranches. The government's efforts to substantially complete the reforms in the areas of road safety and asset preservation were unsatisfactory.

## CHAPTER 5

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# Issues and Lessons

41. This chapter brings out the issues and lessons pertaining to the program. The PPER does not recommend any follow-up actions.

### A. Issues

42. The link between the purpose of program lending, as reflected in the policy loan component, and its use in practice has emerged as the main issue. The government's overriding concern was a swift transfer of funds to alleviate an anticipated foreign exchange constraint, whereas the expressed intent of the program loan was to reform transport policies and institutions at the national level. Policy reforms, therefore, should have comprised an integral part of the program loan. However, the perceived urgency of providing quick balance-of-payments relief was incompatible with the much longer time horizon that would have been needed for successfully implementing the reforms (para. 9). The program loan could have been based on genuine and more easily and quickly attainable policy conditions. ADB could have focused on a smaller number of specified reform issues and allowed sufficient time to address them. The government's delays in meeting the requirements for the first tranche (5 months) and for the second tranche (17 months) were inconsistent with the urgency it had accorded to obtaining the balance-of-payment support.

*Supporting structural reforms should not be compromised by balance-of-payments or budget considerations*

### B. Lessons

43. The key lesson is that the purpose of program lending—which is to support structural reforms and achieve development results—should not be compromised by balance-of-payments or budget considerations. This would have meant allowing a longer program period for the required depth of reforms. ADB could have envisaged that sector reforms require a longer implementation period and should have focused on a smaller number of specified reform issues.



# Appendixes

## APPENDIX 1: POLICY MATRIX

Policy Theme	Policy Objectives	Actions	First Tranche	Second Tranche	Status	
					Tranche Conditions	Current Status
Transport Policy	To establish a transport system that provides efficient, safe, reliable, equitable, and environmentally friendly access and mobility for people and goods, thereby supporting the Government's goal of increasing public welfare through economic growth, human development and poverty reduction	Draft transport policy to clear interministerial review (para. 16)	*		Ministry of Communications and Railways (MOCR) to finalize draft for review and clearance of the key government agencies by 30 November 2001	Not met under this program. In 2007, consultants under another ADB technical assistance project (TA 4400) prepared a comprehensive transport policy, which is still awaiting approval by the Cabinet.
Road Sector Resource Management	Road asset management systems should be developed to ensure that road sector agencies effectively carry out asset management and preservation mandates	Medium term plan to be agreed and approved by all agencies concerned (para. 17-i)		*	NHA and MOF to finalize allocation by 31 March 2002	Met
		Allocation of road sector revenues for road development and maintenance to be based on medium term plan (para. 17-ii)		*	NHA and MOF to finalize allocation by 31 March 2002	Met
		NHA to initiate a financing mechanism	*		Initiated by NHA in February 2001	Met

Policy Theme	Policy Objectives	Actions	First Tranche	Second Tranche	Status	
					Tranche Conditions	Current Status
		for road maintenance through tolls on the national highway system (para. 17-iii)				
		Standard operating procedures for road maintenance fund approved by NHA board and submitted to the Government for notification (para. 17-iv)		*	NHA Board is scheduled to approve the procedures at its next meeting. Government notification will be issued by 15 March 2002.	Partly met
		NHA to formally adopt the new policy approach on economic priorities	*		NHA's Vision 2001, approved by the government in February 2001, incorporates this policy.	Met
		Overall road maintenance allocations for NHA roads to increase to PRs2.5 billion in FY2002	*		NHA toll revenues from 38 toll stations have already reached PRs 2.5 billion.	Met
		Road Asset Management Directorate at NHA fully functioning with core staff		*	Additional staffing of the Road Asset Management Directorate is in progress.	Met

Policy Theme	Policy Objectives	Actions	First Tranche	Second Tranche	Status	
					Tranche Conditions	Current Status
					Fully staffed by 15 March 2002.	
		Road Asset Management System to be used as the basis for allocating FY2002 maintenance expenditures (31 October 2001)	*		Since 31 October 2001, NHA is following the Road Asset Management System for maintenance allocations.	Met
Road Asset Preservation	Introduce an axle load control program to protect and increase the service life of road assets	National Highway Safety Ordinance to be enacted	*		The National Highway Safety Ordinance was promulgated by the government in September 2000.	Met
		Nationwide axle load awareness program initiated by NHA	*		The axle load awareness program was initiated during August 2000–February 2001.	Met
		Weigh stations to be installed at 30 strategic locations in the national highway system during 2002		*	Five weigh stations are to be completed and made functional by 31 March 2002.	Partly met
		MOCR to extend the jurisdiction	*		By 31 October 2001, the	Partly met

Policy Theme	Policy Objectives	Actions	First Tranche	Second Tranche	Status	
					Tranche Conditions	Current Status
		of the NHMP for enforcing axle load control to the national highways, starting with 320 km of N5, which will be increased by 300–400 km each year until fully covered by 2004			NHMP jurisdiction was increased to include 320 km of N5.	
	Set schedule of penalties for violation of load levels	Fine collection system to be set up for the weigh stations		*	NHA will implement a fine collection system by 15 March 2002.	Partly met
Institutional Efficiency Improvement	Road agencies should operate on the principles of economy and efficiency in operations—move to a commercial road agency, i.e., operating on a fee-for-service basis	NHA to begin a rightsizing exercise, and reduce staff strength from 1,670 to 1,219—a 22% reduction in officer cadre and 28% reduction in staff below Grade 16		*	NHA, in consultation with MOF, has initiated the staff rationalization effort that is expected to be completed by 31 March 2002.	Met
		NHA to revise standard operating procedures		*	SOP to be revised by 31 March 2002	Met
		Qualified financial management expertise to be recruited to	*		Financial management expertise to be recruited by 31 December	Met

Policy Theme	Policy Objectives	Actions	First Tranche	Second Tranche	Status	
					Tranche Conditions	Current Status
		enhance in-house financial management capability			2001	
		Technical review of NHA's financial manual to be completed to ensure revision and conformity with updated SOP		*	Review of manual to be completed by 31 March 2002	Met
Road Safety	Introduce measures to reduce the unacceptability high toll of deaths and accidents on roads in Pakistan	National Highway Safety Committee to be established in 2001 for road safety and implementation coordination on the national highways	*		As members, MOCR, NHA and NHMP are actively involved in the committee's work.	Partly met
	Improve the knowledge, capability, and training of personnel associated with accident prevention in the fields of accident analysis, traffic engineering, and the design of low-cost road accident	Accident reporting center to be established in 2002 for creating a comprehensive accident database	*		NHA and provincial communication works departments are the responsible agencies.	Partly met

Policy Theme	Policy Objectives	Actions	First Tranche	Second Tranche	Status	
					Tranche Conditions	Current Status
	countermeasures					
		Driving instructor training school to be established in 2002	*		MOCR to prepare draft by 31 December 2001	Not met
		Accident evaluation laboratory for forensic investigations to be established	*		MOCR to prepare draft by 31 December 2001	Not met
	Increase awareness of road safety among road users and communities	NHA to continue its comprehensive nationwide stakeholder consultation process with regular biannual meetings commencing in 2002		*	NHA to continue its comprehensive nationwide stakeholder consultation process with regular biannual meetings commencing in 2002	Met

ADB = Asian Development Bank, km = kilometer, MOCR = Ministry of Communications and Railways, MOF = Ministry of Finance, N5 = national highway 5, NHA – National Highway Authority, NHMP = National Highway and Motorway Police, SOP = standard operating procedures.

\* indicates this to be a condition for the given tranche.

Sources: Report and Recommendation of the President and Independent Evaluation Mission.

## APPENDIX 2: COMPLIANCE WITH LOAN COVENANTS

No.	Covenants/Conditions	Reference in Loan Agreement	Status of Compliance
1	The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, environmental, and road development practices.	Article IV, Section 4.01	Generally complied with.
2	The Borrower shall make available, promptly as needed, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program and for the operation and maintenance of the Program facilities.	Article IV, Section 4.02; Schedule 5, para. 7	Partly complied with. Funds were not made readily available, thereby affecting mainly the implementation of road safety policy actions.
3	The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program and operation of the Program facilities are conducted and coordinated in accordance with sound administrative policies and procedures.	Article IV, Section 4.03	Generally complied with. The coordination among relevant departments needs to be improved.
4	The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.	Article IV, Section 4.04 (a); Schedule 5, para. 3	Generally complied with.
5	The Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Article IV, Section 4.05; Schedule 5, para. 6	Generally complied with, except for meeting target dates.
6	The Borrower shall (a) ensure that the policies adopted and actions taken prior to the date of the Loan Agreement, as described in the Policy Letter, including the Policy Matrix attached to it, continue in effect for the duration of the Program period and subsequently, and (b) promptly adopt or to be adopted the other policies and take other actions indicated in the Program specified in the Policy Letter and the Policy Matrix, and ensure that such policies and actions continue in effect during the Program period.	Schedule 5, para. 1	Generally complied with.
7	MOF shall be the Executing Agency of the Program, and shall coordinate and monitor the Program and administer the utilization of the Loan proceeds. MOCR and NHA shall	Schedule 5, para. 2	Complied with.



No.	Covenants/Conditions	Reference in Loan Agreement	Status of Compliance
	support MOF in ensuring that the Program conditionalities are met.		
8	The Borrower shall continue timely policy dialogue with ADB on problems and constraints encountered during implementation of the Program and on desirable changes to overcome or mitigate such problems and constraints, and on further reforms to strengthen the judicial and police sector.	Schedule 5, para. 4	Generally complied with. However, the reforms to strengthen the judicial and police sector were not initiated during this Program.
9	Medium term plan to be agreed and approved by all agencies concerned.	Item (a) of Attachment 2 to Schedule 3	Generally complied with.
10	Allocation of road sector revenues for road development and maintenance to be based on medium term plan.	Item (b) of Attachment 2 to Schedule 3	Complied with.
11	SOP for road maintenance fund approved by NHA Board and submitted to Government for notification.	Item (c) of Attachment 2 to Schedule 3	Complied with.
12	Road Asset Management Directorate at NHA fully functioning with core staff.	Item (d) of Attachment 2 to Schedule 3	Complied with.
13	Weigh stations to be installed at 30 strategic locations in the national highway system during 2002. Five weigh stations completed and functional.	Item (e) of Attachment 2 to Schedule 3	Complied with.
14	Fine collection system to be set up for the weigh stations.	Item (f) of Attachment 2 to Schedule 3	Complied with.
15	NHA to begin rightsizing exercise, and reduce staff strength from 1,670 to 1,219. Twenty-two percent reduction in officer cadre and 28 percent reduction in staff below Grade 16.	Item (g) of Attachment 2 to Schedule 3	Generally complied with.
16	NHA to revise SOP.	Item (h) of Attachment 2 to Schedule 3	Complied with.
17	Technical review of NHA financial manual to be completed to ensure revision and conformity with updated SOP.	Item (i) of Attachment 2 to Schedule 3	Generally complied with.
18	NHA to continue its comprehensive nationwide stakeholder consultation process with regular biannual meetings commencing 2002.	Item (j) of Attachment 2 to Schedule 3	Complied with.

ADB = Asian Development Bank, MOCR = Ministry of Communications and Railways, MOF = Ministry of Finance, NHA = National Highway Authority, SOP = standard operating procedures.