ASIAN DEVELOPMENT BANK

Pakistan: Sustainable Energy Sector Reform Program - Subprogram 1

Project Name	Sustainable Energy Sector Reform Program - Subprogram 1
Project Number	47015-001
Country	Pakistan
Project Status	Closed
Project Type / Modality of Assistance	Loan
Source of Funding / Amount	**Loan 3126-PAK: Sustainable Energy Sector Reform Program - Subprogram 1** concessional ordinary capital resources lending / Asian Development Fund — US$ 400.00 million **Loan: Sustainable Energy Sector Reform Program - Subprogram 1** World Bank — US$ 600.00 million **Loan: Sustainable Energy Sector Reform Program - Subprogram 1** Japan International Cooperation Agency — US$ 49.00 million
Strategic Agendas	Inclusive economic growth
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development
Sector / Subsector	**Energy** - Energy sector development and institutional reform
Gender Equity and Mainstreaming	No gender elements
Description	The Program will help the Government with the short-term stabilization measures and start the long-term restructuring for a sustainable power sector.

Project Rationale and Linkage to Country/Regional Strategy	The program aims to support the 2013 National Power Policy plan of the Government of Pakistan to make the energy sector affordable, reliable, sustainable, and secure to support the country's economic growth. The government approved the power policy with the goal of alleviating the chronic energy crisis that has crippled the industries and caused social unrest. The government agreed with the International Monetary Fund (IMF), under the extended fund facility (EFF), to reduce the energy sector's burden on the annual state budget and its negative impact on economic growth. The government has met the requirements for the first and second IMF reviews. The program is fully coordinated with the EFF. Based on the findings and lessons from previous interventions, the government needs support to realize and sustain the reforms set out in the power policy. The program takes a chronological approach over 5 years, with a subprogram targeted for each year and matched to the annual budget schedule. Long-term engagement is necessary because the reforms are multidimensional and require a number of years to yield results. Pakistan''s economic growth slowed markedly in 2013, resulting in a 5-year average of 3%, which is well below the 7% annual growth necessary for enough employment creation to absorb the new entrants into the labor force. The chronic power shortage is estimated to have slowed gross domestic product (GDP) growth by at least 2 percentage points per year and is deemed to be the major cause of a decline in large-scale manufacturing, which grew by just 1.2% in 2012 and 2.8% in 2013. Without reliable power, factories are not able to deliver orders on time and have lost contracts. Textile exports, which account for more than 50% of goods export receipts, have only increased marginally since 2010. The steady deterioration of power availability has also hurt business confidence. Private investment has decreased by 7.5% since 2008. Power sector subsidies remain high at 1.8% of GDP, or $3.8 billion, despite a 160% increase in power tariffs since 2008. Power sector subsidies combined with low tax revenues are a significant contributor to the government's weak fiscal position. High fiscal deficits (8% of GDP in FY2013) led to more government borrowing, mainly from the domestic banking system, and elevated public debt (62.7% of GDP in FY2013). The Fiscal Responsibility and Debt Limitation Act 2005 requires the government to reduce the public debt to GDP ratio to 60% by June 2013 (i.e., the end of FY2013) and maintain that ratio at below 60% from July 2013 onward. The public-debt_ GDP ratio was 62.7% in FY2013, mainly owing to the actual deficit being higher than projected. The government expects that the ratio will be 61.4% for FY2014 and will take measures to maintain it below 60% from FY2015 onwards. The continued pursuit of tax and structural reforms to achieve fiscal consolidation, underpinned by the IMF program and support from ADB and other development partners, is expected to strengthen the fiscal position. Fiscal performance was on track in the second quarter of FY2014. With strong fiscal adjustment, public debt is expected to decline gradually. Reforms in Pakistan''s power sector have been ongoing since 1992. However, the pace has been slow and the expected efficiencies have yet to materialize. The unbundling and corporatization of the Water and Power Development Authority into nine regional power distribution companies (DISCOs), four thermal power generation companies (GENCOs), a transmission company licensed as a single buyer and seller of electricity, and the hydropower plants are retained by the Water and Power Development Authority was accomplished, but all entities are still fully owned by the government. Karachi Electric Supply Company has been privatized. Privately owned independent power producers (IPPs) generate 56% of the country's power. The National Electric Power Regulatory Authority (NEPRA) determines tariffs, issues licenses, and regulates the sector. Around two-thirds of the population have access to grid electricity. The consumption of electricity has remained constrained and relatively static at about 72 terawatts per year.
Impact	Economic growth through sustainable energy sector

Project Outcome

Description of Outcome	Reliable, sustainable, and affordable energy system
Progress Toward Outcome	Subprogram 1 loan financially closed on 3 June 2015. Policy matrix updated for Subprogram 2.
Implementation Progress	
Description of Project Outputs	1. Managing tariffs and subsidies (i) Clear policies on tariffs and subsidies that are targeted at low-income customers (ii) Ensure policy implementation through NEPRA rules and guidelines (iii) Reduction of discretionary policy decisions and of lag in tariff approval and implementation 2. Improving sector performance and market access for private sector participation (i) Reducing losses and improving collection rate of DISCOs (ii) Improving demand-side efficiency and strengthening energy conservation (iii) Managing generation costs through least-cost planning, and ensuring that new power generation plants follow the plan (iv) Increasing gas supply and opening the gas market to direct contracting between producers and large-volume gas consumers (v) Commercializing and improving the performance of public sector power companies (vi) Institutionalizing the commercial operations of the CPPA 3. Achieving accountability and transparency in the power sector
Status of Implementation Progress (Outputs, Activities, and Issues)	Subprogram 1 completed (refer above).

Geographical Location	

Safeguard Categories

Environment	B
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects

Environmental Aspects	An environmental assessment for the entire program found that the policy action requiring the government to prepare a least-cost generation and transmission plan may have future impacts on the environment if not appropriately managed. The covenants in the loan agreement include carrying out a strategic environmental assessment and making sure that any identified long-term environmental impact is managed in accordance with the Safeguard Policy Statement.
Involuntary Resettlement	No involuntary resettlement.
Indigenous Peoples	No impacts on indigenous peoples.
Stakeholder Communication, Participation, and Consultation	
During Project Design	Consultations held with government, non-government organizations, commercial organizations, and the donor community.
During Project Implementation	Consultations continued with non-government organizations, commercial organizations, and the donor community during implementation.

Responsible Staff

Responsible ADB Officer	Mtchedlishvili, Levan G.
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Energy Division, CWRD
Executing Agencies	*Ministry of Finance* *SO_ADB_I@EAD_CC.SDNPK.UNDP.ORG* *Economic Affairs Div.* *Rm. 308 Block "C" Secretariat Bldg* *Islamabad, Pakistan*

Timetable

Concept Clearance	07 Feb 2014
Fact Finding	07 Feb 2014 to 14 Feb 2014
MRM	10 Mar 2014
Approval	24 Apr 2014
Last Review Mission	-
Last PDS Update	31 Mar 2016

Loan 3126-PAK

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
24 Apr 2014	28 Apr 2014	28 Apr 2014	30 Jun 2015	-	03 Jun 2015

Financing Plan		Loan Utilization			
	Total (Amount in US$ million)	Date	ADB	Others	Net Percentage
Project Cost	1,003.60	Cumulative Contract Awards			
ADB	400.00	24 Apr 2014	399.16	0.00	100%
Counterpart	3.60	Cumulative Disbursements			

Cofinancing	600.00	24 Apr 2014	399.16	0.00	100%

Project Page	https://www.adb.org/projects/47015-001/main
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