



Project Administration Manual

Project Number: 48031-001

Loan Number: LXXXX

28 October 2014

Proposed Technical Assistance Loan for Islamic Republic of Pakistan: Public Sector Enterprise Reforms Project

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Project Administration Manual Purpose and Process

The project administration manual (PAM) describes the essential administrative and management requirements to implement the Project on time, within budget, and in accordance with Government of Pakistan (Government) and Asian Development Bank (ADB) policies and procedures. The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The Finance Division of the Ministry of Finance, Ministry of Petroleum and Natural Resources, Ministry of Water and Power, Privatisation Commission, and Securities Exchange Commission of Pakistan are wholly responsible for the implementation of the ADB financed project, as agreed jointly between the Government and ADB, and in accordance with Government and ADB's policies and procedures. ADB staff is responsible for supporting implementation including compliance by the Finance Division of the Ministry of Finance, Ministry of Petroleum and Natural Resources, Ministry of Water and Power, Privatisation Commission, and Securities Exchange Commission of Pakistan of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At Loan Negotiations the Government and ADB shall agree to the PAM and ensure consistency with the Loan Agreement. Such agreement shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the PAM and the Loan Agreement, the provisions of the Loan Agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President changes in implementation arrangements are subject to agreement and approval pursuant to relevant Government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the PAM.

Abbreviations

| | | |
|-------|---|---|
| ADB | = | Asian Development Bank |
| APR | = | Accounting Procedure Rules |
| CGA | = | Controller General of Accounts |
| COFOG | = | Classification of the Functions of Government |
| CPPA | = | Central Power Purchasing Authority |
| DDO | = | drawing and disbursement officer |
| ECC | = | Economic Coordination Committee |
| ICB | = | international competitive bidding |
| MOF | = | Ministry of Finance |
| MOWP | = | Ministry of Water and Power |
| MPNR | = | Ministry of Petroleum and Natural Resources |
| NBP | = | National Bank of Pakistan |
| NCB | = | national competitive bidding |
| OAGP | = | Office of the Auditor General of Pakistan |
| PAM | = | project administration manual |
| PMU | = | project management unit |
| PSE | = | public sector enterprise |
| QCBS | = | quality- and cost based selection |
| SECP | = | Security and Exchange Commission of Pakistan |
| SOE | = | statement of expenditure |

I. PROJECT DESCRIPTION

1. The Public Sector Enterprise Reforms Project (the Project) will strengthen the Government of Pakistan's capacity to privatize and restructure its designated public sector enterprises (PSEs). The expected impact will be a reduction of the fiscal and economic costs associated with Pakistan PSEs. The expected outcome will be successful privatization and restructuring of selected PSEs.

2. The Project has 4 outputs (i) strengthened privatization program, (ii) improved corporate governance, structure and management capacity in selected PSEs, (iii) enhanced governance and regulatory regimes of selected sectors currently dominated by PSEs, and (iv) project efficiently and effectively managed.

3. **Output 1: Strengthened privatization program.**¹ The Privatisation Commission will be the implementing agency for this output, which includes two sub-outputs:

- (i) Output 1.1 – Transactions management. The Project will finance consulting services to strengthen the technical capacity of the Privatisation Commission to manage privatization transactions and monitor transactions advisory services. The recruitment of experienced transaction managers for the commission will enable it to handle more complex and more frequent transactions in parallel (and to manage transactions advisors effectively). This action will also help the commission to develop a better perception of the potential market value of the assets for sale and the available transaction technology options. This will strengthen the credibility of and public confidence in the privatization program. Expert legal assistance will also be provided to assist the commission in all relevant legal aspects of the transactions.
- (ii) Output 1.2 – Privatization program effectiveness and transparency. The project will enhance the current approach to privatization, and make it more strategic, well-sequenced, and time-bound with clear guidelines for prioritizing the different steps required for PSE privatization. This sub-output also includes preparation and implementation of an effective, sustained, and preemptive communications strategy to improve transparency and ensure that the need for the reforms and planned activities are widely understood and accepted by the public. A mitigation framework for labor-related issues arising from the privatization program—a key step to gain public acceptance—will also be developed and implemented under this sub-output.

4. **Output 2: Improved corporate governance, structure and management capacity in selected PSEs.** The Privatisation Commission, the Finance Division of the MOF (the Economic Reforms Unit [ERU] and the CFW), and the SECP will be the implementing agencies for this output, which includes two sub-outputs:

- (i) Output 2.1 – PSE restructuring. Technical assistance and expert advice will be crucial for the strategic restructuring work that many PSEs require before any further divestiture can take place. The business advisory, pre-transaction work that is necessary to prepare corporate restructuring proposals for key PSEs (e.g., balance-sheet bifurcation proposals, improvement of internal financial controls and financial reporting, and reorientation of markets and operations) will be undertaken under this sub-output. This

¹ Government of Pakistan, Privatisation Commission. Broad-Based Privatisation Programme of the Government. <http://www.privatisation.gov.pk/Policy%20and%20Objectives/Privatisation%20Programme.htm>

work may involve the services of management consultants, accounting and legal experts, and financial restructuring experts. The government will propose the PSEs to be restructured under the project, which should meet the following criteria: (a) the PSE is imposing significant direct and indirect costs to the federal government budget; (b) the government has in place a long-term vision for the sector where the PSE operates; and (c) the government clearly demonstrates its will to lead, guide, and complete the restructuring process within the project implementation period.

- (ii) Output 2.2 – PSE performance monitoring. The project will fund accounting, management, and financial consulting services to develop the capacity of the CFW and the Economic Reforms Unit to monitor the PSE portfolio, assess fiscal liabilities, identify and track potential PSE issues, and oversee corporate restructuring of selected PSEs. The project will also help develop the analytical capacity of the CFW and the Economic Reforms Unit to carry out sector benchmarking and compare performance of PSEs. The project will support SECP enforcement of PSE compliance with the new corporate governance rules and guidelines by establishing interagency coordination mechanisms and an online reporting and monitoring system at the SECP.²

5. Output 3: Enhanced governance and regulatory regimes of selected sectors currently dominated by PSEs. For effective privatization of PSEs in some key sectors, it is essential to ensure that appropriate legal, sector regulation, and enforcement mechanisms are in place and are consistently implemented. To ensure that efficiency gains in PSEs providing infrastructure services do not come at the expense of the consumer, effective regulatory regimes also need to be established, particularly for ongoing medium-term reforms in the energy sector.³ The ERU and specific regulatory agencies will oversee the work under this output, which has two sub-outputs:

- (i) Output 3.1 – Energy sector reform monitoring. Monitoring units for the Sustainable Energy Sector Reform Program will be established in the Ministry of Water and Power and in the Ministry of Petroleum and Natural Resources. These units will support the ministries in preparing quarterly reform monitoring reports to be submitted to the Economic Coordination Committee (ECC). Technical assistance in the regulatory, technical, legal and communications areas will be provided through the project to assist the implementation of the SESRP. Technical experts will also be hired to monitor reform progress. Support through analytic studies will also be considered in coordination with other development partners.
- (ii) Output 3.2 – Key sector reforms. Assistance to other regulatory authorities can be selectively provided under this sub-output, particularly in sectors related to Output 2.1. The project will finance the recruitment of technical experts to support sector efficiency assessments and the preparation of sector restructuring road maps, which will be prepared in coordination with the respective line ministries and the Ministry of Planning, Development and Reform. The project will also finance the recruitment of experts to conduct competition assessments in sectors affected by the privatization and restructuring of PSEs, and where market concentration is high. These assessments will be prepared in coordination with the Competition Commission.

² SECP. 2013. *Public Sector Companies (Corporate Governance) Rules, 2013*. http://www.secp.gov.pk/CG/SRO_180_PublicSectorCompanies_CGRules_2013.pdf

³ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan to the Islamic Republic of Pakistan for Subprogram 1 of the Sustainable Energy Sector Reform Program*. Manila.

6. **Output 4: Project efficiently and effectively managed.** The Project will recruit consultants to support the project management unit (PMU) that will implement and manage all activities funded by the Project. The consultants will provide expertise in project management, financial management, and procurement.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

| Indicative Activities | Months | | | | | | | | | Who is responsible |
|---|--------|-----|-----|-----|-----|-----|-----|-----|-----|--------------------|
| | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | |
| ADB staff review meeting | X | | | | | | | | | ADB |
| Advance contracting actions ^a | | | | | | | | | | |
| Advertising (Consulting Services Recruitment Notice) | | | | X | | | | | | FD / PC |
| Prepare Submission 1; Send out Request for Proposal to shortlisted candidates | | | | X | | | | | | FD / PC |
| Prepare Submission 2; Send out draft contract | | | | | X | | | | | FD / PC |
| Loan negotiations | | | X | | | | | | | GOP / ADB |
| ADB Board Consideration | | | | | X | | | | | ADB |
| Loan signing | | | | | | X | | | | GOP |
| Government legal opinion provided | | | | | | | X | | | EAD / ADB |
| Establish project implementation arrangements | | | | | | | X | | | FD / PC |
| Loan effectiveness | | | | | | | | X | | EAD / ADB |

ADB = Asian Development Bank; EAD = Economic Affairs Division; FD = Finance Division of the Ministry of Finance; GOP = Government of Pakistan; PC = Privatisation Commission.

^a The Finance Division of the Ministry of Finance and the Privatisation Commission may use advance contracting if Terms of Reference and budget for the assignments are sufficiently clear to permit consultants to submit informed expressions of interest and, if shortlisted, technical and financial proposals. The Finance Division of the Ministry of Finance and the Privatisation Commission have requested ADB to conduct, on behalf of the Government, the selection processes up until but not including negotiation and contracting of some of the consultants (Section VI).

B. Overall Project Implementation Plan

| Indicative Activities | 2015 | | | | 2016 | | | | 2017 | | | | 2018 | | | | 2019 | | | |
|---|------|----|-----|----|------|----|-----|----|------|----|-----|----|------|----|-----|----|------|----|-----|----|
| | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| Output 1: Strengthened privatization program | | | | | | | | | | | | | | | | | | | | |
| 1.1 Develop a privatization strategy for the period 2015-2019, including institutional strengthening of the Privatisation Commission | | | | | | | | | | | | | | | | | | | | |
| 1.2 Prepare and support approval of the mitigation framework for labor-related issues, including initiatives to improve skills or business development options for staff that may be subject to redeployment or lay-off | | | | | | | | | | | | | | | | | | | | |
| 1.3 Design and support approval of the communications plan for the privatization program | | | | | | | | | | | | | | | | | | | | |
| 1.4 Support management of privatization transactions | | | | | | | | | | | | | | | | | | | | |
| 1.5 Support implementation of the communications strategy | | | | | | | | | | | | | | | | | | | | |
| 1.6 Support implementation of the mitigation framework for labor-related issues | | | | | | | | | | | | | | | | | | | | |
| 1.7 Design and conduct consumer surveys on an annual basis | | | | | | | | | | | | | | | | | | | | |
| 1.8 Support improvement of the Privatisation Commission's internal financial rules and accounting software system | | | | | | | | | | | | | | | | | | | | |
| Output 2: Improved corporate governance, structure and management capacity in selected PSEs | | | | | | | | | | | | | | | | | | | | |
| 2.1 Improve SECP monitoring systems of PSEs' compliance with corporate governance guidelines, including development of an online reporting system | | | | | | | | | | | | | | | | | | | | |
| 2.2 Improve MOF's Finance Division monitoring systems of the government's shareholding position in PSEs | | | | | | | | | | | | | | | | | | | | |
| 2.3 Support PSEs in establishing and improving good practices in corporate governance, internal financial controls and financial reporting | | | | | | | | | | | | | | | | | | | | |
| 2.4 Complete selection of PSEs to be restructured under the Project | | | | | | | | | | | | | | | | | | | | |
| 2.5 Support restructuring of specific PSEs | | | | | | | | | | | | | | | | | | | | |
| 2.6 Design and conduct consumer surveys on an annual basis | | | | | | | | | | | | | | | | | | | | |

Output 3: Governance and regulatory regimes enhanced in sectors dominated by PSEs

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3.1 Support the Ministry of Water and Power and the Ministry of Petroleum and Natural Resources preparing quarterly reform monitoring reports to be submitted to the Economic Coordination Committee (from 2015 to 2019)

3.2 Prepare blueprints for revised market structures for 2 selected sectors currently dominated by PSEs

3.3 Consult with government, industry, and other relevant stakeholders of the sector on the draft blueprints

3.4 Facilitate government approval of the sector blueprint(s)

3.5 Support independent competition assessments on sectors impacted by privatization and restructuring of PSEs

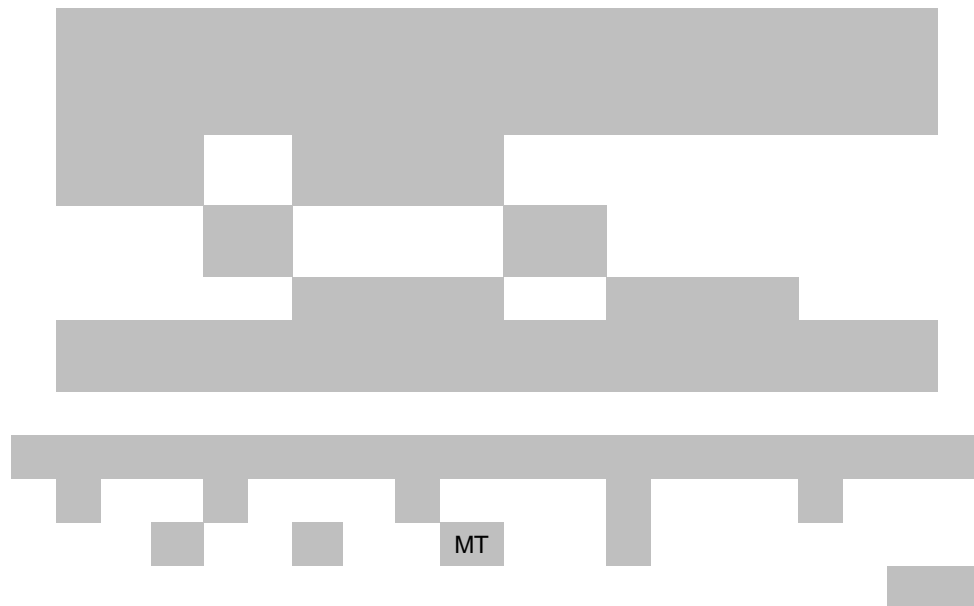
Output 4: Project efficiently and effectively managed

4.1 Recruit consultants and procure goods in line with PAM

4.2 Perception and consumer surveys

4.3 ADB inception, annual and mid-term (MT) reviews

4.4 Project completion report (Government)



III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations – Roles and Responsibilities

| Project implementation organizations | Management Roles and Responsibilities |
|--|--|
| Executing agency Finance Division of the Ministry of Finance (MOF) | <p>As the lead agency, the Finance Division of the MOF will:</p> <ul style="list-style-type: none"> - Directly supervise project implementation; - Measure and report progress towards objectives, including through quarterly progress reports to be submitted to the ECC; - Monitor implementing agencies adherence to loan covenants and timely report any violation by an implementing agency of any provision in the Loan Agreement; - Prepare and submit to ADB a consolidated project completion report within six months from the completion date of the Project. |
| Project management unit (PMU) | <ul style="list-style-type: none"> - Establish and manage an imprest account and provide related documents in imprest account reconciliation statement as required; - Submit withdrawal applications to ADB and retain supporting documents; - Submit annual audited report and financial statements to ADB; - Procure goods and recruit consultants in accordance with ADB guidelines; - Supervise consultants' performance and adherence to the terms of reference; - Monitor the work schedule, resource requirements, budget, and compliance with technical specifications and terms of reference. |
| Implementing agencies Finance Division of the MOF (Corporate Finance Wing and Economic Reforms Unit) | <ul style="list-style-type: none"> - Support the PMU and the procurement selection committee on recruitment of consultants to be housed in the Division, particularly on the terms of reference and technical specifications; - Supervise consultants to be recruited under the Project for supporting reforms in the areas under the Division's supervision; - Provide work space for consultants. |
| Ministry of Petroleum and Natural Resources | <ul style="list-style-type: none"> - Support the PMU and the procurement selection committee on recruitment of consultants to be housed in the Ministry, particularly on the terms of reference; - Supervise consultants to be recruited under the Project for monitoring policy reforms in the areas under the Ministry's mandate; - Provide work space for consultants; - Submit quarterly reports to the Finance Division of the MOF and to the ECC on reform implementation progress. |

| Project implementation organizations | Management Roles and Responsibilities |
|---|---|
| Ministry of Water and Power | <ul style="list-style-type: none"> - Support the PMU and the procurement selection committee on recruitment of consultants to be housed in the Ministry, particularly on the terms of reference; - Supervise consultants to be recruited under the Project for monitoring policy reforms in the areas under the Ministry's mandate; - Provide work space for consultants; - Submit quarterly reports to the Finance Division of the MOF and to the ECC on reform implementation progress. |
| Privatisation Commission | <ul style="list-style-type: none"> - Recruit consultants in accordance with ADB guidelines; - Provide work space for consultants; - Supervise consultants' performance and adherence to the terms of reference; - Submit quarterly reports to the Finance Division of the MOF and to the ECC on implementation progress; - Submit the Commission's annual audited financial statements to ADB. |
| Securities Exchange Commission of Pakistan | <ul style="list-style-type: none"> - Support the PMU and the procurement selection committee on recruitment of consultants to be housed in the Commission, particularly on the terms of reference; - Supervise and guide consultants to be recruited under the Project for supporting reforms in the areas under the Commission's mandate; - Provide work space for consultants; - Submit quarterly reports to the Finance Division of the MOF and to the ECC on implementation progress. |
| Economic Coordination Committee (ECC) | <ul style="list-style-type: none"> - Oversee implementation of policy reforms through quarterly discussions based on progress reports prepared by the Finance Division of the MOF and implementing agencies. |
| ADB | <ul style="list-style-type: none"> - Monitor compliance with all agreements, covenants, and reporting requirements; - Process loan advances, liquidations, and disbursements in a timely manner; - Coordinate with executing agency and implementing agencies and with the PMU on project implementation, monitoring, and reporting; - Provide training and guidance to executing and implementing agencies and to the PMU on ADB guidelines and procedures, and respond to their inquiries on a timely basis; - Monitor the executing agency's compliance with conditions in the Loan Agreement; - In coordination with the executing agency, validate (i) implementing agencies' compliance with conditions in the Loan Agreement, and (ii) achievements of the Project's targets established in the Design and Monitoring Framework; - Review oversight of compliance with ADB's Safeguard Policy Statement; - Validate progress reports and audit reports, including through off-site review of reports and other information provided from time to time by the executing and implementing agencies; at its |

| Project implementation organizations | Management Roles and Responsibilities |
|--------------------------------------|---|
| | <p>option, conduct on-site inspections to confirm such compliance; and,</p> <ul style="list-style-type: none"> - Periodically update and revise the PAM as and when necessary during each review mission and following any changes in project scope, costs, and implementation arrangements. |

B. Key Persons Involved in Implementation

Executing Agency

Finance Division of the MOF

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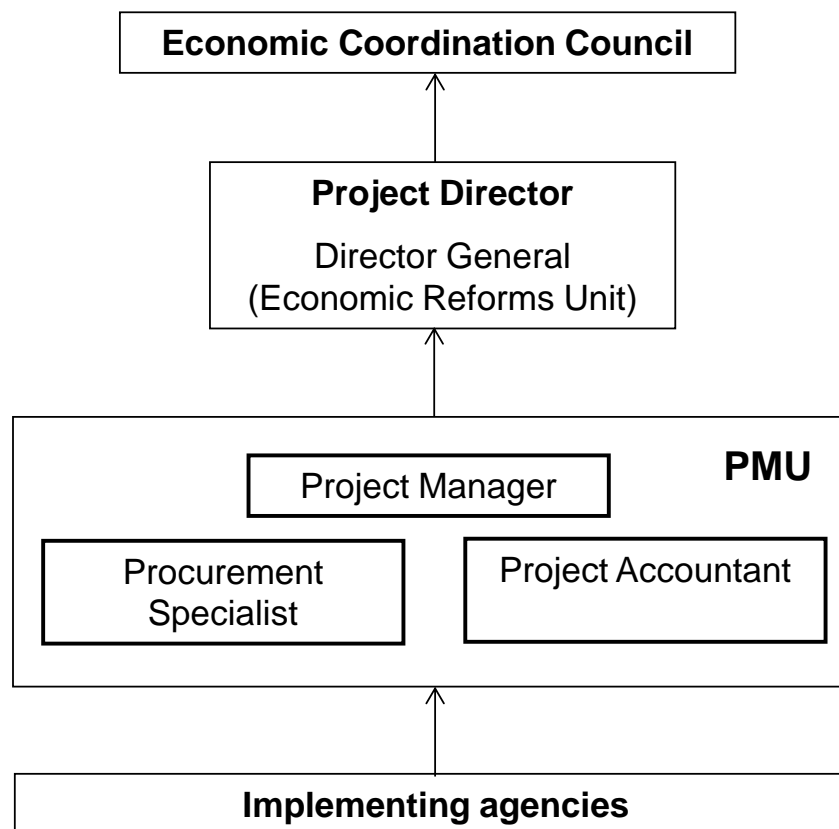
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C. Project Organization Structure



—————> Project-related reporting line

IV. COSTS AND FINANCING

7. The Project is estimated to cost \$22.54 million. The government has requested a loan in various currencies equivalent to 13,459,000 special drawing rights (SDR) from ADB's Special Funds resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan and project agreements.

8. ADB will finance consulting services, goods and services, and studies related to the PSEs reforms and privatization agenda. ADB will also finance the salaries of the PMU staff consultants. The government will finance the costs of all local taxes and duties, office equipment (computers, printers, and scanner) and stationery for the PMU, training materials, translation services, bank charges, and financing charges during implementation.

A. Detailed Cost Estimates by Expenditure Category

| Item | (\$ million) | | Total Cost ^a | % of Total Base Cost |
|--|------------------|----------------|-------------------------|----------------------|
| | Foreign Exchange | Local Currency | | |
| A. Investment Costs | | | | |
| 1 Consulting services | 12.01 | 4.85 | 16.86 | 74.8% |
| 1a Remuneration and per diem | 9.69 | 4.45 | 14.14 | 62.7% |
| 1b Transport and communications | 1.72 | 0.00 | 1.72 | 7.6% |
| 1c Surveys and studies | 0.60 | 0.40 | 1.00 | 4.4% |
| 2 Goods | 0.50 | 0.20 | 0.70 | 3.1% |
| 3 Project management ^a | 0.00 | 1.11 | 1.11 | 4.9% |
| Subtotal (A) | 12.51 | 6.16 | 18.67 | 82.8% |
| B. Local Taxes and Duties | 0.00 | 1.04 | 1.04 | 4.6% |
| C. Contingencies^b | 0.63 | 0.95 | 1.58 | 7.0% |
| 1. Physical | 0.63 | 0.37 | 1.00 | 4.4% |
| 2. Price | 0.00 | 0.58 | 0.58 | 2.6% |
| D. Interest Charges During Implementation | 1.25 | 0.00 | 1.25 | 5.5% |
| Total Project Cost (A+B+C+D) | 14.39 | 8.15 | 22.54 | 100.0% |

^a Project management costs are those essential for effective project implementation and linked to specific project activities, including miscellaneous project administration costs such as training materials, printing of relevant reports, stationery, translation services, and bank charges.

^b Physical contingencies computed at 5% for consulting services and studies. Price contingencies are computed using Asian Development Bank cost escalation factors; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank staff estimates.

B. Allocation and Withdrawal of Loan Proceeds

| CATEGORY | | | | ADB FINANCING |
|--------------|---|-------------------------------------|---------------------|---|
| Number | Item | Total Amount Allocated (million) | | Percentage and Basis for Withdrawal from Loan Account |
| | | Category | Subcategory | |
| 1. | Consulting services | SDR11.35 (\$16.86) | | |
| 1a | Outputs 1 and 2(i) Privatisation Commission | | SDR6.36 (\$9.44) | 100% of total expenditure claimed |
| 1b | Outputs 2(ii) to (iv), 3 and 4 (Finance Division of the MOF) | | SDR4.99 (\$7.42) | 100% of total expenditure claimed |
| 2. | Goods | SDR0.47 (\$0.70) | | 100% of total expenditure claimed |
| 3. | Project management – Incremental PMU staff | SDR0.58 (\$0.86) | | 100% of total expenditure claimed |
| 4. | Unallocated | SDR1.06 (\$1.58) | | |
| Total | | SDR13.45 (\$20.0) | | |

Exclusive of local taxes and duties.

C. Detailed Cost Estimates by Financier

| Item | Amount | ADB | Amount | Government | Total Cost |
|--|--------------|--------------------|-------------|--------------------|--------------|
| | | % of Cost Category | | % of Cost Category | |
| A. Investment Costs | | | | | |
| 1 Consulting services | 16.86 | 100.0% | 0.00 | 0.0% | 16.86 |
| 2 Goods | 0.70 | 100.0% | 0.00 | 0.0% | 0.70 |
| 3 Project management (salaries of PMU staff consultants) | 0.86 | 100.0% | 0.00 | 0.0% | 0.86 |
| 4 Project management (other costs) ^a | 0.00 | 0.0% | 0.25 | 100.0% | 0.25 |
| Subtotal (A) | 18.42 | 98.7% | 0.25 | 1.3% | 18.67 |
| B. Local Taxes and Duties | 0.00 | 0.0% | 1.04 | 100.0% | 1.04 |
| Total Base Cost (A+B) | 18.42 | 93.5% | 1.29 | 6.5% | 19.71 |
| C. Contingencies^b | 1.58 | 100.0% | 0.00 | 0.0% | 1.58 |
| 1. Physical | 1.00 | 100.0% | 0.00 | 0.0% | 1.00 |
| 2. Price | 0.58 | 100.0% | 0.00 | 0.0% | 0.58 |
| D. Interest Charges During Implementation | 0.00 | 0.0% | 1.25 | 100.0% | 1.25 |
| Total Project Cost (A+B+C+D) | 20.00 | 88.7% | 2.54 | 11.3% | 22.54 |
| % Total Project Cost | | 88.7% | | 11.3% | 100% |

^a Other project management costs are those essential for effective project implementation and linked to specific project activities, including miscellaneous project administration costs such as training materials, printing of relevant reports, stationery, translation services, and bank charges.

^b Physical contingencies computed at 5% for consulting services and studies. Price contingencies are computed using Asian Development Bank cost escalation factors; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank staff estimates.

D. Detailed Cost Estimates by Outputs

16

| Item | Total Cost | Output 1 | | Output 2 | | Output 3 ^a | | Output 4 | |
|--|--------------|-------------|--------------------|-------------|--------------------|-----------------------|--------------------|-------------|--------------------|
| | | Amount | % of Cost Category | Amount | % of Cost Category | Amount | % of Cost Category | Amount | % of Cost Category |
| A. Investment Costs^b | | | | | | | | | |
| 1 Consulting services | 16.86 | 4.32 | 25.6% | 7.18 | 42.6% | 5.36 | 31.8% | 0.00 | 0.00% |
| 2 Goods | 0.70 | 0.20 | 28.6% | 0.30 | 42.9% | 0.20 | 26.6% | 0.00 | 0.00% |
| 3 Project management ^c | 1.11 | 0.00 | 0.0% | 0.00 | 0.0% | 0.00 | 0.0% | 1.11 | 100.0% |
| Subtotal (A) | 18.67 | 4.52 | 24.2% | 7.48 | 40.1% | 5.56 | 29.8% | 1.11 | 6.0% |
| B. Local Taxes and Duties | 1.04 | 0.33 | 31.8% | 0.36 | 34.4% | 0.26 | 25.3% | 0.09 | 8.6% |
| Total Base Cost (A+B) | 19.71 | 4.85 | 24.6% | 7.84 | 39.8% | 5.82 | 29.5% | 1.20 | 6.1% |
| C. Contingencies^d | 1.58 | 0.40 | 25.0% | 0.54 | 34.1% | 0.44 | 27.7% | 0.21 | 13.1% |
| 1. Physical | 1.00 | 0.25 | 25.0% | 0.34 | 34.1% | 0.28 | 27.7% | 0.13 | 13.1% |
| 2. Price | 0.58 | 0.15 | 25.0% | 0.20 | 34.1% | 0.16 | 27.7% | 0.08 | 13.1% |
| D. Interest Charges During Implementation | 1.25 | 0.28 | 22.4% | 0.41 | 32.8% | 0.47 | 37.6% | 0.09 | 7.2% |
| Total Project Cost (A+B+C+D) | 22.54 | 5.53 | 24.5% | 8.79 | 39.0% | 6.73 | 29.9% | 1.50 | 6.7% |

^a The consulting services under Output 3 are mostly allocated for support of the Sustainable Energy Sector Reforms Program.

^b In mid-2014 prices.

^c Project management costs are those essential for effective project implementation and linked to specific project activities, including miscellaneous project administration costs such as training materials, printing of relevant reports, stationery, translation services, and bank charges.

^d Physical contingencies computed at 5% for consulting services and studies. Price contingencies are computed using Asian Development Bank cost escalation factors; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank staff estimates.

E. Detailed Cost Estimates by Year

| Item | Total Cost | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| A. Investment Costs | | | | | | |
| 1 Consulting services | 16.86 | 2.53 | 3.71 | 3.64 | 3.64 | 3.35 |
| 2 Goods | 0.70 | 0.24 | 0.04 | 0.19 | 0.19 | 0.04 |
| 3 Project management ^a | 1.11 | 0.22 | 0.22 | 0.22 | 0.22 | 0.22 |
| Subtotal (A) | 18.67 | 2.99 | 3.98 | 4.05 | 4.05 | 3.61 |
| B. Local Taxes and Duties | 1.04 | 0.17 | 0.22 | 0.23 | 0.23 | 0.20 |
| Total Base Cost (A+B) | 21.29 | 3.15 | 4.20 | 4.27 | 4.80 | 4.86 |
| C. Contingencies^b | 1.58 | 0.00 | 0.00 | 0.00 | 0.53 | 1.05 |
| 1. Physical | 1.00 | 0.00 | 0.00 | 0.00 | 0.35 | 0.65 |
| 2. Price | 0.58 | 0.00 | 0.00 | 0.00 | 0.18 | 0.40 |
| D. Interest Charges During Implementation | 1.25 | 0.08 | 0.21 | 0.26 | 0.32 | 0.38 |
| Total Project Cost (A+B) | 22.54 | 3.23 | 4.41 | 4.53 | 5.12 | 5.24 |
| % Total Project Cost | 100% | 14.3% | 19.6% | 20.1% | 22.7% | 23.3% |

^a Project management costs are those essential for effective project implementation and linked to specific project activities, including miscellaneous project administration costs such as training materials, printing of relevant reports, stationery, translation services, and bank charges.

^b Physical contingencies computed at 5% for consulting services and studies. Price contingencies are computed using Asian Development Bank cost escalation factors; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank staff estimates.

F. Contract and Disbursement S-curve

9. Projected contract awards and disbursements for this Project are set forth in Table 2. The S-curve is in Figure 1.

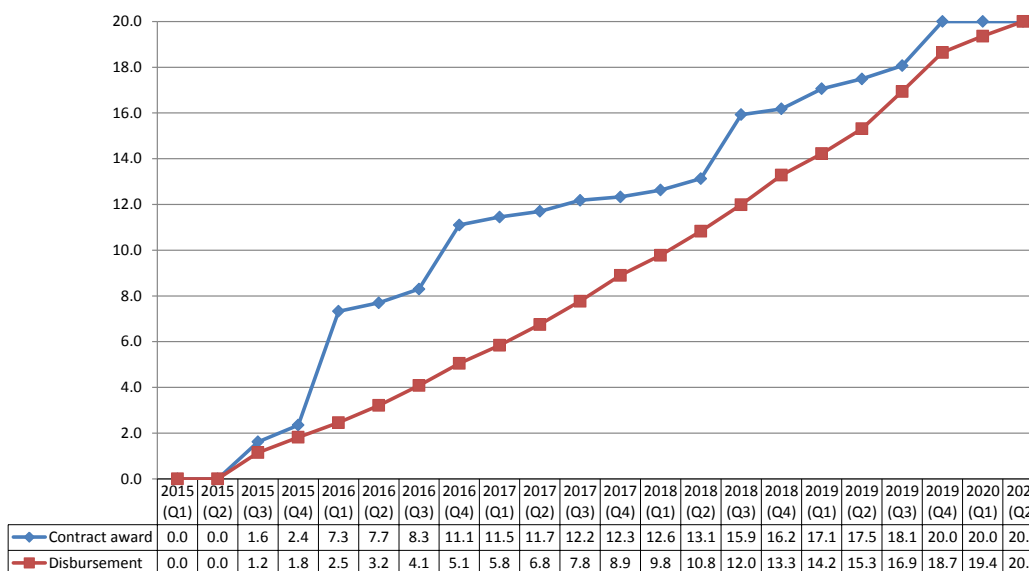
Table 2: Projections for Contract Awards (\$ million)

| Year | Q1 | Q2 | Q3 | Q4 | Total |
|--------------|------|------|------|------|--------------|
| 2015 | 0.00 | 0.00 | 1.62 | 0.73 | 2.35 |
| 2016 | 4.98 | 0.37 | 0.60 | 2.80 | 8.75 |
| 2017 | 0.35 | 0.25 | 0.48 | 0.15 | 1.23 |
| 2018 | 0.30 | 0.50 | 2.80 | 0.25 | 3.85 |
| 2019 | 0.88 | 0.43 | 0.58 | 1.93 | 3.82 |
| Total | | | | | 20.00 |

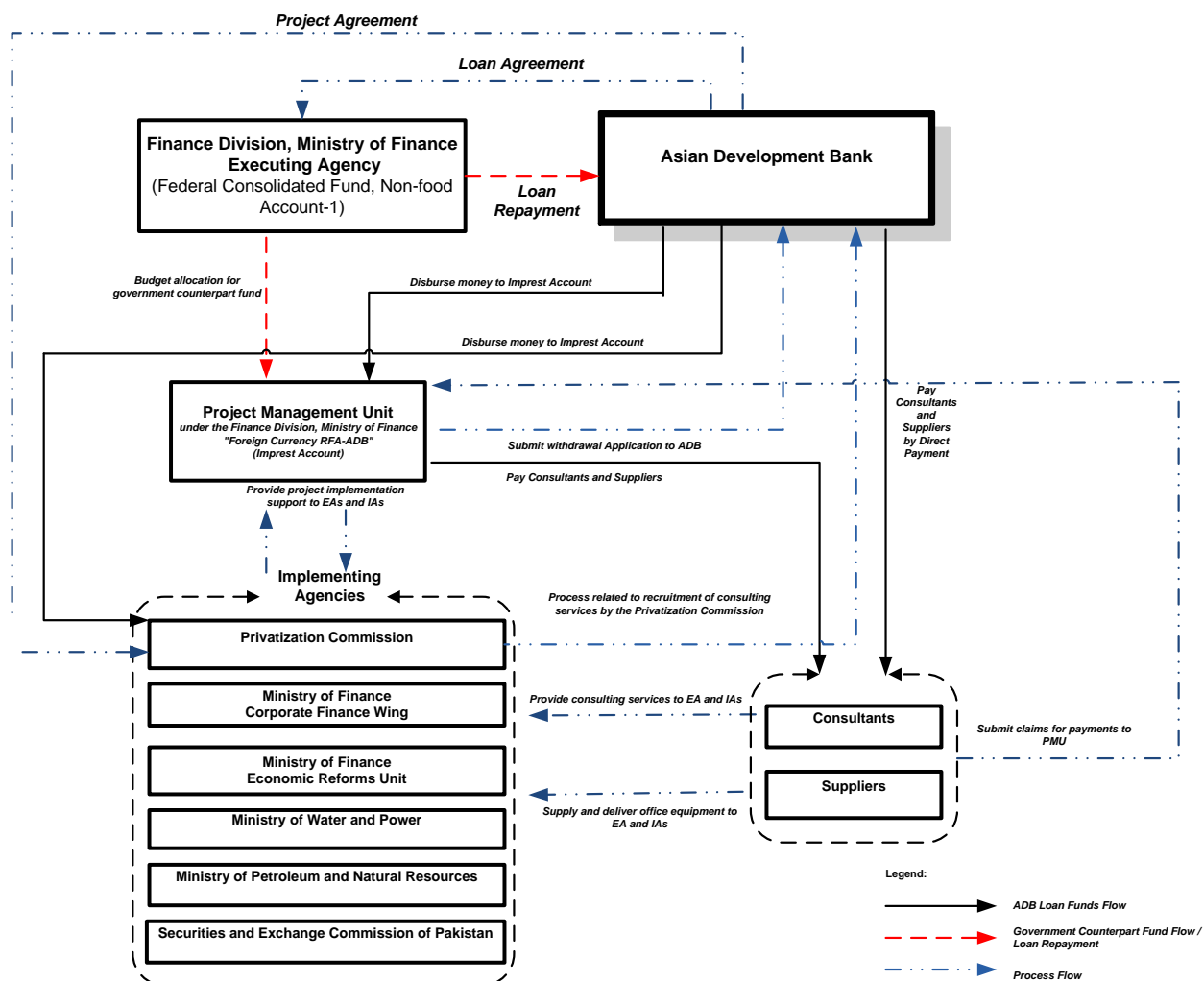
Projections for Disbursements (\$million)

| Year | Q1 | Q2 | Q3 | Q4 | Total |
|--------------|------|------|------|------|--------------|
| 2015 | 0.00 | 0.00 | 1.15 | 0.67 | 1.82 |
| 2016 | 0.64 | 0.75 | 0.87 | 0.97 | 3.23 |
| 2017 | 0.79 | 0.91 | 1.02 | 1.13 | 3.85 |
| 2018 | 0.88 | 1.05 | 1.16 | 1.29 | 4.38 |
| 2019 | 0.94 | 1.09 | 1.63 | 1.71 | 5.37 |
| 2020 | 0.71 | 0.64 | | | 1.35 |
| Total | | | | | 20.00 |

Figure 1: Projected Contract Awards and Disbursements S-Curve



G. Fund Flow Diagram



V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

Finance Division of the Ministry of Finance

10. **Financial rules.** The Finance Division of the MOF is a centralized accounting entity and thus receives annual budgetary grants from the state budget. The Controller General of Accounts (CGA) who operates through network of provincial and district offices processes all payments and payroll. The Finance Division of the MOF follows the General Financial Rules and the System for Financial Control and Budgeting (2006) for preparation and approval of transactions.

11. **Accounting policies and procedures.** CGA follows the cash-based New Accounting Model which includes a COFOG-compliant chart of accounts. Daily reconciliations are prepared with the National Bank of Pakistan (NBP). Subsidiary ledgers are not reconciled with the general ledger. All accounting and supporting documents are retained on a permanent basis but are paper based and thus not easily accessible.

12. **Internal financial control.** The Finance Division of the MOF uses the General Financial Rules and the System for Financial Control and Budgeting (2006) to ensure internal control measures such as review of allocation of expenditure initiation, approval and processing of transactions, and segregation of duties. CGA controls all payments based on a review of the approved bills submitted by the Finance Division of the MOF. The Budget and Accounts wing carries out monthly reconciliations and prepare monthly reports. Responsibilities have been distributed among different persons to authorize execution of transactions, record of transactions, and custody of assets involved in the transaction.

13. **Internal audit.** The Finance Division of the MOF has appointed the Chief Finance and Accounts Officer as an internal auditor but its role has been limited to following up audit observations. The pre-audit of transactions carried out by the CGA provides for some in-year control. There is need to further strengthen the mechanism to provide management with a consistent assessment of possible systemic weaknesses that would enable mid-course corrections.

14. **Cash and asset management.** Cash forecasts are prepared at the start of year but are not regularly updated during the year. The actual cash requirements generally deviate from forecasts. The subsidiary ledger for fixed assets (asset registers) is paper based and is not frequently updated and reconciled.

Privatisation Commission

15. **Financial rules.** Financial management in the Privatisation Commission is governed by the Accounting Procedures of the Privatisation Commission (2007) and by the Delegation of Powers (2002).⁴ The delegation of power assigns approval authorities to the Board, the Chairman, the Secretary, and the Director General. The Board approval is required for (i) setting up committees to establish prequalification criteria and subsequent pre-qualification of bidders;

⁴ "The Privatisation Commission, Form and Manner of Budget and Accounts (Accounting Procedure) Rule 2007", Gazette Notification on 3 of April 2008; "Privatisation Commission (Delegation of Power) Regulation 2002", Gazette Notification on 20 November 2002.

(ii) transaction structure and modification; and (iii) panel of chartered accountants, lawyers, valuation experts, and lead managers. The authority to implement Board decisions has been distributed between the Chairman and the Secretary based on financial thresholds. The Chairman has been entrusted with full powers in respect of all operational matters of the Commission.

16. The Accounting Procedure Rules (APRs) broadly provide for maintenance of bank account, disbursement procedure, type of accounting books, chart of accounts, budget format, and requirement of annual audit. However, the APRs do not provide sufficient guidance for internal financial control. The Privatisation Commission has no financial and accounting manual for implementation of the APRs nor job descriptions or matrix for financial management responsibilities.

17. **Financial Management Capacity.** Financial management responsibilities are assigned to the Director General for Administration and Finance who is supported by an account officer, a drawing and disbursement officer (DDO), and a senior financial consultant. The DDO is responsible for budgetary grants received from the government which cover the Commission's operational expenditures (primarily the salaries of regular employees). The senior financial consultant has been assigned as head of accounting and, along with the account officer, manages expenditures related to privatization transactions. In addition, three technical assistants support the account officer.

18. The principle of segregation of administrative and financial management duties is not followed, since the Director General for Administration and Finance is involved in procurement, custody of fixed assets, approval of vendors' bills, and overall Finance Unit. There is only one qualified accountant in the Finance unit—the senior financial consultant—who, in addition to his/her financial management role, also acts as a transaction manager.

19. **Planning and budget.** The Commission prepares financial plans and budget for operational expenditures—mainly salaries and utilities bills—on an incremental basis. There are projections for privatization proceeds for the year but no projections for expenditures related to future privatization transactions. The annual financial plan is based on the privatization roadmap but this only entails a list of the entities to be privatized. Budget guidelines are not available except for the format referred in the APRs. There is a limited linkage between budget and performance targets and no forecast for cash outflows (transaction and adjustment costs) linked with privatization transactions. The Commission is allowed to retain privatization proceeds to meet the costs of current and future privatization transactions but the funds retained are not linked with the budget and procurement plans. The budget has not been presented to the Board for approval before submission to the government, although the APRs require so.

20. **Financial Accounting and Reporting.** The Privatisation Commission uses accrual based accounting. The annual financial statements are prepared as per International Financial Reporting Standards. The Finance Unit uses stand-alone computerized accounting system for recording financial transactions. The Commission has recently switched to Oracle Financial which required data migration from the legacy system and changes in the chart of accounts. The account code mapping has been completed—new 9-digits codes have been introduced—and opening balances have been uploaded. Entry of transactional level data is in process. The accounting system currently caters for expenditure related to privatization transactions while data on operational expenditure incurred by DDO is entered into the new system on a monthly basis.

21. The Commission only implemented a stand-alone general ledger module but not other modules such as payroll, receivables, payables, cash management, and fixed assets due to lack of funds. The information system does not have a proper workflow nor user rights definitions, and all rights rest with the account officer responsible for recording of transactions. The new system's analytical capacity is limited to generation of trail balance, having no monthly financial reporting pack (financial reports are manually prepared on an ad-hoc basis). Month-end closing routines are not carried out in the system, which allows the user to change accounting entries for previous months.

22. **Internal control and audit.** The Privatisation Commission does not currently have a full-time internal auditor, since it is not mandatory. As an interim arrangement, the account officer and two other nominated officers have been assigned internal audit duties on an intermittent basis. There is no audit committee at the Board level. The Commission has implemented internal controls based on their experience in public sector, since the APRs do not provide the necessary guidance. The Commission has only one account officer involved in processing, recording, and payment internal controls.

23. **External audit.** The Office of the Auditor General of Pakistan (OAGP) and independent auditors carry out the external audit function. OAGP conducts regularity audits and instances of non-compliance are reported as audit observations. The Board appoints the independent auditors. Audit reports of both external auditors are presented to the Board. The external auditors form an audit opinion on annual financial statements which is generally completed within six months from the end of the fiscal year. The audit report for the FY 2012-13 is yet to be issued because of delays in appointing new board and management. The independent auditor has not submitted a management letter discussing adequateness of the internal control system.⁵

24. **Investment and Treasury Function.** The Privatisation Commission Ordinance 2000 allows the Commission to invest funds as per section 20 of the Trusts Act, 1882 (11 of 1882). A senior financial consultant initiates the investment process by comparing available investment opportunities. The recommendations from the financial consultant are then submitted to the Chairman for final approval. The current investment portfolio includes both short and long term securities, although the Commission invests mostly in short-term securities. The current short-term investment portfolio includes Term Deposit Receipts with maturity dates ranging from three to twelve months. Long-term investments include shareholding in banks scheduled for privatization (NBP, Habib Bank Limited, and United Bank Limited). Regularity as well as financial statement audits highlighted one investment decision that did not comply with the investment policy as per the Privatisation Commission Ordinance 2000.⁶

25. **Fund management.** As per the Privatisation Commission Ordinance, the Commission maintains two primary funds: (i) the Commission Fund, which includes funds from federal government such as annual budgetary grants, supplementary contributions from the Privatisation Fund, borrowed funds, and any income received from investments; and (ii) the Privatisation Fund, which includes all privatization proceeds.

26. All expenditures are incurred through the Commission Fund, which includes operational costs and privatization transaction costs. The Commission Fund is spread between three bank accounts opened at the NBP. Budgetary grants are received in the Government of Pakistan

⁵ A management letter is usually issued along with audit report to highlight significant control weaknesses. This practice has not been followed by the Commission's external auditor.

⁶ Specifically, the investments in Trust Investment Bank Limited did not comply with the investment policy.

Revolving Fund Account which is lapsable (any balance at the end of the year is to be surrendered) and is operated by the DDO. The other two bank accounts are maintained at NBP as current accounts, one of which is a US Dollar account in which foreign currency revenues are deposited.⁷ The Commission is allowed to use the Privatisation Fund to meet shortfalls in the Commission Fund. The Privatisation Fund is maintained in the National Investment Daily Account maintained at NBP. All privatization proceeds are deposited into this bank account.

27. The Commission's signatories for cheques are the same for all bank accounts except for the Revolving Fund Account. Any two of the following three are required to sign a cheque: (i) Deputy Director for Policy and Coordination, (ii) Director for Administration, and (iii) Director General for Benazir Employee Stock Option Scheme (is also acting Joint Secretary of the Privatisation Division).

28. Money transfers from one bank account to another are properly recorded in the accounting ledger with monthly bank reconciliations for each account. The reconciliations are not signed by the Director General for Administration and Finance. The Commission is required to submit monthly bank reconciliation for the Privatisation Fund account to the Ministry of Finance which is generally reviewed by the Director General for Administration and Finance.

Overall Assessment and Action Plan

29. The Finance Division of the MOF and the Privatisation Commission have in place adequate financial management arrangements to implement the Project, despite the above mentioned risks. To mitigate these risks, the Finance Division of the MOF will establish a PMU that will house a full-time qualified accountant. The project financial statements will be audited by OAGP. ADB will work with the Finance Division of the MOF to provide updated disbursement projections during review missions, and thus help the Division better plan cash requirements. The Privatisation Commission will, within 30 months from the Effective Date, (a) prepare and implement a financial management manual in line with the APRs, (b) update APRs to incorporate requirements on internal financial controls, (c) establish an audit committee at the Board level, and (d) implement payroll and cash management accounting modules and a roles matrix with definition of users' rights in its accounting system.

B. Disbursement

30. The Loan proceeds will be disbursed in accordance with the ADB's *Loan Disbursement Handbook* (2012, as amended from time to time),⁸ and detailed arrangements agreed upon between the Government and ADB in the Loan Agreement.

31. Pursuant to ADB's Safeguard Policy Statement (2009),⁹ ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the Safeguard Policy Statement.

32. The PMU will be the approving authority for payments related to the project. This role will be diligently performed and upon validation by implementing agencies of the activities underlying each payment. The PMU will establish an imprest account in US Dollar. The imprest funds¹⁰ and direct payment procedure¹¹ will be used for payments to consultants, goods and

⁷ These revenues generally accrue from sales of Expressions of Interest (EOI).

⁸ Available at: http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf

⁹ Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>

¹⁰ *Loan Disbursement Handbook*, Chapter 10.

services, studies, and for PMU operations.

33. The ceiling is \$1 million for the imprest account. The request for initial and additional advance should be accompanied by a withdrawal application (Attachment 1) and an estimate of expenditures sheet (Attachment 2) setting out estimated disbursements for the next 6 months, and submission of evidence satisfactory to ADB that the imprest account has been duly opened. The advances will be liquidated by the PMU on a regular basis by submitting a liquidation report in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time). For every liquidation and replenishment request of the imprest account, the borrower will furnish to ADB (a) statement of account (bank statement) where the imprest account is maintained, and (b) the Imprest Account Reconciliation Statement reconciling the above mentioned bank statement against the PMU's records (Attachment 3).

34. The statement of expenditures (SOE) procedure will be used for reimbursement of eligible project expenditures and liquidate advances to the imprest account not exceeding \$100,000 equivalent per individual payment.¹² SOE records and supporting documents should be maintained and made readily available for review by ADB's disbursement and review mission or upon ADB's request and for independent audit.

35. Before the submission of the first withdrawal application, the PMU will submit to ADB sufficient evidence of the authority of the person/s who will sign withdrawal applications on its behalf, together with the authenticated specimen signature of each authorized person (Attachment 4).¹³ The minimum value per withdrawal application is \$100,000 equivalent, unless otherwise approved by ADB. Individual payments below this amount should generally be paid from the imprest account or by the executing agency and subsequently claimed to ADB through reimbursement. ADB reserves the right not to accept withdrawal applications below the minimum amount. Withdrawal applications and supporting documents will demonstrate, among other things that the goods, and/or services were produced in or from ADB members, and are eligible for ADB financing.

36. The Finance Division of the MOF is responsible for requesting ADB prior approval of (i) hiring of all PMU staff and consultants, and (ii) all purchases of PMU office equipment in full accordance with ADB's *Procurement Guidelines* (2013, as amended from time to time). The PMU is responsible for (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) following ADB procedures for submitting withdrawal applications and liquidation forms, and for (iv) collecting supporting documents.

C. Accounting

37. The Finance Division of the MOF will maintain, or cause to be maintained, separate books and records by funding source for all expenditures incurred on the Project. The Finance Division of the MOF will prepare project financial statements in accordance with the government's accounting laws and regulations which are consistent with international

¹¹ Direct payment procedure is when the ADB, at the borrower's request, pays a designated beneficiary directly. *Loan Disbursement Handbook*, Chapter 7.

¹² SOE procedure is a simplified procedure where the ADB pays from the loan account to the borrower's account for eligible expenditures which have been incurred and paid for by the borrower out of its budget allocation or its own resources. The SOE procedure does not require submission of supporting documentation of expenditures below the approved ceiling. See *Loan Disbursement Handbook*, Chapter 9.

¹³ Any subsequent change in the list of authorized representatives must be reported immediately and authenticated specimen signatures of new representatives must also be provided.

accounting principles and practices.

D. Auditing and Public Disclosure

38. The Finance Division of the MOF will cause the detailed project financial statements to be audited in accordance with International Standards of Supreme Audit Institutions and with the Government's audit regulations, by the OAGP. The audited project financial statements will be submitted in the English language to ADB within 6 months of the end of the fiscal year by the Finance Division of the MOF.

39. The Privatisation Commission will also cause the entity-level financial statements to be audited in accordance with International Standards on Auditing and with the Government's audit regulations, by an independent auditor acceptable to ADB. The audited entity-level financial statements, together with the auditors' report and management letter, will be submitted in the English language to ADB within one month after their approval by the competent authority.

40. The annual audit report for the project financial statements will include an audit management letter and audit opinions which cover (i) whether the project financial statements present a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework; (ii) whether loan proceeds were used only for the purposes of the project or not; (iii) the level of compliance for each financial covenant contained in the legal agreements for the project; (iv) use of the imprest fund procedure; and (v) the use of the statement of expenditure procedure certifying to the eligibility of those expenditures claimed under SOE procedures, and proper use of the SOE and imprest procedures in accordance with ADB's Loan Disbursement Handbook and the project documents.

41. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal program supervision, and followed up regularly with all concerned, including the external auditor.

42. The Government, the Finance Division of the MOF and the Privatisation Commission have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements.¹⁴ ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

43. Public disclosure of the project financial statements, including the audit report on the

¹⁴ ADB Policy on delayed submission of audited project financial statements:

- When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (i) the audit documents are overdue; and (ii) if they are not received within the next six months, requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed;
- When audited project financial statements have not been received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (i) inform the executing agency of ADB's actions; and (ii) advise that the loan may be suspended if the audit documents are not received within the next six months.
- When audited project financial statements have not been received within 12 months after the due date, ADB may suspend the loan.

project financial statements, will be guided by ADB's Public Communications Policy (2011).¹⁵ After review, ADB will disclose the project financial statements for the project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website. The Audit Management Letter will not be disclosed.

¹⁵ Available from <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting and Retroactive Financing

44. All advance contracting and retroactive financing will be undertaken in conformity with ADB's *Procurement Guidelines* (2013, as amended from time to time) and *Guidelines on the Use of Consultants* (2013, as amended from time to time).¹⁶ The issuance of invitations to bid under advance contracting and retroactive financing will be subject to ADB approval. The Finance Division of the MOF and the Privatisation Commission have been advised that approval of advance contracting and retroactive financing does not commit ADB to finance the Project.

45. **Advance contracting.** Advance contracting for consulting services by the Privatisation Commission will be applied subject to terms of reference and budget that are sufficiently clear to permit consultants to submit expressions of interest and, if shortlisted, technical and financial proposals. The Finance Division of the MOF requested ADB to conduct, on behalf of the Division, the selection processes up until but not including negotiation and contracting of (i) the Project Manager, Procurement Specialist, and Project Accountant for the PMU; and (ii) the Energy Sector Reform Firm. The Privatisation Commission will conduct advance contracting of two transaction managers (individual consultants), one or more consulting firms for corporate restructuring and privatization, and the communications firm.

46. **Retroactive financing.** ADB management approved in-principal retroactive financing of (i) remunerations for PMU project manager, PMU procurement specialist, PMU project accountant, and two transaction managers for the Privatisation Commission; and (ii) advance payments for the energy sector reforms firm and for the communications firm. Retroactive finance will only be considered if (i) it is specifically agreed, by ADB and the Government, in the loan agreement, and only pursuant to the terms of the agreement; (ii) the consultants for which it is requested are recruited in accordance with ADB's *Guidelines on the Use of Consultants*; (iii) the amount to be retroactively financed does not exceed 20% of the loan amount; and (iv) the expenditures are incurred no earlier than 12 months before the signing date of the loan agreement. Each retroactive financing proposal will be subject to detailed assessments (due diligence) to confirm that (a) the expenditures incurred are genuine, reasonable, and material to getting the Project off the ground; and (b) they were incurred for proper reasons, in a transparent manner over a reasonable period of time.

B. Procurement of Goods and Consulting Services

47. All procurement of goods and works will be undertaken in accordance with ADB's *Procurement Guidelines* (2013, as amended from time to time). All consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time).¹⁷ Before the start of any procurement ADB and the government will review the public procurement laws to ensure consistency with ADB's procurement guidelines. An 18-month procurement plan indicating threshold and review procedures, goods and consulting service contract packages, and national competitive bidding guidelines is in Section C.

48. The inputs of at least 6 consulting firms and 16 individual consultants, for a total of 1,299 person-months (436 international, 863 national) are required under the Project. Consulting firms

¹⁶ Available at: <http://www.adb.org/documents/procurement-guidelines> and <http://www.adb.org/Documents/Guidelines/Consulting/Guidelines-Consultants.pdf>

¹⁷ Footnote 16. Checklists for actions required to recruit consultants by method are available in e-Handbook on Project Implementation at: <http://www.adb.org/documents/handbooks/project-implementation/>

will be engaged using the quality-and cost-based (QCBS) method with a standard quality-cost ratio of 80:20. Individual consultants will be recruited by open advertisement of the terms of reference and necessary qualifications, a transparent rating system for applicants acceptable to ADB, submission of scoring, interview results, and top three candidates' names and CVs to ADB prior to offer of employment of consultants, and publication of the names and positions of recruited consultants. The terms of reference for all consulting services are detailed in Section D.

C. Procurement Plan

| | |
|---|--|
| Project Name: Public Sector Enterprise Reforms Project | |
| Country: Islamic Republic of Pakistan | Executing Agency: Finance Division of the Ministry of Finance |
| Loan Amount: \$20 million | Loan Number: tbd |
| Date of First Procurement Plan: 25 August 2014 | Date of this Procurement Plan: 28 October 2014 |

1. Procurement and Consulting Methods and Thresholds

49. Except as ADB may otherwise agree, the following thresholds shall apply to the procurement and consultant recruitment methods used for the Project. The consulting market in Pakistan is deep and active, with sufficient presence of both accounting and consulting firms to provide a competitive bidding process for the consulting services listed for national assignment.

| Procurement of Goods | | |
|---|------------------------------------|----------|
| Method | Threshold | Comments |
| International Competitive Bidding for Goods | \$1,000,000 or more | |
| National Competitive Bidding for Goods | Beneath that stated for ICB, Goods | |
| Shopping for Goods | Below \$100,000 | |

| Consulting Services | |
|---|----------------------------|
| Method | Comments |
| Quality and Cost Based Selection (QCBS) | For consulting firm |
| Quality Based Selection | For consulting firm |
| Consultants' Qualifications Selection | For consulting firm |
| Individual Consultants Selection | For individual consultants |

50. The procedures to be followed for national competitive bidding shall be those set forth in the Public Procurement Rules 2004 [S. R. O. 432 (1)/2004] issued on the 9th June 2004 by the Public Procurement Regulatory Authority Ordinance 2002 (XXII of 2002) of the Islamic Republic of Pakistan with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the ADB Procurement Guidelines.

51. **Registration.** Bidding shall not be restricted to pre-registered firms and such registration shall not be a condition for participation in the bidding process. Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

52. **Prequalification.** Normally, post-qualification shall be used unless prequalification is explicitly provided for in the loan agreement and procurement plan. Irrespective of whether post qualification or prequalification is used, eligible bidders (both national and foreign) shall be allowed to participate.

53. **Bidding Period.** The minimum bidding period is twenty-eight (28) days prior to the deadline for the submission of bids.

54. **Bidding Documents.** Procuring entities shall use the applicable standard bidding documents for the procurement of goods and services acceptable to ADB.

55. **Preferences.** No domestic preference shall be given for domestic bidders and for domestically manufactured goods in the evaluation of bids if under ICB.

56. **Advertising.** Invitations to bid shall be advertised in at least one widely circulated national daily newspaper or freely accessible, nationally-known website allowing a minimum of twenty-eight (28) days for the preparation and submission of bids. All positions for individual consultants and all NCB contracts estimated to cost \$1 million or more for goods and related services will be advertised on ADB's website and on government websites. The selection results will also be published.

57. **Bid Security.** Where required, bid security shall be in the form of a bank guarantee from a reputable bank.

58. **Bid Opening and Bid Evaluation.** Bids shall be opened in public. Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the highest evaluated bidder. Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations. No bidder shall be rejected on the basis of a comparison with the employer's estimate and budget ceiling without the ADB's prior concurrence. A contract shall be awarded to the technically responsive bid that offers the lowest evaluated price and no negotiations shall be permitted.

59. **Rejection of all Bids and Rebidding.** Bids shall not be rejected and new bids solicited without the ADB's prior concurrence.

60. **Participation by government-owned enterprises.** Government-owned enterprises in the Islamic Republic of Pakistan shall be eligible to participate as bidders only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

61. **ADB Member Country Restrictions.** Bidders must be nationals of member countries of ADB, and offered goods and services must be produced in and supplied from member countries of ADB.

2. Good Contracts Estimated to Cost \$1 Million or More

62. The following table lists goods contracts for which the procurement activity is either ongoing or expected to commence within the next 18 months.

| Package Number | General Description | Estimated Value | Procurement Method | Review (Prior/Post) | Bidding Procedure | Advertisement Date (quarter/year) | Comments |
|----------------|---------------------|-----------------|--------------------|---------------------|-------------------|-----------------------------------|----------|
| n.a. | | | | | | | |

3. Consulting Services Contracts Estimated to Cost \$100,000 or More

63. The following table lists consulting services contracts for which the recruitment activity is either ongoing or expected to commence within the next 18 months.

| Package Number | General Description | Estimated Value | Recruitment Method | Review (Prior/ Post) | Advertisement Date (quarter/year) | Type of Proposal | Comments |
|---|---|-----------------|--------------------|----------------------|-----------------------------------|------------------|---------------|
| Output 1: Strengthened privatization program | | | | | | | |
| P1 | Senior transaction manager 1 | | ICS | Prior | 4Q 2014 | Bio data | National |
| P2 | Senior transaction manager 2 | | ICS | Prior | 4Q 2014 | Bio data | National |
| P3 | Law firm | \$1 million | QCBS (80:20) | Prior | 2Q 2015 | STP | National |
| P4 | Communication firm | \$2 million | QCBS (80:20) | Prior | 1Q 2015 | FTP | |
| Output 2: Improved corporate governance and management capacity in selected PSEs | | | | | | | |
| P5 | PSE reforms expert | \$0.5 million | ICS | Prior | 2Q 2015 | Bio data | International |
| P6 | Corporate governance expert | \$0.5 million | ICS | Prior | 2Q 2015 | Bio data | International |
| P7 | Corporate restructuring and privatization (firm) | \$3 million | QCBS (80:20) | Prior | 3Q 2015 | FTP | International |
| P8 | IT firm (SECPF online filing system and Corporate Finance database) | \$0.5 million | QCBS (80:20) | Prior | 3Q 2015 | STP | |
| Output 3: Governance and regulatory regimes enhanced in selected sectors currently dominated by PSEs | | | | | | | |
| P9 | Energy sector reforms (firm) | \$5 million | QCBS (80:20) | Prior | 4Q 2014 | FTP | International |
| Project Management | | | | | | | |
| P10 | Project manager | \$0.4 million | ICS | Prior | 4Q 2014 | Bio data | National |
| P11 | Procurement specialist | \$0.2 million | ICS | Prior | 4Q 2014 | Bio data | National |
| P12 | Project accountant | \$0.1 million | ICS | Prior | 4Q 2014 | Bio data | National |

4. Goods Contracts Estimated to Cost Less than \$1 Million and Consulting Services Contracts Estimated to cost Less than \$100,000 (Small Value Contracts)

64. The following table groups smaller-value goods and consulting services contracts for which the activity is either ongoing or expected to commence within the next 18 months.

| Goods | | | | | | | | |
|-----------------------|----------------------------|------------------------|----------------------------|---------------------------|----------------------------|--------------------------|--|-----------------|
| Package Number | General Description | Estimated Value | Number of Contracts | Procurement Method | Review (Prior/Post) | Bidding Procedure | Advertisement Date (quarter/year) | Comments |
| n.a. | | | | | | | | |

| Consulting Services | | | | | | | | |
|----------------------------|------------------------------|------------------------|----------------------------|---------------------------|----------------------------|--|-------------------------|-----------------|
| Package Number | General Description | Estimated Value | Number of Contracts | Recruitment Method | Review (Prior/Post) | Advertisement Date (quarter/year) | Type of Proposal | Comments |
| P13 | Junior transaction managers | | 3 | ICS | Post | 2Q 2015 | Bio data | National |
| P14 | Corporate governance expert | \$0.2 million | 1 | ICS | Post | 2Q 2015 | Bio data | National |
| P15 | Labor relations legal expert | \$0.1 million | 1 | ICS | Post | 2Q 2015 | Bio data | National |

5. Indicative List of Packages Required Under the Project

65. The following table provides an indicative list of goods and consulting services contracts over the life of the project, other than those mentioned in previous sections (i.e., those expected beyond the current 18-month period).

| Goods | | | | | | | |
|-----------------------|---|-------------------------------------|--------------------------------------|---------------------------|----------------------------|--------------------------|-----------------|
| Package Number | General Description | Estimated Value (cumulative) | Estimated Number of Contracts | Procurement Method | Review (Prior/Post) | Bidding Procedure | Comments |
| P16 | Equipment for SECP online filing system and Corporate Finance Wing database | \$300,000 | 1 | NCB | Prior | 1S/1E | |
| P17 | Accounting software for Privatisation Commission | \$200,000 | 1 | NCB | Prior | 1S/1E | |

| Consulting Services | | | | | | | |
|----------------------------|--|-------------------------------------|--------------------------------------|---------------------------|----------------------------|-------------------------|---|
| Package Number | General Description | Estimated Value (cumulative) | Estimated Number of Contracts | Recruitment Method | Review (Prior/Post) | Type of Proposal | Comments |
| P18 | Corporate restructuring and privatization (firm) | \$3 million | n.a. | QCBS (80:20) | Prior | FTP | Targeted to specific restructuring operations |
| P19 | Sector competition experts | \$0.6 million | 4 | ICS | Prior | FTP | For 4 competition assessments |

6. List of Awarded, Ongoing, and Completed Contracts

[to be updated throughout project implementation]

D. Consultant's Terms of Reference

1. Privatization Transaction Managers (national, 240 persons-month)

66. The transaction managers will work full-time in the Privatisation Commission and be responsible for managing privatization transactions in accordance with the Commission's job description for transaction managers. The transaction managers should have at least a degree in economics, finance, or business administration. The senior transaction managers should have at least 5 years of experience in managing and coordinating financial advisors for mergers and acquisitions (legal, financial, and technical).

67. The senior transaction managers will report to the Chairman and (i) assist the Chairman in creating and maintaining strong relationships with key stakeholders, leading financial transactions and negotiations including by formulating guidelines for timely implementation of transactions; (ii) ensure prudent management of the Commission's resources; (iii) monitor and evaluate the execution of transactions under his/her responsibility; and (iv) identify required advisory services, develop Terms of Reference for advisory assignments, coordinate the recruitment of advisory services, and lead development of specific technical papers/presentations, as required.

68. The junior transaction managers will report to senior transaction managers and will (i) formulate guidelines for timely implementation of transactions; (ii) prepare transaction action plans and the associated budget; (iii) provide secretarial, logistical and coordination services on all transactions; and (iv) provide technical support and advice on specific transactions, including quality reviewing.

2. Public Sector Enterprise Reforms Expert (international, 22 person-months)

69. The international PSE reforms expert will have a strong track record in corporate restructuring and privatization of large PSEs in transitional economies. He/she will have a degree in Economics, Public Policy, Finance, Business Management, or a related field. The expert will:

- (i) Review reports, government decisions, and laws and regulations related to the PSE sector, as well as progress in implementing the government's privatization program;
- (ii) Support the government in designing a privatization strategy for the period 2015-2019, including institutional strengthening of the Privatisation Commission;
- (iii) Prepare templates and guidelines for performance contracts with PSE managers;
- (iv) Design/identify training programs for professional development of government representatives at the boards of PSEs;
- (v) Support the government in drafting terms of reference and monitoring corporate restructuring experts in charge of due diligence of selected PSEs and evaluate their proposed restructuring plans;
- (vi) Specify parameters and methodologies for each PSE that will help monitor progress and achievements of the project; and,
- (vii) Conduct workshops and meetings with various stakeholders to ensure effective policy dialogue, timely dissemination of information, consensus-building, and consideration of affordability issues for the poor, including women living in poverty.

3. Corporate Governance Expert (international, 22 person-months)

70. The international corporate governance expert will assist SECP in setting up a unit to monitor compliance with corporate governance rules. The expert will develop a results-based scorecard for PSEs' compliance with the rules. He/she will also provide guidance on the roll out of an online compliance reporting system to PSEs on their implementation status of the corporate governance rules. The expert will advise SECP in drafting and initiating legislative revisions in order to bring all PSEs under the corporate governance rules and support their effective enforcement. The expert should have at least a Master's degree in Economics, Finance, Business Administration or in a related field. He/she should have at least 15 years of work experience, with at least 5 years of experience in corporate governance. The expert should have demonstrated familiarity with the Pakistan context and also with good international practices.

71. Specifically, the expert will:

1. Assist in setting up a monitoring unit in SECP:
 - (i) Develop terms of reference for the monitoring unit including job descriptions and required qualifications of its members;
 - (ii) Propose resource requirements for the unit including remuneration, office space and equipment;
 - (iii) Work out training needs for the officers responsible to enforce compliance, including those in the areas of on-site and off-site inspections and investigations;
 - (iv) Prepare a time plan for the unit to become functional including all required approvals; and
 - (v) Strategize and advise the concerned quarters on restructuring and rehabilitation weak PSEs.
2. Develop a results-based scorecard to assess implementation of corporate governance rules 2013, in preparation of its regular publication:
 - (i) Refer to ADB publication on balanced scorecard for public sector enterprises;¹⁸
 - (ii) Select the most pivotal rules of corporate governance, including board empowerment, strengthening internal control environment, optimizing transparency, and clearly defining the role of the government as an owner;
 - (iii) Structure these rules into a scorecard;
 - (iv) Benchmark the scorecard and its implementation with international good practice;
 - (v) Support coordination of the reporting requirements for the scorecard with all relevant stakeholders;
 - (vi) Develop rules for clustering PSEs and parent ministries according to their compliance with the corporate governance rules in order to identify underperformers; and
 - (vii) Test the scorecard with at least 5 PSEs.
3. Advise SECP in rolling out the online compliance reporting system:
 - (i) Review the existing system;

¹⁸ ADB. 2007. *Balanced Scorecard for State-Owned Enterprises*. Manila: ADB.

- (ii) Develop an implementation plan for the roll out of the system to all PSEs including costing, time plan and a risk assessment; and
 - (iii) Assess readiness for the planned system in at least 5 PSEs.
4. Support SECP in strengthening current legislation:
- (i) Review existing legislation including all special PSE acts;
 - (ii) Review similar legislation in other countries;
 - (iii) Explore different legislative options and how they can be presented to the national assembly considering time, costs and risks;
 - (iv) Draft the required piece(s) of legislation to bring all PSEs under the corporate governance rules and ensure their enforcement;
 - (v) Guide and assist SECP in bringing the piece of legislation through the legislative process including workshops for relevant decision makers; and
 - (vi) Draft secondary legislation and guidelines in support to the existing legal and governance framework applicable to PSEs.

4. Corporate Governance Expert (national, 60 person-months)

72. The corporate governance expert will (i) support SECP in preparing regular (annual) reports on PSEs compliance with the Corporate Governance Rules 2013 and (ii) support coordination of the reporting requirements for the scorecard among all relevant stakeholders. The expert will work in close cooperation with the international corporate governance specialist. The expert should have at least a degree in Economics, Finance, Business Administration or in a related field.

5. Labor Relations Expert (national, 30 person-months)

73. The labor relations expert will support the Privatisation Commission by (i) preparing and supporting approval of a mitigation framework for labor-related issues arising from privatization transactions; (ii) propose mechanisms to ensure that labor is not unfairly treated in restructuring processes (e.g., minority share offering to employees; training to retrenched staff; voluntary separation schemes); (iii) advising on management of labor restructuring processes; and (iv) supporting negotiations with trade unions, if required. The mitigation framework for labor issues and the customer surveys should be gender sensitive and follow the ADB Handbook on labor adjustment in PSE restructuring. The expert will work in close cooperation with the international PSE reforms specialist. The expert should have at least a degree in Law, Economics, Human Resources Management, Business Administration, or related field. He/she should have expertise in designing training programs, skills transfer and the appointment and dismissal of personnel.

6. Sector Competition Experts (international, 24 person-months)

74. The experts should have relevant experience in market structure and pricing of the sectors to be studied, as well as an education background in antitrust issues and policies. The government will identify, in consultation with ADB, the sectors where competition will be assessed.

75. The studies will identify competition vulnerabilities prevailing in the sectors and will make recommendations to remove those identified vulnerabilities. With the help of the competition assessments, the government may devise a road-map for the industry to make it competitive.

The studies can be divided into three parts, each focusing on a different segment, to look into competition aspects:

1.0 Background

1.1 Pakistan Industry Outlook

- History
- Structure
- Categories/Segments
- Governance
- Regulation

1.2 Global Industry Outlook

- World market trends
- Big countries and players
- International competition issues

2.0 Methodology

Secondary research and in-depth interviews will help develop the initial framework of the industry analysis. This framework will be used to get primary data from concerned entities in the market. Representative associations and companies should be approached to get maximum primary data. Initial analysis can be done along Michael E. Porter's models for competition assessment and international competence. These models include the five forces model and the diamond model.

Five forces competitive position model looks into:

- Buyer bargaining power
- Seller bargaining power
- Barriers to entry
- Threat of substitutes
- Intensity of competitive rivalry

Diamond Model for National Competitive Advantage:

- Factor conditions
- Demand conditions
- Related and supporting industries
- Firm Structure, Strategy and rivalry

3.0 Outline of the Study

1. Overview of the importance of the industry:
 - a. Number of companies operating in Pakistan: size of the entire market; major players and submarkets, if any, and their growth trends.
 - b. National expenditure on industry.
 - c. Economic contribution of the industry.
 - d. Historical development.
 - e. Global overview of industry growth.

2. Industry Structure:
 - a. Industry concentration: key players, market shares, degree of concentration (Hirschman Herfindahl Index, etc.) and the degree of change in the level of concentration.
 - b. Barriers to entry in the market: Has there been much market entry in the past and how successful has it been? Are there limits to the number of firms permitted to enter the market?
 - (i) Natural Barriers: Does the distribution of infrastructure required by the industry give an advantage to certain market players?
 - (ii) Strategic Barriers: Strategic barriers result from actions by existing suppliers that are intended to discourage new entry. Does any major firm in the market have a reputation for aggressive or predatory market behavior in response to attempts at entry?
 - (iii) Regulatory Barriers: Is the sector subject to any policies or regulations that are costly, time-consuming, or that frequently change, thereby creating 'policy uncertainty'? How is the regulatory structure of the industry functioning? What are the structural features or deficiencies that impact competition?
 - c. What stages are involved in the value chain of the industry and which stage may be the most vulnerable to competition concerns, the interface between intellectual property rights (patents) and competition in the sector.
 - d. The role of associations representing industry stakeholders and their level of influence on the market.
 - e. The issues faced by the industry.
3. Demand conditions
 - a. Local and international demand characteristics:
 - (i) Consumption of imported versus local production;
 - (ii) Sales in local versus international markets;
 - (iii) Trade policies of the government that may limit the markets available to the producers to sell their output;
 - (iv) Public procurement: Is government a significant purchaser of the industry's output? To what extent? If the government is a major buyer of the output, does it appear that government procurement policies have adequate safeguards for competitive bidding, for transparency and for fairness?
 - b. Factors driving demand such as price, seasonality, advertising and external agents affecting demand conditions (e.g. engagement of doctors to encourage prescriptions).
 - c. Consumer bargaining power and availability of substitutes: What is the elasticity of substitution across market segments?
 - d. Issues faced by the industry due to demand conditions.
4. Input availability
 - a. Availability of production factors required for the industry, e.g. skilled labor, logistics and infrastructure:
 - (i) Imports vs. local availability of inputs (cluster development);
 - (ii) Trade policies of the government that may limit the markets available to the producers to procure their inputs.

- b. Supplier bargaining power: Do the suppliers of any significant inputs needed by the manufacturing units have high bargaining power?
 - c. Issues in the availability of required input.
- 5. Role of the government
 - a. Regulatory policies applicable to the industry: Do any firms in the market suffer from unequal application of laws or regulations? What is the nature of duty protection/structure and government incentives for FDI and local producers?
 - b. Extent of government influence in the industry and applicable legislation: The sector is highly regulated in terms of the prices companies may charge, and the extent of marketing they may engage in. What is the net cost of such measures and what is the impact on consumers? Are firms in the sector subject to any other restrictions, e.g. on ways in which they may conduct their business or on the types of products they may produce? Are there any trade or industrial policies that appreciably restrict competition in the market?
- 6. Competition concerns existing in the industry:
 - a. Horizontal concerns: market dominance, deceptive marketing, possibility of cartel or collusion and issues relating to mergers.
 - b. Vertical Issues: quantity forcing, franchise fees, exclusive dealing or exclusive territories, etc.
 - c. Which stakeholders are affected by the level of competition in the relevant market, and how? What is the nature of their interest?
 - d. Which stakeholders are likely to favor increased competition in the relevant market, and which are likely to oppose it and why?
 - e. How much power and influence does each stakeholder have over the level of competition in the relevant market, and in what way does this influence operate?
- 7. Recommendations to promote competition.
 - a. What are the conclusions regarding competitiveness of the overall sector?
 - b. What anti-competitive trends and activities, if any, can be highlighted (especially from the perspective of the Competition Act, 2010)?
 - c. What are the recommendations for changes in regulatory framework, industry practices to make the sector more competitive, efficient, and what are the estimation of benefits from these changes?
 - d. What are the specific recommended actions for the government, based on the findings of the study?

7. Project Manager (national, 60 persons-month)

76. The Project Manager, being in charge of the PMU, shall ensure the effective and efficient implementation of the Project, in consultation with the government. He/she shall provide the strategic guidance for successful execution of the project. The consultant should have a university degree in business administration, project management, development planning or equivalent. An internationally recognized project management certification (e.g., Project Management Professional®) would be an advantage. The consultant should preferably have 10 years of experience in public and/or private sector with national/international organization(s) in project management.

77. The detailed tasks include:

- (i) Assist Project Director in developing a comprehensive plan of activities, with a detailed plan on project management, finance and procurement for the entire project period;
- (ii) Develop financial reporting system and financial management guidelines;
- (iii) Monitor and supervise the project's consultants for effective project management and generate monthly progress reports of each consultant as per their Terms of Reference;
- (iv) Prepare overall report on project implementation status;
- (v) Regularly update the project performance management system and suggest corrective measures to the Project Director and ADB;
- (vi) Liaise and establish appropriate reporting systems with all implementing agencies on a regular basis and foster smooth communication and efficient project management;
- (vii) Contribute to the preparation and review all project documents (e.g., PAM, periodic reports, project financial statements, etc.);
- (viii) Devise project management tools necessary for effective project implementation;
- (ix) Prepare budget estimates and Statement of Expenditures (SOEs) of the Project as required by the Project Director and the ADB;
- (x) Provide assistance to the project team in the preparation and regular updating of its respective work plan in line with the overall project implementation plan;
- (xi) Where required, negotiate with relevant agencies for the acquisition of required personnel for effective management of project activities;
- (xii) Communicate and coordinate regularly with the Finance Division of the MOF on important project activities to keep them abreast of project implementation status;
- (xiii) Identify and resolve issues and conflicts within the project team;
- (xiv) Ensure quality assurance of deliverables as per project design and monitoring framework
- (xv) Monitor project milestones and deliverables; and
- (xvi) Build capacity of PMU staff where required.

8. Procurement Specialist (national, 60 persons-month)

78. The Procurement Specialist will ensure transparency, efficiency and economy in the procurement activities of the Project in line with the ADB Guidelines. He/she should have (i) a Master's degree in Management Sciences/Statistics/Economics with diploma in the field of Procurement Management or related field from reputable local or foreign institution; (ii) preferably 7 years of experience in dealing with procurement of goods and services under the government and donor-funded projects in public/private sector organizations; and (iii) sound experience in contract management.

79. The detailed tasks include:

- (i) Prepare requests for Expression of Interest and for quotation of goods and services;
- (ii) Prepare short-listing of consultants and submission according to ADB's format;
- (iii) Prepare Request for Proposals;
- (iv) Conduct pre-proposal meetings with potential bidders, respond to queries and amend the Request for Proposals where required;
- (v) Convene technical and financial proposal opening and maintain records;

- (vi) Evaluate technical and financial proposals and quotations
- (vii) Prepare requisite submissions on ADB's format for concurrence of ADB and address queries, if any;
- (viii) Conduct contract negotiations, draft minutes, and issue notification of award;
- (ix) Update procurement plan and monitor procurement events;
- (x) Issue supply orders;
- (xi) Liaise with all implementing agencies regarding the procurement plan and foster smooth communication and efficient procurement and contract management;
- (xii) Facilitate preparation of terms of reference, specifications, and evaluation criteria by the respective implementing agencies;
- (xiii) Manage the complete procurement cycle for planned procurement activities;
- (xiv) Coordinate with ADB in order to process procurement according to guidelines;
- (xv) Develop procurement database in close consultation with the implementing agencies. This database envisages the entire range of procurement related aspects of the project including quoted prices of goods, contract cost, rates, performance of consultants, and issues arising during implementation and procurement cycles;
- (xvi) Formulate standard operating procedures for procurement and contract management in conformity with ADB guidelines;
- (xvii) Resolve procurement and contract related issues; and
- (xviii) Support the Project Manager in any other related matters pertaining to transactions and procurement.

9. Project Accountant (national, 60 persons-month)

80. The Project Accountant will be responsible for efficient financial management of the Project, observing sound professional standards. The consultant should (i) be a qualified chartered accountant; (ii) preferably have 7 years of experience in public projects financed by development partners; and (iii) have an excellent command on relevant accounting software.

81. The detailed tasks include:

- (i) Conduct overall financial oversight of the Project, including developing, guiding and directing financial management and accounting systems to support disbursement of funds, and ensuring efficiency and effectiveness in the delivery of outputs required to achieve the objectives of the Project;
- (ii) Ensure that accounting of resources received, reporting on receipt and use of expenditures is in compliance with the requirements of the government and ADB;
- (iii) Arrange for audit of project funds and ensure that reports produced are in compliance with audit requirements of the government and ADB;
- (iv) Develop and maintain the project financial management system to track and report on project resources and expenditures, and generate the necessary reports;
- (v) Prepare monthly reconciliation statements for all bank accounts on a timely basis, including preparation of withdrawal applications, to ensure steady flow of funds needed;
- (vi) Manage financial aspects of the contracts under administration, including payment terms, purchase orders, variation orders;
- (vii) Prepare withdrawal applications for the Project's imprest account;
- (viii) Apply pre-audit checks on all payments to the service providers before disbursement out of the project's funds;
- (ix) Prepare and consolidate periodic financial progress reports when required and submit to the ADB and Project Manager for review and approval; and

- (x) Provide all documents to the audit authorities as and when required regarding project transactions.

10. Law Firm (national, 100 persons-month)

82. The consulting (law) firm must have at least 10 years of experience in advisory services on corporate transactions and M&A in sectors dominated by public sector enterprises and demonstrated knowledge of both the local legal framework and good international practice in the drafting of privatization contracts and legislation. The firm must provide a core team of legal experts to be used on a retainer basis by the Privatisation Commission. The support to the Commission will include legal assistance in handling ongoing privatization transactions, as well as pending litigation cases from past privatizations. The firm will make available a minimum of 100 person-months of consulting inputs.

11. Communication Firm (international, 30 persons-month; national, 150 persons-month)

83. The consulting (communication) firm should have at least 10 years of experience in public relations. The firm will make available a minimum of 30 person-months of international and 150 person-months of national consulting inputs. The firm will support the design and implementation of the Privatisation Commission's communication plan to effectively inform the public about the privatization program and its benefits and costs, as well as to build consensus around the privatization program. In particular, the firm will (i) support the Commission's engagement and communication with media and opinion makers, investors, bidders, and other relevant stakeholders; (ii) regularly monitor market and public perception of the PSE reforms and privatization program; (iii) design and implement a responsive feedback mechanism; (iv) promote coordination between communication of all government players engaged in PSE reforms; (v) prepare easy-to-read Q&A for all privatization transactions; and (vi) advise and manage budget for advertisement of transactions. The firm will conduct gender-sensitive consumer surveys to better understand consumers' views on the goods and services provided by PSEs.

12. Corporate Restructuring and Privatization Firm (s) (international, 192 persons-month)

84. The consulting (corporate restructuring and privatization) firm(s) must have at least 10 years of experience in advising governments in restructuring PSEs. Each firm will make available a minimum of 96 person-months of international consulting inputs in a wide range of skills (economic, legal, financial and accounting, technical, and human resources). The consulting firm(s) will:

- (i) Conduct due diligence of the PSE selected for restructuring, including financial audits;
- (ii) Review management capability, business lines and performance trends, operations policies and procedures, condition of existing assets, human resource capacity, corporate structure, and reporting arrangements;
- (iii) Conduct asset valuation;
- (iv) Analyze the technical possibility of breaking up various assets of the PSE selected for restructuring;

- (v) Recommend measures for improving corporate governance, operational and financial efficiency, internal reporting, and financial disclosure for the selected PSE;
- (vi) Analyze the impact of different measures on the incentives of the stakeholders (including consumers, private participants and the government);
- (vii) Identify any legal or regulatory restraints to implementing the restructuring objectives;
- (viii) Prepare financial plans;
- (ix) Prepare an action plan for corporatization of the selected PSE, if required; and,
- (x) Recommend options for privatization of assets that maximize the government shareholding value.

13. IT Firm (national, 108 persons-month)

85. The (IT) consulting firm should have at least 10 years of experience in developing software database solutions for corporate and government clients. The firm will make available a minimum of 108 person-months of national consulting inputs. The firm will develop (i) a monitoring information system for PSEs in Pakistan, to be housed at the Finance Division of the MOF; and (ii) an online compliance reporting system for the SECP. The consulting firm will analyze different developing options, including procurement of off-the-shelf software solutions.

14. Energy Sector Reforms (Firm)

86. The Government is implementing a program in support of the energy sector reforms as outlined in the 2013 National Power Policy with a view to promote a sustainable energy sector and support economic growth. The expected outcome will be a reliable, sustainable and affordable energy system. The program will focus on three policy areas: (i) managing tariffs and subsidies, (ii) improving sector performance and (iii) improving accountability and transparency. The capacity development technical assistance will be administered by the Energy Division, Central and West Asia Department (CWEN) in close coordination with the Public Management, Financial Sector & Trade Division.

87. In order to support the implementation of this program, the government will require an equivalent of 321 person-months of consulting services. The Project will finance a team of consultants. Individual experts will also be engaged. The objective of the consulting services is to monitor and report on the progress of the reform implementation. The consultants will be assigned to work with respective project monitoring units in the Ministry of Finance (executing agency) and Ministry of Water and Power (MOWP) and Ministry of Petroleum and Natural Resources (MPNR) (implementing agencies).

88. **Scope of Work.** For the attainment of performance targets corresponding to the three focus policy areas, consultants will be recruited to support the following:

- (i) Assist the government/implementing agencies in monitoring and producing quarterly reports on reforms to be submitted to the Economic Coordination Committee of the Government of Pakistan;
- (ii) Develop capacity for implementing agencies to conduct internal monitoring and reporting, as well as to produce periodic reports;
- (iii) Prepare and periodically review the roadmap for the implementation of the National Power Policy and energy reform in Pakistan, and suggest options for overcoming difficulties faced.

89. **Duration of Services, Inputs and Deliverables.** The team will comprise 321 person-months of consulting services or 146 person-months of international and 175 person months of national consulting services for 5 years. The assignments will be undertaken from April 2015 to September 2019 on an intermittent basis. The overall responsibility will be with the Team Leaders. Detailed breakdown of the type of consultants, individual inputs and indicative schedule are given in the table below:

| Expertise/ consultant required | | Location of posting | No. of person-months | | | | | Total person-months |
|--------------------------------|--|---------------------|----------------------|--------|--------|--------|--------|---------------------|
| | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |
| International | | | | | | | | |
| | 1 Policy Expert and Team Leaders (TL) - MOWP | MOWP | 6 | 4 | 4 | 4 | 4 | 22 |
| | 1 Policy Expert and Team Leader (TL) - MPNR | MPNR | 4 | 3 | 3 | 3 | 3 | 16 |
| | 1 Regulatory/ Legal Experts and Deputy TL - MOWP | MOWP | 6 | 4 | 4 | 4 | 4 | 22 |
| | 1 Regulatory/ Legal Expert and Deputy TL - MPNR | MPNR | 4 | 3 | 3 | 3 | 3 | 16 |
| | 1 Finance Expert | MOWP | 6 | 4 | 4 | 4 | 4 | 22 |
| | 1 Tariff Expert | MOWP | 4 | 3 | 3 | 3 | 3 | 16 |
| | 1 Energy Efficiency Expert | MOWP | 4 | 3 | 3 | 3 | 3 | 16 |
| | 1 Communications Expert | MOWP | 4 | 3 | 3 | 3 | 3 | 16 |
| | 1 Communications Expert | MPNR | 4 | 3 | 3 | 3 | 3 | 16 |
| Sub-total (international) | | | | | | | | 146 |
| National | | | | | | | | |
| | 3 Energy Monitoring and Reporting Specialists | MOF, MPNR, MOWP | 8 | 8 | 8 | 8 | 8 | 40 |
| | 1 Corporate Finance Specialist | MOF | 8 | 8 | 8 | 8 | 8 | 40 |
| | 1 Legal Specialist | MOWP | 6 | 6 | 6 | 6 | 6 | 30 |
| | 1 Forensic Accountant | MOF | 5 | 5 | 5 | 5 | 5 | 25 |
| | 1 Oil & Gas Expert | MPNR | 4 | 4 | 4 | 4 | 4 | 20 |
| | 1 Environment Specialist | MOWP | 4 | 4 | 4 | 4 | 4 | 20 |
| Sub-total (national) | | | | | | | | 175 |
| TOTAL | | | | | | | | 321 |

90. The consultants are required to submit all reports following a format to be agreed on with ADB and the government agencies. The consultants shall provide data and reports in an editable/electronic and hard copy formats.

91. **Qualifications and Detailed Tasks.** The consultants shall have professional work experience in the energy sector with particular focus on the following areas: policy implementation, legal and regulatory expertise, private sector participation, and planning and execution of institutional reforms, of which at least 10 years are spent in developing countries. The international consultants shall have broad understanding of energy policies, strategies, institutions, and regulations and/or power system technologies and have significant experience at policy-related decisions and advice, with expertise in one or more areas: power generation, transmission, distribution; utility management, operations, maintenance, and services, regulation among others. The national consultants will have expertise that complements available expertise of the international experts, as well as relevant experience in the energy sector in Pakistan. The Policy Experts will serve as team leaders, while the Regulatory/Legal Experts will be the deputy team leaders. Together, they will coordinate the activities of all the consultants.

92. Policy Experts and Team Leaders¹⁹ (38 person-months). The Policy Experts and Team Leaders will develop a roadmap for implementation of the power and petroleum and natural

¹⁹ Two team leaders will be recruited for this assignment. One will be posted in the monitoring unit of the Ministry of Water and Power, while the other will be at the Ministry of Petroleum and Natural Resources.

resources sector reforms and at the same time provide expert advice and guidance during reform implementation. S/he will be also be responsible for pulling together outputs from other international and national experts in a coherent report covering all areas of the reform implementation. S/he will serve as representative for the consulting teams, liaising with the ADB, and the government agencies. The team leaders will undertake the following tasks:

- (i) Review and assess power sector reforms worldwide in the context of activities being carried out in Pakistan in line with the National Power Policy. Capture and map out good and successful practices in power sectors relevant to Pakistan's conditions and challenges;
- (ii) With contributions from other team members, prepare and present a draft road map to the government and other stakeholders for implementation of the National Power Policy taking into consideration the action plan prepared by the Government and the policy matrix agreed with ADB. The final road map shall serve as the document against which activities and developments in the energy sector will be monitored;
- (iii) Review the implementation of the roadmap and suggest options for overcoming difficulties faced;
- (iv) Identify institutional structures, skills, and resources needed to monitor the implementation of the proposed roadmap and performance of the sector entities.
- (v) Review existing capacities and readiness regulators, and IAs, and identify critical gaps, if any;
- (vi) Formulate, recommend, and implement a comprehensive capacity strengthening program to bridge the capacity gaps;
- (vii) Facilitate and lead discussions of road map monitoring and recommendations during workshops, roundtable meetings; and
- (viii) Coordinate tasks among team members and regularly coordinate with key stakeholders on reform implementation.

93. Tariff expert (16 person-months). The tariff expert will support the Power Policy Expert and team leader in monitoring progress made on tariff reforms with the end view of seeing whether these reforms are approaching/achieving efficient cost recovery. The expert will also provide the team with a sound understanding of the effect of various parameters on tariff by referencing to international best practices and its application in the context of Pakistan. The expert will undertake the following tasks:

- (i) Review the draft guidelines for DISCO tariff determination covering principles, methodologies, timetable, formula and procedures for both annual and multi-year tariff, and advise on its compliance with the Tariff and Subsidy Policy Guidelines 2014 issued by the government. Make a comparison with good and successful practices in power sectors relevant to Pakistan conditions and challenges, particularly regarding setting loss reduction, and treatment of non-technical losses among others, and suggest revisions thereof to the draft guidelines.
- (ii) Identify current deficiencies, associated risks to tariff cost recovery, and provide recommendations to help achieving cost recovery.
- (iii) Comment and provide suggested mechanisms, particularly on formula based tariff adjustments during the tariff multi-year control period, to ensure (a) timely determination and notification of tariff, (b) formula-based forward-looking automatic fuel price adjustment, and (c) determination and application of multi-year tariff.

- (iv) Advise on methodologies and procedures aiming to reduce power sector subsidy and to accurately target at the poor. Review and provide options for moving towards direct subsidies for the poor.
- (v) Assess application of the guidelines, particularly on the results and compliance of actual tariff determinations.
- (vi) Monitor the reduction of explicit subsidies from the government budget, and timeliness of subsidy provision, and provide suggestions on the implementation of tariff rationalization and reform.

94. Regulatory/ Legal experts (38 person-months).²⁰ The experts will assist their respective team leader and other technical experts in a comprehensive analysis of the whole regulatory chain in Pakistan.²¹ In particular, the experts will focus on the regulatory element of the energy and oil & gas sectors and undertake the following tasks:

Power sector

- (i) In line with the National Power Policy, monitor compliance in and implementation of the NEPRA Act and the rules, regulations, and guidelines thereunder, including those pertaining to tariff determination and mechanism of provision of government subsidy.
- (ii) Review relevant laws, including regulations for increasing transparency and accountability in the power sector in line with the sector reforms, implementation of the penal code and use of utility courts among others.
- (iii) Review and assist in the implementation of the Central Power Purchasing Authority (CPPA), particularly its intended market rules, and associated guidelines.

Oil & Gas sector

- (i) Review the proposal for restructuring of the gas sector structure from legal and regulatory perspective and advise on the optimal structure and the appropriate legal steps.
- (ii) Review and assist in drafting relevant laws, including regulations for increasing transparency and accountability in the energy sector in line with the sector reforms, implementation of the penal code and gas theft act among others.

95. Energy Efficiency Expert (16 person-months). The expert will assist the team leader in identifying the gap between current energy efficiency and conservation framework in Pakistan and international best practice, monitoring the formulation of the Energy Conservation Act and proposing roadmap for the implementation of the energy efficiency policy actions prescribed in the National Power Policy. In particular, the expert will undertake the following tasks:

- (i) Review and comment on the draft Energy Conservation Act.
- (ii) Review international best practices and assess application of such in the context of Pakistan to suggest further revision to the draft Energy Conservation Act as well as steps to be taken on the issuance of regulation(s) on minimum energy performance standards and appliance labelling.

²⁰ The regulatory/legal experts will serve as deputy team leaders for each team, and should have significant number years of experience as electricity regulatory experts.

²¹ The experts should note that there is an ongoing regulatory audit mandated by the International Monetary Fund (IMF) program, which could also be referred to when undertaking the assignment.

- (iii) Prepare a roadmap for implementation of the issuance of energy efficiency standards prior to and after the notification of the Energy Conservation Act and provide suggestions on possible changes to existing rules and regulations

96. Finance Expert (22 person-months). The expert will assist the team leader in analyzing the performance of the various policy actions and concerned entities under the sector reforms and identifying the additional information disclosure required to improve performance, transparency and accountability. In particular, the expert will undertake the following tasks:

- (i) Undertake the analysis of financial impact on payment arrears as a result of the implementation of the tariff rationalization and subsidy reform.
- (ii) Review the financial audit reports provided in accordance with the performance contracts of DISCOs, NTDC and GENCOs, analyze and report on key findings on the results of the performance contracts.
- (iii) Assess the adequacy of the report provided by the DISCOs on the provisioning of bad debt and/or receivables and proposed reclassification and additional provisioning in the state-owned public power companies and report on its adequacy in accordance with Companies Ordinance and the General Accounting Practice and provide suggestions.
- (iv) Monitor accounting of payments in CPPA market, and the build-up and management of circular debt.
- (v) Monitor and report on key findings the performance of the public power companies in accordance with the provisions in the respective PPAs.

97. Communications expert (16 person-months).²² The experts will assist the team leaders in devising a communication plan for the sector reform. In particular, the experts will undertake the following tasks:

- (i) Analyze the sector reform and devise an appropriate communication strategy to support tariff setting, subsidy reductions, among others.
- (ii) Lead the development of a communication strategy for quarterly reports and for disclosure items in the policy matrix.
- (iii) Identify, and/or develop relevant media trainings specifically regarding tariffs and subsidies reduction, performance and efficiency of the power companies, and in general the success and challenges associated with the reform program.
- (iv) Advise on the implementation of the communication strategy.
- (v) Deliver presentations in workshop, seminars and consultation meetings, as needed.

98. National experts. A team of national consultants will supplement and support the international consultants with similar expertise. The national consultant team will comprise (i) three energy monitoring and reporting specialists, (ii) one corporate finance specialist, (iii) one oil & gas expert, (iv) one legal specialist, (v) one environment specialist, and (vi) one forensic accountant. All national consultants will have extensive knowledge of energy development issues in Pakistan. They will assist the international consultants in quickly becoming familiar with their tasks by reviewing relevant reports, analytical data, policies, regulations, and current strategic thinking and challenges in the sector. The national consultants' terms of reference will

²² Given the different communication requirement of each ministry (MOWP and MPNR), two communications expert for each will be recruited.

be closely linked with the international consultants, and they will carry out tasks in coordination with relevant international consultants.

99. **Reporting Requirements.** The consultants shall be based in the monitoring units of implementing agencies for the duration of their assignments. The consultants shall liaise with ADB CWEN team.

100. **Logistics Requirements including Office Space and Equipment.** Consultants shall be responsible for the provision of all office equipment, supplies and communications and transport that they may require for the execution of the work. The executing agency and the implementing agencies will however provide office space for the program's duration.

101. Consultants shall make their own arrangements to carry out surveys and investigations, as well as any other studies deemed to be necessary during their period of engagement.

VII. SAFEGUARDS

102. The Project is not expected to have adverse environmental impacts nor impacts on any specific minority ethnic groups in the country, and is not expected to require involuntary resettlement.

VIII. GENDER AND SOCIAL DIMENSIONS

103. The Privatisation Commission—with support of a labor relations expert to be recruited under the Project—will prepare a mitigation framework for labor-related issues arising from the government's PSE reform program. Preparation and implementation of the mitigation framework will be done in close consultation with labor unions and associations, and civil society.

104. The Project will finance consumer surveys to monitor market prices and service delivery in sectors affected by restructuring and privatization of PSEs and where the poor form a significant part of the consumer base. This will inform policy decisions to mitigate potential efficiency gains generated at the expense of the consumer (e.g., through higher tariffs or reduced service delivery). The government will also conduct competition assessment studies in sectors impacted by privatization and restructuring of PSEs and where market concentration is high. The studies will benefit from consumer surveys and will be financed under the Project.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

A. Project Design and Monitoring Framework

| Design Summary | Performance Targets and Indicators with Baselines | Data Sources and Reporting Mechanisms | Assumptions and Risks |
|--|---|--|---|
| Impact Reduced fiscal and economic costs associated with Pakistan's PSEs | Equity injections in loss-making PSEs reduced from an average of 0.07% of GDP in FY2012–FY2014 to an average of 0.01% of GDP in FY2020–FY2024 | Finance Division of the MOF, annual federal budget reports | Assumption Government does not invest in new fiscally costly PSEs Risk PSE reform and privatization program may focus only on the profitable and less challenging PSEs |
| Outcome Successful privatization and restructuring of selected PSEs | Government divested from at least 4 fiscally costly PSEs ^a by 2019 Effective restructuring of at least 3 fiscally costly PSEs by 2019 Rules for all privatization transactions during 2015–2019 made publicly available at least 2 months before each tender announcement is published | Privatisation Commission financial statements; legal documents of PSEs Privatisation Commission Annual Report Privatisation Commission website | Assumptions IMF program remains on track Government commits to finance transaction advisory services Risks Vested interests and legal obstacles may disrupt the reform agenda The political and security situation may worsen and affect investor confidence |
| Outputs 1. Strengthened privatization program | At least 10 privatization transactions completed by 2019 Public education and communications strategy implemented during 2015–2019 Mitigation framework for labor-related issues prepared by December 2015 and implemented from 2016 to 2019 | Cabinet order(s) Privatisation Commission rules or regulations and consultants' reports Privatisation Commission rules or regulations | Assumption Good coordination between Privatisation Commission, Finance Division of the MOF, and line ministries |
| 2. Corporate governance, | At least 75% of PSEs fully report to the SECP | SECP corporate governance monitoring | Assumptions Shareholders of PSEs |

| Design Summary | Performance Targets and Indicators with Baselines | Data Sources and Reporting Mechanisms | Assumptions and Risks |
|---|--|---|---|
| structure, and management capacity improved in selected PSEs | through the online system by 2019 (baseline: none in June 2014) Due diligence reports completed for PSEs representing at least 50% of PSE assets (at book value) by 2019 (baseline: no due diligence reports in 2014) | report Consultant's reports | are willing to work with PSEs to improve their corporate governance practices Cooperation and coordination between the implementing agencies |
| 3. Governance and regulatory regimes enhanced in selected sectors currently dominated by PSEs | Blueprints for revised market structures with efficient and transparent separation of regulatory and operational roles finalized for 2 sectors (by 2017) Reform monitoring reports by the MOWP and the MPNR submitted on a quarterly basis to the ECC (by 2019) Competition assessments conducted for at least 3 sectors affected by privatization and restructuring of PSEs (by 2019) | Project management unit reports ECC internal documents Privatisation Commission's website | Assumption Structural separation of PSEs and establishment of regulatory bodies is well sequenced |
| 4. Project efficiently and effectively managed | At least 75% of activities completed on time | Quarterly reports submitted by PMU | Assumption PMU head and procurement specialists are appointed in 2014 |

ADB = Asian Development Bank, ADF = Asian Development Fund, ECC = Economic Coordination Committee, GDP = gross domestic product, IMF = International Monetary Fund, MOF = Ministry of Finance, MOWP = Ministry of Water and Power, MPNR = Ministry of Petroleum and Natural Resources, PMU = Project Management Unit, PSE = public sector enterprises, SECP = Securities and Exchange Commission of Pakistan.

^a For the purpose of the Project, fiscally costly PSEs are those that impose direct and indirect fiscal costs to the federal budget of at least 0.05% of GDP per annum.

Source: Asian Development Bank.

B. Monitoring

105. **Project performance monitoring.** The PMU will conduct regular monitoring throughout project implementation based on the targets, indicators, assumptions and risks described in the Design and Monitoring Framework. The PMU will collect data for output and outcome indicators and report quarterly through the MOF's Finance Division quarterly progress reports and for each ADB review mission. These quarterly reports will provide information necessary to update ADB's

project performance reporting system. ADB will conduct a mid-term review mission in 2017.

106. **Compliance monitoring:** Compliance with covenants will be monitored through regular ADB review missions and on quarterly basis through the quarterly progress report.

107. **Gender and social dimensions monitoring:** The PMU will monitor, and report through the quarterly reports, (i) the design and implementation of the mitigation framework for labor-related issues arising from the government's PSE reform program, and (ii) the competition assessment studies in sectors impacted by privatization and restructuring of PSEs and where market concentration is high. ADB review missions will review progress in these areas.

C. Evaluation

108. The midterm review exercise, scheduled for 2017, will assess the progress of project activities, outputs and outcome, and inform possible reallocation of funds during the second part of the project. Within 6 months of physical completion of the Project the Finance Division of the MOF will submit a project completion report to ADB.²³

D. Reporting

109. The Finance Division of the MOF will provide ADB with (i) quarterly progress reports in a format consistent with the Design and Monitoring Framework; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions; (c) updated procurement plan and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of the Project. To ensure projects continue to be both viable and sustainable, project financial statements, together with the associated auditor's report, should be adequately reviewed.

E. Stakeholder Communication Strategy

110. **Context.** Stakeholder perception is divided between the benefits and costs of privatizing and restructuring PSEs in Pakistan. This debate has not been well informed. Some stakeholders understand the fiscal burden imposed by historical poor management of PSEs. Consumers regard privatization as both a boon and bane, with some seeing it as a way to improve service delivery despite concerns over potential higher consumer prices. Labor unions are concerned that restructuring and privatization of PSEs may be used as a mechanism to involuntary lay-off workers or reduce their rights. The Project requires a strong communication strategy to improve transparency and stakeholder's perception of the benefits of the reform agenda. The communications matrices summarize all concerned stakeholders, objectives of consultations with each of them, risks, and needed actions.

111. The Privatisation Commission will ensure that in the preparation of the communications plan and the mitigation framework for labor-related issues under Output 1, adequate consultation with key stakeholders including the labor unions representing the employees of the relevant PSEs will be conducted and recorded accordingly.

²³ Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>

Communications Strategy Matrix for Project Design Stage

| Stakeholder Strategic Elements | | | | | | Work plan Elements | | | Evaluation |
|---|---|---|----------------------------------|---|--|--------------------|---------------------|------------------|------------------------------------|
| Communication Objectives | Risks | Stakeholders | Desired Behavior | Messages/ Information | Activity/ Channels | Timeline | Responsibility | Resources Needed | Expected Outcome |
| Project design considers results of stakeholders consultation | <p>Insufficient information may result in poor design</p> <p>Stakeholders may not perceive reform benefits and disrupt design</p> | <p>ADB</p> <p>Government agencies with direct interest in PSEs</p> <p>PSEs management</p> <p>Labor unions</p> <p>Media and opinion makers</p> | Open dialogue among stakeholders | Economic rationale, project information and its desired outcome tailored to different audiences' concerns | <p>Stakeholders analysis</p> <p>Establish an information center for easy access to project information and to promote transparency (including bidding processes, etc.)</p> | Q2-Q4 2014 | ADB processing team | ADB staff time | Wide public support of the project |

Communication Strategy Matrix for Project Implementation Stage

| Stakeholder Strategic Elements | | | | | | Work plan Elements | | | Evaluation |
|--|---|---|--|---|---|--------------------|--|------------------|---|
| Communication Objectives | Risks | Audiences/ Stakeholders | Desired Behavior | Messages/ Information | Activity/ Channels | Timeline | Responsibility | Resources Needed | Expected Outcome |
| Increased understanding of stakeholders and public of the need for PSE reforms | Lack of understanding and awareness may cause challenges to reforms | Government agencies with direct interest in PSEs PSEs management Labor unions Media and opinion makers General public | Open dialogue among stakeholders Transparent and accountable reform processes to ensure better governance | Economic rationale, project information and its desired outcome tailored to different audiences' concerns | Consultation, meetings and round table discussions with stakeholders Multimedia public information campaign and regular community outreach, linked to government and PSEs websites | Q2 2015-Q3 2019 | Finance Division of the MOF Ministry of Water and Power Ministry of Petroleum and Natural Resources Privatisation Commission Securities Exchange & Commission PSEs management | \$2 million | Increased public support to PSE reforms Improved privatization program Improved corporate governance and management capacity of PSEs Enhanced regulatory environment |

X. ANTICORRUPTION POLICY

112. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the Project.²⁴ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all Project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the Project.²⁵

113. To support these efforts, relevant provisions are included in the loan agreement/regulations and the bidding documents for the Project.

²⁴ Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

²⁵ ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>

XI. ACCOUNTABILITY MECHANISM

114. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make a good faith effort to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.²⁶

²⁶ For further information see: <http://www.adb.org/Accountability-Mechanism/default.asp>.

XII. RECORD OF PAM CHANGES

{All revisions/updates during course of implementation should be retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the PAM.}

WITHDRAWAL APPLICATION FORM FOR IMPREST FUND

Asian Development Bank



Date _____

To: Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines

Attention: Loan Administration Division, Controller's Department (CTLA)

| | | | | | | |
|----------------------|---|--|--|--|--|--|
| ADB Loan No. | _____ | | | | | |
| Application No. | <table border="1"><tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table> | | | | | |
| | | | | | | |
| Type of Disbursement | <input type="checkbox"/> Initial Advance <input type="checkbox"/> Additional Advance <input type="checkbox"/> Liquidation and Replenishment <input type="checkbox"/> Liquidation Only* | | | | | |

Sir/Madam:

1. In connection with the Loan Agreement dated _____ between the Asian Development Bank and the _____ (Borrower), please pay from the loan account for the purpose of establishing/replenishing the imprest fund.

| | | |
|----------|--------------------------------|------------------------------|
| Currency | Amount to be Paid (in figures) | Amount to be paid (in words) |
|----------|--------------------------------|------------------------------|

2. The borrower certifies and agrees as follows:

- The said amount is required for payment of eligible expenditures as described in the attached estimate of expenditures sheet(s) from _____ (date/month/year) to _____ (date/month/year).
- Any advances by the Asian Development Bank (ADB) to the imprest account may be limited to a sum equal to or smaller than the amount requested for advances or replenishment.
- The undersigned has not previously withdrawn or applied for withdrawal of any amounts from said loan account nor obtained or will obtain any loan, credit, or grant for the purpose of fully or partially meeting the expenditures described in the estimate of expenditures sheet(s), Summary Sheet(s), and/or statement of expenditures (SOE).
- The goods or services have been procured in accordance with the Loan Agreement and the cost and terms of the purchase thereof are reasonable and in accordance with the relevant contract(s).
- The goods or services were or will be produced in and supplied by a member country of ADB as specified in the attached summary sheet(s) or SOE.
- The expenditures described in the attached estimate of expenditures sheet(s), Summary Sheet(s), and/or SOE are to be made for the purposes specified in the Loan Agreement and in accordance with its terms and conditions.
- The undersigned will furnish supporting documents satisfactory to ADB to liquidate the advance, or will refund any unliquidated advance.
- For expenditures to be liquidated on the basis of an SOE, all authenticating documents will be retained in the appropriate location (e.g., executing/implementing agency's office) and will be made available for examination by auditors and ADB representatives upon request.
- As of the date of this application, there is no existing default under the Loan Agreement, the Project Agreement, or the Guarantee Agreement, if any.
- If any funds withdrawn pursuant to this application are returned, the current value of such funds will be applied as credit to the loan account or, if the amount is small, applied to the next loan service payment due.

3. Payment Instructions (*Not required in the case of liquidation only):

A. Payee's Name and Address

Payee's Name _____
Payee's Address _____

B. Name and Address of Payee's Bank and Account No.

Bank Name _____
Bank Address _____
Payee's Account No. _____
SWIFT Code _____

C. Correspondent Bank (If payee's bank is not located in the country whose currency is claimed, enter the name and address of their bank's correspondent in the country whose currency is to be paid.)

Bank Name _____
Bank Address _____
Account No. of _____
Payee's Bank _____
SWIFT Code _____

D. Special Payment Instructions and Other References

4. This application consists of _____ pages including _____ pages of Summary Sheets or SOE.

From:

Signature of Authorized Representative(s)

Printed Name/Position/Title of Authorized Representative(s)

**Instructions for preparing the Withdrawal Application Form for Imprest Fund
(ADB Form No. ADB-IFP)**

General Instructions

1. Submit original withdrawal application (WA) form to the Asian Development Bank (ADB) (or to its resident/regional Mission, if instructed).
2. Number WAs consecutively, not exceeding five digits or characters.
3. For replenishment of advances, consolidate claims until the amount being withdrawn is at least US\$100,000 equivalent or an amount advised by ADB.
4. When the application is completed, verify completeness of supporting documentation and accuracy of details before passing to the authorized representative(s) for signature. Mistakes and omissions result in delayed payment.

Withdrawal References

5. **Date:** Enter the date WA is signed by authorized representative(s), not the date it was prepared.
6. **Loan Number:** Show ADB loan number clearly.
7. **Application Number:** Number WAs consecutively. If the project has more than one executing agency (EA) or implementing agency, the project coordinator should assign an alpha identification for each EA, e.g., A0001 to A9999 for EA no. 1 and B0001 to B9999 for EA no. 2.
8. **Type of Disbursement:** Indicate in the appropriate box the type of WA claim, whether for initial advance, additional advance, liquidation and replenishment, or liquidation only.

Estimate of Expenditures Sheet (ADB Form No. ADB-IFP-EES)

For Initial Advance and Additional Advance:

9. Provide all details as required in form ADB-IFP-EES. Estimated expenditures should normally be based on the amount of contracts awarded and to be awarded.
10. For expenditures related to operational costs, the amount should be linked to the project's annual budget provision.

For Liquidation and Replenishment:

11. In addition to 1 and 2 above, before submitting the WA, obtain appropriate procurement contract summary sheet (PCSS) numbers from ADB's sector division/resident mission concerned.
12. Where the statement of expenditures (SOE) is not allowed, submit full supporting documents required under section 10.35 of the handbook.

Payment Instructions

13. **Payee's Name and Address:** Indicate full name and address of payee for identification of payment.
14. **Name and Address of Payee's Bank and Account No.:** Indicate full name and address of the payee's bank, which may include a banker and/or branch designation. Account number is important. Give SWIFT code if payee's bank is a member of SWIFT.
15. **Correspondent Bank:** Where payment is to be made to a bank not located in the country of the currency to be paid, indicate its full name and address. Provide SWIFT code if the bank is a member of SWIFT.
16. **Special Payment Instructions:** Indicate any particulars, special instructions, or references to facilitate payment or identification of payment.
17. **Name of Borrower:** Fill in the name as it appears in the Loan Agreement.
18. **Authorized Representative(s):** Pass this application to authorized representative(s) for signature. Verify if the list of authorized representative(s) has been changed.

ESTIMATE OF EXPENDITURES TO BE FINANCED FROM THE IMPREST ACCOUNT ^a

Asian Development Bank



ADB Loan No.:

Withdrawal Application No.

Date: _____

Category No.: _____

Estimate Sheet No.: ^b

[illegible]

By:

(Representative Name and Signature) ^d

(Position / Title of Representative) ^d

Notes:

- a Estimate of expenditures should normally be for the forthcoming 6-month period.
- b A separate estimate of expenditure should be used for each cost category. The borrower, executing agency, or implementing agency, as appropriate, should not request advances for the cost categories, components, or expenditures subject to conditions f or withdrawal (or disbursement conditions) w hich have not been met.
- c Refer to terms of payment for each contract and indicate the amount needed in the currency of expenditure. The amount in this column should not exceed the corresponding amount in the column "Contract Amount."
- d Representative of executing agency or implementing agency w hich prepared the estimate.

| IMPREST ACCOUNT RECONCILIATION STATEMENT | | | | | | | | | |
|---|---|---|--|---------------|--|-------------|-------------|--|--|
| Loan No ____-PAK.: Public Sector Enterprise Reform | | | | | | | | | |
| Application Number : | | | | With (Bank): | | | | | |
| Bank Account Number: | | | | Bank Address: | | | | | |
| 1 | PRESENT OUTSTANDING AMOUNT ADVANCED TO THE IMPREST ACCOUNT NOT YET RECOVERED | | | | | US\$ | XXX, XXX.XX | | |
| 2 | BALANCE of imprest account as of per bank statement (copy attached) | | | | | US\$ | XXX, XXX.XX | | |
| 3 | ADD: Amount of eligible expenditures claimed in attached application (WA no. _____) | | | | | US\$ | XXX, XXX.XX | | |
| 4 | ADD: Amount claimed in previous applications not yet credited at date of bank statement | | | | | US\$ | XXX, XXX.XX | | |
| | <u>Withdrawal Application No.</u> | | | | <u>Amount</u> | | | | |
| | XXXXX | | | | US\$ | XXX, XXX.XX | | | |
| | XXXXX | | | | US\$ | XXX, XXX.XX | | | |
| | XXXXX | | | | US\$ | XXX, XXX.XX | | | |
| 5 | TOTAL expenditures withdrawn from Imprest account but not yet claimed for replenishment | | | | | | | | |
| | a. Sub-accounts ¹ | | | | | | | | |
| | a.1 | Total sub-account balance accounted for IA#1 | | | US\$ | XXX, XXX.XX | | | |
| | a.2 | Total sub-account balance accounted for IA#2 | | | US\$ | XXX, XXX.XX | | | |
| | a.3 | Total sub-account balance accounted for IA #3 | | | US\$ | XXX, XXX.XX | | | |
| | | Total sub-account balances accounted for | | | | US\$ | XXX, XXX.XX | | |
| | b. | Transfer in transit | | | US\$ | XXX, XXX.XX | | | |
| | c. | Petty cash balance | | | US\$ | XXX, XXX.XX | | | |
| | d. | Unliquidated expenses (itemize expenses) | | | US\$ | XXX, XXX.XX | | | |
| | e. | Others (please specify) | | | US\$ | XXX, XXX.XX | | | |
| | | | | | | US\$ | XXX, XXX.XX | | |
| 6 | TOTAL ADVANCE ACCOUNTED FOR | | | | | US\$ | XXX, XXX.XX | | |
| Explanation of any discrepancy between totals appearing in lines 1 and 6 above (e.g., earned interest credited to the account, bank charges, etc.): | | | | | | | | | |
| 7 | IMPREST ACCOUNT TURNOVER RATIO, estimate (see attachment to IARS) | | | | | | | | |
| 8 | APPROPRIATE LEVEL OF IMPREST ACCOUNT ADVANCE | | | | | US\$ | XXX, XXX.XX | | |
| 9 | REQUESTED LEVEL OF IMPREST ACCOUNT ADVANCE | | | | | US\$ | XXX, XXX.XX | | |
| NOTES: | | | | | | | | | |
| 1 | List all existing sub-accounts with corresponding amount advanced. Reconciliation statements and bank statements for sub-accounts | | | | | | | | |
| | | | | | | | | | |
| | | | | | Signature, name, and title of representative of the entity which hold the title of the imprest account | | | | |

Attachment to Imprest Account Reconciliation Statement (IARS)

ESTIMATION OF IMPREST ACCOUNT TURNOVER RATIO

LOAN/GRANT/NO. _____

Application Number _____

With (Bank) _____

Account Number _____

Bank Address _____

10 CALCULATION OF AVERAGE OF ADVANCE

| | | | |
|--|------------------|----|------------|
| Outstanding Advance as of the latest month-end | [e.g., Sep-11] | \$ | 4,000,000 |
| Outstanding Advance as of every month-end in the past 1 year | Aug-11 | \$ | 4,000,000 |
| | Jul-11 | \$ | 4,000,000 |
| | Jun-11 | \$ | 2,000,000 |
| | May-11 | \$ | 2,000,000 |
| | Apr-11 | \$ | 2,000,000 |
| | Mar-11 | \$ | 2,000,000 |
| | Feb-11 | \$ | 2,000,000 |
| | Jan-11 | \$ | 2,000,000 |
| | Dec-10 | \$ | 2,000,000 |
| | Nov-10 | \$ | 2,000,000 |
| | Oct-10 | \$ | 2,000,000 |
| | TOTAL | \$ | 30,000,000 |
| | NUMBER OF MONTHS | | 12 |
| AVERAGE OF ADVANCE IN THE PAST 1-YEAR (A) | | \$ | 2,500,000 |

11 CALCULATION OF CUMULATIVE AMOUNT OF LIQUIDATION

| <u>WA No.</u> | <u>Date of Liquidation (Note 1)</u> | <u>Amount of Liquidation (Note 1)</u> |
|---|---|---|
| A0066 | 9-Sep-11 | \$ 1,507,890 |
| A0055 | 8-Aug-11 | \$ 1,234,567 |
| A0044 | 5-May-11 | \$ 789,012 |
| A0033 | 2-Feb-11 | \$ 345,678 |
| A0022 | 11-Nov-10 | \$ 123,456 |
| AMOUNT OF CUMULATIVE LIQUIDATION IN THE PAST 1-YEAR (B) | | <u>\$ 4,000,603</u> |

12 IMPREST ACCOUNT TURNOVER RATIO = amounts (B)/(A) (to be stated in item 7 of IARS) 1.60

This estimate is for the purpose of the borrower/EA's monitoring of the turnover ratio.

NOTES:

- 1 All amounts and date of liquidation should be based on data available at the LFIS/GFIS.
- 2 All figures are indicated only for illustration purposes. Other free format may be acceptable, if calculation of turnover ratio is substantially the same as the ADB's information system (e.g., LFIS) or the above.

EVIDENCE OF AUTHORITY TO SIGN WITHDRAWAL APPLICATIONS

[Letterhead of the representative of the Borrower/Recipient]

[DATE]

[Street address]
 [City] [Country]
 Asian Development Bank
 6 ADB Avenue
 Mandaluyong City
 1550 Metro Manila
 Philippines

Attention: Controller's Department, Loan Administration Division (CTL/CTLA)

Dear Sir/Madam:

Subject: Loan No. ____ - ____ Public Sector Enterprise Reform

I refer to the Loan Agreement (the "Agreement") between the Asian Development Bank ("ADB") and the Ministry of Finance (the "borrower", dated _____, providing the above Loan. For the purposes of Article [put appropriate Article number] as defined in the Agreement, the person(s) whose authentic ted specimen signature(s) appear below is authorized on behalf of the borrower to sign withdrawal applications and applications under this Loan:

[Name], [position] Specimen Signature: _____
 [Name], [position] Specimen Signature: _____
 [Name], [position] Specimen Signature: _____

(Stipulate if more than one person needs to sign withdrawal applications, and how many or which positions, and if any thresholds apply.)

Sincerely,
 / signed /

 Signed by:
 [Title of the Borrower's
 Designated Representative,
 as provided in the Loan Agreement]