



Pakistan: Update on Energy Sector Plan

Project Name	Update on Energy Sector Plan	
Project Number	50081-001	
Country	Pakistan	
Project Status	Approved	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA 9357-PAK: Update on Energy Sector Plan	
	Technical Assistance Special Fund	US\$ 500,000.00
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth	
Drivers of Change	Governance and capacity development Knowledge solutions Private sector development	
Sector / Subsector	Energy - Energy efficiency and conservation	
Gender Equity and Mainstreaming	No gender elements	
Description	<p>The proposed knowledge and support technical assistance (TA) will assess the progress made during 2010 -2016 on the recommendations of the Integrated Energy Sector Recovery Report of the Friends of Democratic Pakistan (FODP), analyze the lessons learned from the changing global realities, and propose recommendations as inputs for a new energy policy for the medium term (2018 -2023). The findings will be designed to inform the Government of Pakistan on past progress and provide options for the future energy strategy of the country.</p> <p>The Asian Development Bank (ADB) is the lead and anchor development partner of the Government of Pakistan in the energy sector with an ongoing portfolio of \$2.8 billion in investments in energy generation, transmission, distribution, energy efficiency, renewable energy development, and analytical and advisory assistance. The TA is consistent with ADB's country partnership strategy for Pakistan, 2015 -2019 and is included in ADB's current country operations business plan, 2018 -2020 for Pakistan.</p>	

Project Rationale and Linkage to Country/Regional Strategy

A reliable and sustainable energy sector is essential to Pakistan's economic growth and sustainability. Economic growth improved between FY2010 and FY2016, but was still lower than in the preceding decade. A major hurdle in achieving further growth is the intense energy shortage. Although Pakistan has abundant renewable and sizable conventional energy resources, public and private investment in energy infrastructure has not been sufficient to meet demand. Electricity supply must be further improved by stepping up efficiency, and operation and maintenance of generation, transmission, and distribution networks. Although electricity outages have declined and become more predictable since 2010, the 5-gigawatt demand -supply gap combined with the stressed transmission and distribution system continues to result in significant load shedding-- 10 hours per day in rural areas and 5 hours in urban areas. The national electrification rate remains low at around 67%, and is even lower (57%) in rural areas. Some improvements in sector efficiency, low fuel prices since 2014, and introduction of surcharges have contributed to managing financial challenges in the sector. However, continued reliance on imported fuel-based generation and high consumer receivables, accentuated by insufficient tariffs, have resulted in a persistent circular debt.

The power subsector relies heavily on government support direct subsidies amounted to about 1.5% of gross domestic product in FY2016. Costs that cannot be recovered from consumers or the government accumulate on the books of the public electricity distribution companies. The distribution companies in turn fail to pay fully for goods and services they receive, especially electricity, thus spreading the shortfall throughout the supply chain. Commonly called the circular debt, these accumulated arrears amounted to about 4% of gross domestic product in FY2013. Actions are required to remove two main distortions: (i) the long-standing gap between the cost of service and revenues gained either from tariffs or subsidies; and (ii) the unusually high cost of providing that service. At the same time, inequities caused by poorly targeted subsidies must be rectified to ensure that the sector develops in a socially and environmentally sustainable way.

In 2009, the FODP, recognizing the impact of persistent energy shortages on the economy and livelihoods, solicited the preparation of a sustainable and integrated energy plan for Pakistan. The government and ADB led the effort by creating the Pakistan Energy Sector Task Force to prepare an energy sector recovery report with a comprehensive road map for mobilizing international assistance and a recommended action plan to solve energy security problems. The governments of the United States, Japan, and Germany, among other development partners, formed the core team with the chairs and finalized the report in October 2010, which was presented to the ministerial meeting of the FODP comprising 24 countries and institutions. The recommendations of the report were subsequently fed into the Petroleum Exploration and Production Policy 2012 and the National Power Policy 2013. ADB has supported the reforms through three subprograms of the Sustainable Energy Sector Reform Program loan in concert with the International Monetary Fund-assisted Extended Fund Facility and cofinancing from the World Bank, the Japan International Cooperation Agency, and the French Development Agency. Under the Petroleum Exploration and Production Policy 2012, the government enhanced the wellhead pricing terms for natural gas producers. The response has been positive: 50 offers were received in a recent bidding for 58 blocks with exploration and production rights. However, the response from foreign companies remained subdued, even after the gas price rose from \$4 to \$6 per million British thermal units for some zones. A Tight Gas Policy for exploration and production was announced in May 2011. The policy gives a 40% premium over the respective price for each zone under the 2009 policy. Under the 18th constitutional amendment, provinces were awarded greater authority in the approval process for oil and gas sector affairs, which has delayed exploration in some cases. In addition, the Petroleum Rules 2013 were modified to disburse the royalty share directly to the provinces instead of channeling these through the federal government, which had been a long-standing provincial grievance. The National Power Policy 2013 encourages independent power producers to invest in new power plants or to convert existing ones to operate on less-expensive fuels. In the medium term, low-cost gas pipelines, coal, and hydropower projects will be implemented. In the long term, large infrastructure hydropower projects will be completed, and existing high-cost energy projects and contracts will be retired, to ensure more affordable electricity generation.

Pakistan is vulnerable to the negative impacts of climate change. Landslides and erosion have resulted in siltation of water reservoirs. Changes in rainfall patterns and glacial melt have also reduced hydropower generation output. Although Pakistan's greenhouse gas emissions are low by global standards, carbon emissions in Pakistan grew by 105% (from 152.79 million tons in 1990 to 313.48 million tons in 2010). The significant increase in greenhouse gas emissions, particularly carbon dioxide, is mainly attributed to the burning of fossil fuels for electricity, transport, and manufacturing. The sector underpinned the manifesto of all political parties in previous elections in May 2013, and is again emerging as a key factor in the political landscape of Pakistan in the run-up to its national elections in May 2018. The government has requested ADB to update the 2010 FODP energy report and to revise its action plan by reflecting the progress made in the energy sector as per recommendations of the FODP report, and the frameworks of the power and petroleum policies, and to confirm residual issues and options for the next steps.

Impact

An efficient and financially sustainable energy sector achieved (TA-defined).

Project Outcome

Description of Outcome

Findings of the report fed into Pakistan's new energy policy for the medium term (2018 -2023).

Progress Toward Outcome

Implementation Progress

Description of Project Outputs

Key energy sector analyses and recommendations for 2018 -2023 prepared.
Stakeholder views on progress during 2013 -2017 collected

Status of Implementation Progress (Outputs, Activities, and Issues)

Geographical Location

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible ADB Officer

Aleem, Asad

Responsible ADB Department

Central and West Asia Department

Responsible ADB Division

Energy Division, CWRD

Executing Agencies

*Asian Development Bank
6 ADB Avenue,
Mandaluyong City 1550, Philippines*

Timetable

Concept Clearance

30 Jun 2017

Fact Finding

15 May 2017 to 19 May 2017

MRM

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Approval

21 Aug 2017

Last Review Mission

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Last PDS Update

25 Aug 2017

TA 9357-PAK

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
500,000.00	0.00	0.00	0.00	0.00	0.00	500,000.00	-	0.00

Project Page

<https://www.adb.org/projects/50081-001/main>

Request for Information

<http://www.adb.org/forms/request-information-form?subject=50081-001>

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