



## Pakistan: Strengthening the Federal Public-Private Partnership Framework and Enabling Reforms for Infrastructure Financing Support

Project Name	Strengthening the Federal Public-Private Partnership Framework and Enabling Reforms for Infrastructure Financing Support	
Project Number	51351-001	
Country	Pakistan	
Project Status	Active	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	<b>TA 9467-PAK: Strengthening the Federal Public-Private Partnership Framework and Enabling Reforms for Infrastructure Financing Support</b>	
	Government of the United Kingdom	US\$ 3.27 million
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships	
Sector / Subsector	<b>Finance</b> - Finance sector development	
Gender Equity and Mainstreaming	No gender elements	
Description	<p>The proposed knowledge and support technical assistance (TA) will support the enabling environment for infrastructure financing in Pakistan through capacity development, and research and policy advice for supporting the legal and institutional framework of infrastructure financing, public private partnerships (PPPs), and public debt management. The proposed TA will also fund the preparation of a target infrastructure project to be delivered as a PPP project.</p> <p>The TA is included in the current COBP 2017-19 for Pakistan. Outputs of the TA will also support the policy lending reforms for program loans in the area of public financial management.</p>	

Project Rationale and Linkage to Country/Regional Strategy

The economic growth in Pakistan has been hampered by the lack of investments in critical and quality public infrastructure over the years. Public investment on infrastructure has been on a decline over the last decade with the government investing just over 2% of gross domestic product (GDP) towards infrastructure, until recently. This has resulted in inefficiencies across the key infrastructure sectors (like road, rail, port, & aviation) estimated to be costing the economy over 4% of GDP. These inefficiencies have negatively impacted the country's overall industrial and economic growth.

A study by the Asian Development Bank Institute (ADBI) suggests that for Pakistan to meet its growing demand it will require to invest about \$81 billion in infrastructure over the next 5 years (or just over \$16 billion annually from 2016 to 2020). Project financing from local commercial banks was about PRs 471 billion (\$4.5 billion) at the end of 2016. A significant number of public infrastructure projects in Pakistan are financed by the government which in the past 2 years has allocated about \$4 billion annually from its federal public sector development budget to infrastructure investment. However, the government's resources are constrained with the government operating under a budget deficit of 3.7 % of GDP in July-March 2016-2017. These funding constraints highlight not only the need to mobilize additional funding from other sources but more importantly the need to encourage higher private sector participation. Private sector participation through PPPs would enhance resource mobilisation for public infrastructure development and create a sustainable source of financing with positive impacts on growth, jobs and poverty reduction. The success of the PPP modality relies on the presence of a sound legal, regulatory and institutional frameworks and effective capacity building to identify evaluate and prepare a robust pipeline of potential PPP transactions.

Financing of infrastructure by the private sector bridges financing gap and assists in alleviating poverty by the additional jobs created by such investments. It also helps ease fiscal constraints of the government by allowing the private sector to shoulder part of the financing burden of public infrastructure development. Project financing of public infrastructure with majority private sector participation introduces commercial discipline in allocating and pricing project risks.

The government's inefficient public debt management also contributes negatively to the project lending practices of local commercial banks. The government's strong preference to borrow from the local banking system, rather than tap the international capital markets to address ongoing fiscal deficit, results in the local commercial banks holding significantly large portion of their assets (estimated at about 70%) in medium-term government issued securities. This in turn limits the local bank's capacity to invest in other assets by way of lending to infrastructure projects. Further, about 76% of project finance lending by local commercial banks are highly concentrated on energy and telecom projects which are typically backed by government guarantee. With the prevailing low inflation rate and the limited number of alternative investment opportunities, commercial banks are locking in significant portion of their assets in long-dated (in some cases up to 10 years) high-yielding zero-risk government issued securities. Although it can be considered a rationale investment approach from the banks' risk and return perspective, it creates inefficiency in the market and an undesirable effect as it limits the flow of much needed project financing to develop key infrastructure in other underserved sectors. Moreover, the debt capital markets are shallow and underdeveloped, with insignificant participation from the retail investors in government issued debt instruments.

The federal government has initiated several reforms encompassing PPP legal framework at federal level (PPP Authority Act 2017), proposed creation of viability gap fund, reforms on the public debt management and capital markets. It has also attempted to operationalize a government institution that will assist in the financing of key infrastructure and PPP projects through the Pakistan Development Fund Limited (PDFL) . However, the framework is at a nascent stage and there is a growing need for a careful analysis of the gaps in the existing PPP framework and public debt management policy to ensure effective institutional, regulatory and financial mechanisms.

Impact Informed decision making by government for reform for increasing infrastructure development in line with the Government's growth aspiration and the Pakistan Vision 2025

**Project Outcome**

Description of Outcome Identification of possible reforms to overcome the impact of existing gaps in PPP framework constraining infrastructure financing, and support in implementation of said reforms.

Progress Toward Outcome

**Implementation Progress**

Description of Project Outputs

1. Support for development of institutional, legal, and regulatory framework for PPPs provided.
2. Support for operationalization of PDFL provided
3. Infrastructure finance and PPP capacities enhanced in the Finance Division, Planning Commission, and key line ministries.
4. Potential areas of reform for development of long term debt capital markets identified.

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

Geographical Location Nation-wide

**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 Masood, Sana

Responsible ADB Department Central and West Asia Department

Responsible ADB Division Pakistan Resident Mission

Executing Agencies  
*Ministry of Finance, Revenue and Economic Affairs  
Block Q, Pakistan Secretariat  
Islamabad, ICT, Pakistan 44000  
Pakistan Resident Mission  
Tariq Anwar  
Pakistan*

### Timetable

Concept Clearance 07 Dec 2017

Fact Finding 15 Sep 2017 to 14 Nov 2017

MRM -

Approval 13 Dec 2017

Last Review Mission -

Last PDS Update 15 Jan 2018

### TA 9467-PAK

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
13 Dec 2017	08 Jan 2018	08 Jan 2018	31 Dec 2020	-	-

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
0.00	3,266,205.00	0.00	0.00	0.00	0.00	3,266,205.00	13 Dec 2017	92,604.81

Project Page <https://www.adb.org/projects/51351-001/main>

Request for Information <http://www.adb.org/forms/request-information-form?subject=51351-001>

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