Report and Recommendation of the President to the Board of Directors

Project Number: 48065-002
June 2016

Proposed Programmatic Approach and Policy-Based Loans for Subprogram 1
Islamic Republic of Pakistan: Public Sector Enterprises Reform Program

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 19 May 2016)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	$0.0095
$1.00	=	PRs104.8

ABBREVIATIONS

ADB	–	Asian Development Bank
CGR	–	corporate governance rule
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MOR	–	Ministry of Railways
PIA	–	Pakistan International Airlines
PMU	–	program management unit
PSE	–	public sector enterprises
SECP	–	Securities and Exchange Commission of Pakistan
SDR	–	special drawing rights
TA	–	technical assistance

NOTES

(i) The fiscal year (FY) of the Government of Pakistan and its agencies ends on 30 June. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2017 ends on 30 June 2017.

(ii) In this report, "$" refers to US dollars.

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PROGRAM AT A GLANCE

1. Basic Data				**Project Number:** 48065-002
Project Name	Public Sector Enterprises Reform Program (Subprogram 1)		**Department /Division**	CWRD/CWPF
Country	Pakistan		**Executing Agency**	Ministry of Finance
Borrower	Islamic Republic of Pakistan			
2. Sector	**Subsector(s)**			**ADB Financing ($ million)**
✓ **Public sector management**	Reforms of state owned enterprises			300.00
			Total	**300.00**
3. Strategic Agenda	**Subcomponents**		**Climate Change Information**	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded		Climate Change impact on the Project	Low
4. Drivers of Change	**Components**		**Gender Equity and Mainstreaming**	
Governance and capacity development (GCD)	Institutional development		No gender elements (NGE)	✓
Private sector development (PSD)	Conducive policy and institutional environment Promotion of private sector investment Public sector goods and services essential for private sector development			
5. Poverty Targeting			**Location Impact**	
Project directly targets poverty	No		Nation-wide	High
6. Risk Categorization:	Complex			
7. Safeguard Categorization	**Environment:** C	**Involuntary Resettlement:** C	**Indigenous Peoples:** C	

8. Financing

Modality and Sources	**Amount ($ million)**
ADB	**300.00**
Sovereign Program loan: Asian Development Fund	100.00
Sovereign Program loan: Ordinary capital resources	200.00
Cofinancing	**0.00**
None	0.00
Counterpart	**0.00**
None	0.00
Total	**300.00**

9. Effective Development Cooperation

Use of country procurement systems	Yes
Use of country public financial management systems	Yes

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the Public Sector Enterprises Reform Program, and (ii) proposed policy-based loans to the Islamic Republic of Pakistan (the government) for subprogram 1 of the Public Sector Enterprises Reform Program.[1]

2. The proposed program will support the efforts of the government to improve the performance of public sector enterprises (PSEs) by improving corporate governance and accountability, and reducing PSE contingent liabilities. The program will facilitate creating fiscal space for critical development expenditures. The two subprograms will be carried out during 2016–2018.[2]

II. THE PROGRAM

A. Rationale

3. Pakistan's nationalization program in the 1970s led to significant government ownership of companies and parastatal bodies across all economic sectors. In the 1990s, the Government of Pakistan recognized the limitations of nationalization policies and commenced with the privatization of selected entities, which has been somewhat successful so far. Most significant was the massive privatization of the banking sector in which government ownership was reduced from more than 80% to less than 20% during 2000–2004, as well as the privatization of the Karachi Electricity Supply Company in 2005. However, the government recognizes that vested stakeholder interests, particularly those of the employees of PSEs, require improvements in the operating environment and governance of PSEs before privatization can be realized. Currently, conditions for privatization are most advanced in the financial sector, while those in the power sector distribution companies, industry (Pakistan Steel Mills), and aviation (Pakistan International Airlines [PIA]) need substantial upfront reforms and investments, as well as efficient management of stakeholders' interests, before privatization can materialize. Finally, parastatals such as Pakistan Railways are not candidates for privatization but require alternative approaches for improving their efficiency, service delivery, and asset management, as well as reducing contingent liabilities of the government created by (i) inappropriately skilled staffing, (ii) maintenance of noncore operations, (iii) large unfunded pension liabilities, (iv) limited revenue generation, and (v) issues in financial management and internal controls of its operations.

4. The federal government owns 191 PSEs (comprising 176 companies, 8 financial institutions, and 7 federal authorities), whose assets were estimated at PRs9,400 billion in FY2014 and who employ more than 420,000 workers (of which Pakistan Railways employs 78,000).

5. In FY2014, 142 of the 191 PSEs provided income statements, of which 56 reported losses despite budget transfers. Reported financial information needs to be treated with caution, however, as many entities do not have appropriate accounting policies and audit and internal control procedures in place. The absence of timely and reliable financial statements points to the need for reforms to systematically enforce improvement of PSE financial management and

[1] The design and monitoring framework is in Appendix 1.
[2] The Asian Development Bank (ADB) provided project preparatory technical assistance (TA) for the Public Sector Enterprises Program (TA 8796-PAK, $500,000). The TA will remain active until December 2016 to support design, monitoring, and capacity development.

internal controls, and to improve corporate governance under the supervision of the Securities and Exchange Commission of Pakistan (SECP).

6. While some PSEs report profits, most PSEs are poor performers reporting marginal profits or losses. As a result, PSEs rely on regular discretionary fiscal transfers and sovereign credit guarantees to maintain their operations. PIA, Pakistan Steel Mills, power distribution companies, and Pakistan Railways are major recipients of such transfers. In FY2016, fiscal allocation to support PSE day-to-day operations (subsidies and other transfers) constituted 65% of overall budget allocations to the PSEs, severely limiting critical capital development expenditures to improve PSE efficiency.

7. Recognizing the importance of reducing the fiscal deficit and government borrowings, since FY2014, the government has imposed a severe cut in transfers to PSEs. As a result, total budgetary transfers to PSEs (including support for capital investment) declined from 3.1% of gross domestic product (GDP) in FY2012 to only 1.5% of GDP in FY2015. While this hard budget constraint is useful to boost the accountability and efficiency of PSEs, it unfortunately affects the government's ability to invest in important capital projects to expand and improve service delivery.

8. Establishing sound corporate governance, disclosure, and performance management in line with commercial principles is a critical element to improve PSEs' accountability for service delivery and revenue generation. Such measures must be accommodated by the government through (i) phasing out budget transfers to support operating expenditures; and (ii) providing an adequate increase in development budget funding to build up provisions for (a) funding contingent liabilities related to PSE employee pensions and voluntary separation schemes, and (b) facilitating other critical development expenditures to improve service delivery and revenue generation.

9. While most PSEs such as PIA can operate well under commercial corporate governance principles, a few PSEs require in addition, incorporating social dimensions of access and affordability in delivering their services. For Pakistan Railways, it is equally important to provide reliable commercial freight and passenger services across Pakistan. While Pakistan Railways carried more than 70% of Pakistan's freight traffic in 1960, its contribution declined to a marginal 4% in 2015, substantially adding to the congestion of the highway network.[3] Obsolescence of human resources and procedures, and inadequate HR capacity have limited the overall performance of Pakistan Railways. The absence of periodic modernization of railway systems necessitated manual labor which resulted in a large workforce (78,000) that requires $375 million on pay and pensions annually (about 70% of financial resources). This has left very little room for urgently needed expansion of railway corridors, and upgrading of the freight and passenger services.

10. **Prioritizing reform challenges**. The government is still in the midst of identifying the strategic, policy, technical, and financial requirements of the PSE reform agenda.[4] There are

[3] Freight wagons loaded declined sharply from 1,159,632 in 1960–1965 (average) to only 176,155 in FY2015. Similarly, the annual average number of passengers carried (in thousand) reached its peak during 1975–1980 at 145,710. The trend was a declining trend with a revival in 2005 before dropping to 52,951 in FY2015. The ordinary working expenses to gross earnings ratio (in percent) increased from 60% in 1955–1960 (average) to 132% in FY2015.

[4] Pakistan Vision 2025 envisages an efficient, globally competitive private sector supported by the government as a facilitator, enabler, and regulator of private initiative and enterprise, rather than an overarching direct producer of goods and services. In alignment with Vision 2025, the government is implementing an ambitious economic reform

some important reforms and related challenges that need to be addressed up front to achieve tangible results in this process, including targeted privatization of selected PSEs. Two major challenges exist:

(i) For PSE reform, Pakistan lacks a comprehensive strategy to (a) help the different government agencies—including the Privatization Commission, SECP, Ministry of Finance (MOF), line departments, and the PSE boards—coordinate responsibilities and objectives; (b) implement good corporate governance principles effectively; (c) articulate crucial guiding principles, such as transparency and consistency, on issues related to labor (including retirement benefits); (d) facilitate constituency building for critical reforms in PSEs with the help of an effective communications strategy;[5] and (e) monitor and evaluate PSE performance.

(ii) The implementation of PSE reforms cannot be done without incurring substantial adjustment costs, which is a major challenge in Pakistan’s current fiscal context. These costs need to be planned for and addressed during the PSE reform process. Thus, identification of reforms and selection of PSEs will need to be done very carefully, given the government’s priorities.

11. Based on diagnostic studies and consultations, the program specifies three areas for support in setting the performance of federal PSEs on a sustainable path. The significance of the selected reform areas in the context of the program’s overarching goal is explained below.

(i) **Policies to address labor issues and communication strategy introduced, monitoring system designed, and costs and benefits ascertained.** The government has an ambitious PSE reform program, supported by multiple development partners.[6] However, very little has been done so far to build constituencies for PSE reforms. Similarly, some key reforms need to be introduced to safeguard labors’ interest. This reform area will promote maximum levels of transparency, effective communication, strategic consistency, and compliance with labor safeguards. It is also important to carry out a study to determine costs and benefits of the program, which will help the government to carry out an effective public awareness campaign.

(ii) **Financial transparency, monitoring, and corporate governance in public sector enterprises improved.** Many PSEs are in poor financial condition primarily due to weak corporate governance. Various good corporate governance initiatives will need to take place to make PSEs financially viable. The extent and depth of the corporate restructuring work will depend on the conditions of each PSE, sector rules, and circumstances. This reform area is the most challenging in the PSE reform agenda. It will promote the implementation of restructuring

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agenda to stabilize the balance of payments and put the country on a different, more sustainable growth path. Vision 2025 also affirms the government’s commitment to convert loss-making PSEs into profit-making entities through a combination of restructuring and partial and outright privatization. The government is currently implementing the reform agenda with the help of development partners. Government of Pakistan; Ministry of Planning, Development & Reform. 2014. *Pakistan 2025: One Nation–One Vision*. Islamabad.

[5] The government took a major step in April 2016 in its endeavor to privatize loss-making large PSEs. PIA, with an accumulated loss of $1.9 billion (as of 30 September 2015), was turned into a public limited company on 11 April 2016. However, the government will continue to retain a 51% share, indicating that management control will remain with the government. The other important initiative was corporatization of the State Life Insurance Corporation of Pakistan. These initiatives show the commitment of the government in PSE reforms, especially at a time when political consensus-building on privatization has been extremely difficult.

[6] The Cabinet Committee on Privatization approved on 3 October 2013 a plan to sequence the capital market and pre-privatization restructuring for 39 PSEs: 11 PSEs for block sales, 25 PSEs for strategic private sector participation, and 3 PSEs for restructuring (Pakistan Railways, PIA, and Pakistan Steel Mills) for restructuring.

efforts as well as sustainable improvement in PSEs' compliance with the Corporate Governance Rules (CGRs) 2013 of the SECP.[7]

(iii) **Restructuring and reform of selected public sector enterprises initiated.** Given the limited capacity of various regulatory agencies, it is imperative to launch a restructuring program for those PSEs that will yield better results in terms of net fiscal transfers from the federal budget to the federal PSEs. This is especially true given the hard budget constraint of the government.[8] The primary focus is to improve service delivery by these PSEs in a cost-effective manner. However, successful restructuring of these large PSEs will depend on the government's commitment and a careful prioritization of reforms.

12. **Programmatic approach**. In a program of this nature, there will be several policy actions that are politically sensitive and will require adequate time at the preparatory stage including constituency building for reforms. Therefore, it is critical that those reforms are identified properly and sequenced logically over subsequent subprograms for effective implementation. Moreover, some of these policy actions are also supported by other policy actions included in the program (e.g., public awareness campaign), requiring consistency in timing of various policy actions under the overall program. A programmatic approach facilitates chronological sequencing of reforms over an adequate period in a flexible framework. A programmatic approach also facilitates changes in the proposed policy actions if there are exogenous shocks.

13. **Development coordination**. The proposed program is part of a well-coordinated multi-donors package for PSE reforms in Pakistan. International Monetary Fund (IMF) approved a three-year extended arrangement under Extended Fund Facility (EFF) in September 2013[9] and the World Bank approved two development policy credits in April 2014 and in May 2015. These two programs also support, among others, some reforms (including privatization) relevant for PSEs in Pakistan. The program will complement and carry forward similar reforms initiated by other development partners.

14. **Lessons learned**. The success of PSE reform critically depends on public awareness of the reform process and benefits. Strong government commitment and adequate support from all the stakeholders are the two important prerequisites for a successful PSE reform program. Strong government commitment is one of the important prerequisites for successful program lending, especially in Pakistan. Thus, setting realistic policy actions is crucial to ensure the government's commitment.[10] Similar lessons were also identified for the World Bank's banking sector restructuring and privatization project and program.[11]As explained in para. 10 (i), some

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7 Government of Pakistan. 2013. SECP. Islamabad.

8 This hard budget constraint is manifested in two ways in the context of the program: (i) the government is forced to cut financing of various developmental projects, including PSEs; and (ii) the government is unable to initiate additional reforms that have cost implications.

9 The IMF program aims, first and foremost, at macroeconomic stabilization. This will require tightening on both the fiscal and monetary sides in order to put the fiscal position on a sustainable path and reduce inflation. Beyond macroeconomic stabilization, the program also includes structural reforms, especially privatization of some federal PSEs with the aim of increasing economic efficiency (https://www.imf.org/external/np/sec/pr/2013/pr13322.htm).

10 Independent Evaluations Department. 2013. *Country Assistance Program Evaluation*: Pakistan. 2002–2012—*Continuing Development Challenges*. Manila: ADB.

11 Independent Evaluation Group. 2012. *Project Performance Assistance Report*: *Egypt—Egypt Financial Sector Development Policy Loan, Egypt Second Financial Sector Development Policy Loan; Guatemala—Guatemala Financial Sector Adjustment Loan; Morocco—Morocco Financial Sector Development Policy Loan*; Pakistan—*Banking Sector Restructuring and Privatization, Banking Sector Development Policy Program*. Washington, DC: World Bank. http://ieg.worldbank.org/Data/reports/fsdlp-multi-country-ppar.pdf.

critical lessons from successful as well as unsuccessful PSE reform episodes, including the recent initiatives, are incorporated in the proposed policy actions. These lessons are related to public awareness campaign, unfunded pension liabilities, and other important issues pertaining to PSE workers.

15. **ADB's value addition**.[12] The value additions of the proposed program are manifold: (i) identify critical reforms for PSEs to support the government's reform agenda;[13] (ii) facilitate targeting of reform related expenditures and provide partial financing; (iii) complement other development partners' initiatives in this area, resulting in enhanced development coordination while designing the program; (iv) provide technical assistance support for capacity building, institution development and PPPs; and (v) continue to support under ADB's future project interventions, especially in transport and energy sectors for consolidation of reforms. As explained in para. 10 (ii), the government will not be able to initiate some critical reforms that will have major cost implications given the ongoing fiscal consolidation drive unless ADB provides technical, strategic, and financial handholding support under this program.

16. **Alignment with ADB's strategy**. The program is part of the 2016 pipeline in the Asian Development Bank (ADB) country partnership strategy, 2015–2019 for Pakistan.[14] It will provide critical help to the government to address the significant policy challenges and adjustment costs of this agenda (para. 10). It also complements ADB's public-private partnership initiatives in Pakistan and the Railways Investment Program, which is under preparation.[15]

B. Impact and Outcome

17. The impact will be reduced net fiscal transfers to PSEs from the federal budget. The outcome will be improved PSE performance.

C. Outputs

18. The outputs are as follows:

(i) **Output 1: Policies to address labor issues and communication strategy introduced, monitoring system designed, and costs and benefits ascertained**. Under subprogram 1, the government will design the critical communication strategy[16] and policies to address important issues pertaining to workers' voluntary separation scheme, pensions, and training. Under subprogram 2, the government will start implementing the strategy and policies. One critical component is to design and initiate funding of a retirement cost fund of selected power distribution companies under subprogram 2. This will be an important reform to address the financial problem of unfunded pension (and other

[12] ADB's value addition (accessible from the list of supplementary documents in Appendix 2).

[13] Many policy actions under this program will eventually facilitate strategic private participation in selected PSEs initiated by the government under the IMF program.

[14] ADB. 2015. *Country Partnership Strategy: Pakistan, 2015-2019.* Manila.

[15] A TA loan was also provided in 2014 (ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the Islamic Republic of Pakistan for the Public Sector Enterprise Reforms Project*. Manila. [Loan 3214-PAK, approved 4 December 2014]) to support capacity development related to PSE reforms. However, due to availability of grant funds, the loan has not been utilized.

[16] Neglecting consensus building among stakeholders will certainly weaken a project's opportunity for success and sustainability if it is dealing with privatization. When preparing for privatization initiatives, strong efforts to engage political parties, managers, unions, workers, civil servants, business leaders, potential investors, national and international civil society organizations, and consumers must be initiated to inform about the program's operations and benefits (D. Calabrese. 2008. Strategic Communication for Privatization, Public–Private Partnerships, and Private Participation in Infrastructure Projects. *World Bank Working Paper.* No.139. Washington, DC: World Bank).

retirement benefit) liabilities of the power distribution companies. The government will also design an information technology-based performance monitoring system of PSEs and will prepare a study to determine costs and benefits of the program under subprogram 2.

(ii) **Output 2: Financial transparency, monitoring, and corporate governance in public sector enterprises improved.** In line with the PSE CGRs of 2013, the SECP issued CGR guidelines in 2013. The main policy actions under this output are designed to facilitate improvements in compliance with the CGR rules from 35% in subprogram 1 to 50% under subprogram 2.[17] Various policy actions such as publishing quarterly reports, publishing a list of noncompliant PSEs, and designing an effective strategy to bring all PSEs under the ambit of CGRs are proposed. Policy actions to promote regular publication of a financial performance report of all the PSEs, starting from FY2014, have been included under output 2. An important proposal is to design a strategy to improve the level of women's representation on PSE boards under subprogram 1, and to implement the strategy under subprogram 2.

(iii) **Output 3: Restructuring and reform of selected public sector enterprises initiated.** In support of outputs 1 and 2, Pakistan Railways will carry out the following six policy actions under subprogram 1:

(a) strengthening its internal control and audit function by appointing a chief internal auditor to lead the internal audit department and designing a road map for strengthening the internal audit department, including a risk-based audit plan;

(b) introducing internationally recognized accounting standards, including accrual accounting;

(c) carrying out a detailed feasibility study on departmental restructuring and workforce rationalization;

(d) establishing, operationalizing, and automating a database of land assets owned by Pakistan Railways;

(e) designing and implementing a strategy to facilitate private participation in select railways services; and

(f) improving transparency in the procurement of goods and services, and establishing effective internal controls.

19. There are thirteen policy actions under Subprogram 1. The proposed policy actions related to the Pakistan Railways under Subprogram 1 will be concluded under Subprogram 2, and some of these actions will continue to be monitored and supported under ADB's Railways Investment Program (under preparation) to achieve the end results. The other important policies proposed under subprogram 2 will support financial inclusion in Pakistan and will include the corporatization of Postal Life Insurance, and Pakistan Post Savings Bank; and the completion of the restructuring or privatization of the House Building Finance Company and SME Bank.

D. Development Financing Needs

20. The government is currently in the midst of a comprehensive fiscal consolidation exercise encompassing (i) putting the debt-to-GDP ratio on a firm downward trajectory, (ii)

[17] Good corporate governance facilitates economic efficiency, sustainable growth, and financial stability. It also facilitates companies' access to capital for long-term investment. Policy makers and regulators are faced with the new challenges to adapt corporate governance frameworks to rapid changes in both the corporate and financial landscape (Organisation for Economic Co-operation and Development. G20/OECD Principles of Corporate Governance. http://www.oecd.org/daf/ca/principles-corporate-governance.htm).

building fiscal buffers against adverse shocks and safeguarding macroeconomic stability, and (iii) setting the stage for sustainable and inclusive growth. The government plans to lower the budget deficit (excluding grants) to 4.3% of GDP in FY2016 from 5.3% in FY2015, and then to 3.5% in FY2017, mainly through revenue mobilization and expenditure rationalization. However, given the sluggish nature of revenue improvements over the short to medium term, the burden of fiscal consolidation will primarily fall on expenditure rationalization, especially development expenditure. As a result, development expenditures and development loans (primarily for investment to augment capacity) for PSEs (including Pakistan Railways) together constituted an average of nearly 0.4% of GDP during FY2012–FY2015 before declining sharply in FY2016.[18] This is a clear illustration of a hard budget constraint and its impact on development financing, given the downward rigidity in nondiscretionary items of recurrent expenditure items (salary, pensions, and interest). The government's support for productive investments in PSEs will need to be revived. This will be supported under the program.

21. It will be extremely difficult for the government to incur additional costs to carry out PSE reforms, unless expenditures on specific items are targeted and partly financed. Strong expenditure rationalization efforts will need to continue to create room for additional reform-related expenditure, to the extent it is reflected in the federal budget, within the stipulated fiscal deficit targets.

22. There are four large direct items of adjustment costs that have been estimated for the program: (i) voluntary separation cost, (ii) funding of a retirement benefit fund to manage huge unfunded pensions and other retirement liabilities of workers, (iii) cost of vocational and other training programs, and (iv) communication cost. Total costs amounted to $1.4 billion for three priority power distribution companies (Faisalabad Electric Supply Company, Islamabad Electric Supply Company, and Lahore Electric Supply Company), of which unfunded pension liabilities totaled approximately $1.2 billion (as of 30 June 2015). For fiscal prudence, these liabilities need to be funded in a phased manner.[19]

23. Unfunded pension risk is the risk to a company's financial condition due to underfunding of defined benefit pension plan. Unfunded pensions and other retirement benefits are major constraints for timely privatization of the selected power distribution companies. Unless addressed efficiently, these will have an adverse impact on the government's divestment income from privatization. Therefore, it is proposed that the government should immediately create a retirement cost fund and encourage contribution to the fund.[20] Similarly, a voluntary separation scheme will remain a major adjustment cost either incurred pre-privatization or post-privatization. Putting all these items together and combining them with the government's commitment to reduce the fiscal deficit-to-GDP ratio, development financing needs of approximately $900 million over next 2 years is foreseen. The program is expected to finance nearly 67% of this development financing requirement. Thus, the program will help the government to pursue, without breaching the fiscal targets, its macroeconomic reform agenda, including PSE reforms, by facilitating targeted expenditure on critical PSE-related reforms.

[18] These two items together declined from PRs130 million in FY2014 to PRs113 million in FY2015 and then to PRs70 million in FY2016.

[19] These cost estimates were prepared for the program, and included under prior actions.

[20] As a comparison, Brazil initiated a huge privatization program in the 1990s. Many of its PSEs at the time did not have funds to manage pension liabilities, so, given the presence of unfunded pension liabilities, the value was discounted from the price for which each PSE was sold. (R. Macedo. 2000. Privatization and the Distribution of Assets and Income in Brazil. *Working Paper No. 14*. Washington, DC: Carnegie Endowment for International Peace).

24. Based on the development financing requirements of the program, ADB will provide policy-based loans totaling $600 million, structured into two equal subprograms of $300 million each. In the first subprogram, $200 million will be financed from ADB's ordinary capital resources and the remaining $100 million equivalent in SDR70,873,000 from ADB's Special Funds resources (Asian Development Fund). The ordinary capital resources loan will have a 15-year term, including a grace period of 3 years, a custom-tailored method, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions as set forth in the draft loan agreement (ordinary operations). Based on this, the average loan maturity is 10.48 years and there is no maturity premium payable to ADB. The Asian Development Fund loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan agreement (special operations).

E. Implementation Arrangements

25. The MOF, through its Finance Division, will be the executing agency of the proposed program. A program management unit (PMU) to be established in the Finance Division will be responsible for overall coordination and reporting on implementation arrangements. The Finance Division, Ministry of Railways (MOR), Pakistan Railways, the Privatization Commission, and the SECP will be the implementing agencies.

26. The PMU will assist the various implementing agencies during the program. It will be headed by a senior government official as the program director. The PMU will be responsible for (i) coordinating and monitoring the program, including the policy actions; (ii) preparing and submitting all required reports to the Finance Division and ADB; and (iii) submitting the necessary statements and reports to ADB.

27. The program is expected to be implemented over 24 months from June 2016 to June 2018. The implementation period for subprogram 1 is from June 2016 to June 2017. Procurement, advance contracting, and retroactive financing are not expected. The proceeds of the loans will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time). ADB will monitor program implementation through periodic progress reports and will field regular missions to confirm fulfillment of policy actions under the two subprograms.

III. DUE DILIGENCE

28. The beneficiaries will primarily be the domestic, industrial, agricultural, and commercial clients of public goods and services provided by PSEs, which will deliver improved services in a cost-effective manner. Taxpayers and recipients of government services will indirectly benefit from the reduced fiscal costs of PSEs. PSE staff are expected to benefit from a consistent and fair approach to retrenchment and retirement benefits, as set out in the program.

A. Economic

29. The beneficiaries of the program will be the people of Pakistan, who will directly benefit from the improved delivery of services. The greater ability of the government to invest in social and economic infrastructure, resulting from enhanced fiscal space, will provide greater economic opportunities. In addition, the program will stimulate private sector activity by partly substituting government service commitments. The beneficial effect on federal finances will

originate primarily from three sources: non-debt capital receipts (disinvestment income), reduced fiscal transfers, and higher income from dividends.[21] In addition, the government will reduce its contingent liabilities once pensions and related retirement liabilities are funded appropriately.

B. Governance

30. The Finance Division of the MOF has better internal controls compared with other line ministries. Governance, audit and accounting practices of the Pakistan Railways do not meet international standards despite a number of initiatives introduced recently to strengthen transparency in procurements. Improving these practices is an integral part of the program.

31. Many PSEs do not follow the SECP's PSE CGRs. The program has introduced relevant policy actions to facilitate compliance with the PSE CGRs 2013.

32. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, including the Finance Division of the MOF.

C. Poverty and Social

33. The program will help the government reduce the economic and fiscal costs that Pakistan's PSEs impose on consumers, taxpayers, and beneficiaries of social services. The program will maximize the benefits that private management and improved corporate and sector governance can bring to the economic efficiency and financial feasibility of PSEs. These changes are expected to improve access to basic services such as electricity (through power distribution companies) and public transportation (through railways). The PSEs to be restructured and privatized may decrease their demand for low-skilled labor. The program will therefore facilitate the development of a framework, through the targeted policy actions, to address labor issues related to retrenchment, retirement benefits, and alternative skills development. The program is expected to indirectly contribute to poverty reduction. The proposed reform measures will help to create additional fiscal space, which will facilitate higher public spending on social sectors, particularly health, education, and social protection. The program has no significant gender impacts or direct benefits. However, measures related to PSE workers will safeguard the interests of women workers by offering training programs in alternative skills, if necessary. Policy measures will also support gender inclusiveness through enhanced women's representation in senior management positions and on PSE boards.[22]

D. Safeguards

34. Given the nature of the program, all three safeguard categories (environment, involuntary resettlement, and indigenous peoples) are categorized as C under the program.

E. Risks and Mitigating Measures

35. Major risks and mitigating measures are summarized in the below table and described in detail in the risk assessment and risk management plan.[23] The integrated benefits and impacts are expected to outweigh the costs.

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[21] Economic Analysis (accessible from the list of linked documents in Appendix 2).
[22] Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).
[23] Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Continued commitment of the government toward reform measures envisaged under the program is not sustained	(i) Continuous engagement by the Asian Development Bank with the government; and (ii) regular monitoring to help align the reforms measures with the policy initiatives taken by the government
Lack of counterpart funds, especially due to ongoing fiscal consolidation initiatives, may delay some reforms	(i) Continuous engagement by the Asian Development Bank with the government; and (ii) adoption of preemptive strategy to avoid potential bottlenecks.
Elections and political unrest may delay implementation of the proposed reforms under subprogram 2	Consistent and sustained engagement with the government
Lack of financially viable public–private partnership projects for consideration by Pakistan Railways	Adequate technical assistance support will be provided

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

36. The government has assured ADB that implementation of subprogram 1 shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan documents.

37. The government has agreed with ADB on certain covenants for subprogram 1, which are set forth in the loan agreements. The government will ensure that, for FY2017 and each subsequent fiscal year for the duration of the programmatic approach, the amount of budget allocation to PSEs for their development expenditures, including development loans, is at least 0.4% of Pakistan's GDP for the same fiscal year.

V. RECOMMENDATION

38. I am satisfied that the proposed programmatic approach and policy-based loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

(i) the programmatic approach for the Public Sector Enterprises Reform Program;

(ii) the loan in various currencies equivalent to SDR70,873,000 to the Islamic Republic of Pakistan for Subprogram 1 of the Public Sector Enterprises Reform Program, from ADB's Special Funds resources, with an interest charge at the rate of 2.0% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement (special operations) presented to the Board; and

(iii) the loan of $200,000,000 to the Islamic Republic of Pakistan for Subprogram 1 of the Public Sector Enterprises Reform Program, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement (ordinary operations) presented to the Board.

Takehiko Nakao
President

6 June 2016

DESIGN AND MONITORING FRAMEWORK

Impact the Program is Aligned with
Reduced net fiscal transfers to PSEs from the federal budget (Government of Pakistan; Ministry Of Planning, Development & Reform. 2014. *Pakistan 2025: One Nation–One Vision*. Islamabad).

Results Chain	**Performance Indicators with Targets and Baselines**	**Data Sources and Reporting Mechanisms**	**Risks**
Outcome Improved PSE performance	a. Annual net profit of PSEs improved by 20% by FY2018 (FY2014 baseline: PRs199 billion) b. Dividend income from federal PSEs improved by at least 20% by FY2018 (FY2015 baseline: PRs83 billion)	a. MOF annual federal budget reports b. MOF annual federal budget reports	Continued commitment of the government toward reform measures is not sustained. Lack of counterpart funds to finance PSE reform costs.
Outputs 1. Policies to address labor issues and communication strategy introduced, monitoring system designed, and costs and benefits ascertained	1a. Privatization Commission board approved a communication strategy for PSE privatization and restructuring by June 2016 (2015 baseline: NA) 1b. Privatization Commission board approved strategies to address labor issues related to VSS, pensions, and training in PSE reforms for submission to Cabinet Committee on Privatization by June 2016 (2015 baseline: NA)	1a–b. Legal documents to provide evidence full compliance with the policy actions, Annual report of Privatization Commission.	Privatization Commission capacity is not augmented in a timely manner.
2. Financial transparency, monitoring, and corporate governance in PSEs improved	2a. Finance Division published a comprehensive stock-take and financial performance report on the federal government PSEs for FY2014, and committed to annual publication thereafter within 15 months of the end of each fiscal year by June 2016 (2015 baseline: NA) 2b. SECP ensured at least 35% of PSEs submit audited statements of	2a-e. Legal documents to provide evidence full compliance with the policy actions, Annual report of SECP.	Inadequate coordination between the Privatization Commission; MOF; line ministries; and boards, and management of the PSEs.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	compliance and statement of compliance with Corporate Governance Rules (CGR) for FY2015 by June 2016. (2015 Baseline: 20%). 2c. SECP monitored noncompliance of CGR by PSE for FY2015 and submitted a quarterly report to the Finance Division by June 2016 (2015 baseline: NA) 2d. SECP issued show-cause notices to all PSEs that are noncompliant with the filing requirements of CGR applicable for PSEs for FY2015 by June 2016 (2015 baseline: NA) 2e. MOF mandated a task force to (i) devise a strategy to bring all PSEs in the ambit of the CGR, (ii) improve women's representation on PSE boards, and (iii) design performance evaluation criteria by June 2016 (2015 baseline: NA)		
3. Restructuring and reform of selected PSEs initiated	3a. Pakistan Railways (i) appointed chief internal auditor with relevant professional experience, and (ii) approved a road map for strengthening the internal audit department in line with best management practices by June 2016 (2015 baseline: NA) 3b. Pakistan Railways commenced selection of consultants to carry out detailed assessment on departmental restructuring and workforce rationalization by June 2016 (2015 baseline: NA)	3a–f. Legal documents to provide evidence full compliance with the policy actions, Annual report of Pakistan Railways	Pakistan Railways' capacity is not augmented in a timely manner. Lack of financially viable public–private partnership projects for consideration by Pakistan Railways.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	3c. Pakistan Railways commenced creation of a digital land asset database by June 2016 (2015 baseline: NA) 3d. Ministry of Railways notified the establishment of a dedicated PPP unit for implementation of approved PPP framework and strategy for private participation in selected railways service by June 2016 (2015 baseline: NA) 3e. Ministry of Railways mandated the phased migration from current accounting practices to an internationally recognized set of accounting standards (International Financial Reporting Standards or International Public Sector Accounting Standards), including the adoption of accrual-based accounting by June 2016 (2015 baseline: NA) 3f. Pakistan Railways initiated reforms to improve transparency and efficiency in procurement processes and submitted a status report highlighting recent initiatives and future reforms by June 2016 (2015 baseline: NA)		

Key Activities with Milestones
Not applicable.

Inputs
Asian Development Bank: Loan (subprogram 1): $300 million ($200 million from ordinary capital resources, and $100 million from the Asian Development Fund)
Indicatively, subprogram 2 is for $300 million

Assumptions for Partner Financing
Not applicable.

CGR = corporate governance rule, MOF = Ministry of Finance, NA = not applicable, PPP = public-private partnership, PSE = public sector enterprise, SECP = Securities and Exchange Commission of Pakistan, VSS = voluntary separation scheme.
Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

http://www.adb.org/Documents/RRPs/?id=48065-002-3

1. Loan Agreement: Ordinary Operations
2. Loan Agreement: Special Operations
3. Sector Assessment (Summary): Public Sector Management
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Country Economic Indicators
7. International Monetary Fund Assessment Letter[1]
8. Summary Poverty Reduction and Social Strategy
9. Risk Assessment and Risk Management Plan
10. List of Ineligible Items

Supplementary Documents

11. ADB's Value Addition
12. Economic Analysis
13. Pakistan Railways: Key Facts
14. 2013 Corporate Governance Rules

[1] The linked document is the press release dated 25 March 2016. According to the International Monetary Fund (IMF), responses to the multilateral development banks' requests for the IMF assessment of a country's macroeconomic conditions and policies will be conveyed whenever possible through the most recent press release, Chairman's statement produced in the context of Article IV surveillance, IMF-supported program, or staff monitoring program, or a previous assessment letter, if it remains valid. Barring any major changes in the country circumstances, the public information notice, Chairman's statement, or previous assessment letters, are expected to remain valid for a period of up to 6 months. An assessment letter would only be called for if either (i) the most recent assessment is more than 6 months old, or (ii) if IMF staff considers that there have been material changes in the country's circumstances that call for an updated assessment.

DEVELOPMENT POLICY LETTER

Government of Pakistan
Ministry of Finance
(FINANCE DIVISION)
***

SECRETARY FINANCE

D.O. No. 1(11)EF-C/ADB/14
Islamabad, the 19th May 2016

Dear President Nakao

I would like to thank the Asian Development Bank for its strong and continued support to Pakistan's development efforts in the recent past. Government of Pakistan has continued to make significant progress in the strengthening of macro-economic stability through its 3 year economic revival program. This has been made possible through improved governance, strengthening of regulatory frameworks, reducing fiscal deficit and imbalances, strengthening external buffer and containing inflation. The Government is now focused on moving towards a higher economic growth trajectory that is broad-based and inclusive.

In this regard, PSE reform is high on Government's agenda to limit fiscal impact and improve competitiveness. With the support of our developmental partners, including ADB, we hope to strengthen a comprehensive Public Sector Enterprises (PSE) Reform Program and consolidate our finances for attaining a sustainable level of fiscal deficit.

Development Finance Reform Program

The proposed Public Sector Enterprises Reform Program seeks to put in place a mechanism that will address strategic issues for improving efficiency and performance of PSEs. Government has identified PSEs for targeted reforms under three categories: Policies to address labor issues and communication strategy; financial transparency, monitoring and corporate governance in PSEs; and ,restructuring and reform of selected PSEs. The proposed program will support our initiatives by improving corporate governance and accountability, identifying and reducing contingent liabilities and reducing direct budgetary transfers to PSEs. More specifically, ADB's support will be utilized to initiate key reforms, under two subprograms, in the following output areas:

1. **Output 1: Policies to address labor issues and communication strategy introduced; monitoring system designed; and costs and benefits ascertained.**

   Under Subprogram 1, GOP will design the critical communication strategy and policies to address important issues pertaining to workers (retirement benefits, training etc.). Under Subprogram 2, GOP will begin implementation of these strategies and policies. One critical component is to design and initiate funding of a Retirement Cost Fund of some selected power distribution companies under Subprogram 2. This will be an important reform to address financial problem of unfunded pension (and other retirement benefits) liabilities of the distribution companies. Government will also carry out a study to ascertain costs and benefits of the program under Subprogram 2.

2. **Output 2: Financial transparency, monitoring and corporate governance in PSEs improved**.

   In line with the PSE Corporate Governance Rule (CGR) of 2013, the Securities and Exchange Commission of Pakistan (SECP) issued CGR guidelines in 2013. The main policy actions under this output are designed to facilitate improvement in filing of compliance report with CGR from 35% in Subprogram 1 to 50% under Subprogram 2. Various policy actions such as quarterly reports, publication of the list of non-compliant PSEs, and issuing show cause notices to non-compliant PSEs are proposed. Policy actions to promote regular publication of financial performance report of all the PSEs, starting from FY2013-14 have been included under output 2. An important proposal is to suggest steps to improve women's participation in the PSE Boards under Subprogram 1 and begin implementation of the steps under Subprogram 2.

3. **Output 3: Restructuring and reform of selected PSEs initiated**. In support of outputs 1 and 2, specific policy actions will be initiated for some selected PSEs. In this regard, Pakistan Railways will carry out the following 6 policy actions under the program:

   a) strengthen internal control and audit function by recruiting a professional as head of the audit department and designing a roadmap for strengthening the internal audit department including a risk based audit plan;

   b) introducing internationally recognized accounting standards including phased migration and adaption to accrual based accounting;

   c) initiating a detailed report recommending departmental restructuring and workforce rationalization;

   d) preparation of a report on creation of land assets database;

   e) designing and implementing a strategy to facilitate private participation in select railways services and establish an institutional mechanism for implementation of PPP framework; and

f) improving transparency in the procurement of goods and services and establishing effective internal controls.

The above six policy actions will be further strengthened under Subprogram 2.

The outcomes of the proposed Program will be reflected in, and monitored through improved performance of PSEs. This in turn, is expected to help the Government to reduce transfers to PSEs, net of dividend income. Needless to say, we will continue to support PSEs for productive expansions and capacity augmentation. ADB's financial support will help us in this direction. The support will also help to incur additional costs of PSE reforms (e.g, creation of pension funds for power distribution companies, public awareness campaign, training of PSE workers, etc.). Please see the attached policy matrix for details.

We believe that the proposed Program is the right approach to prioritize reforms in PSEs and could be implemented over two years. We recognize the challenges and risks entailed in the proposed approach but remain committed to its implementation. We assure that the policy actions proposed under the program are reflective of and fully in consonance with the reform agenda of the Government.

We would like to thank ADB for working closely with GOP in developing this program and would like to reiterate our full support for it. We look forward to our continued successful partnership with ADB.

Mr. President, I take this opportunity to extend my esteemed regards.

Yours sincerely,

Waqar Masood Khan

POLICY MATRIX

Subprogram 1 2016	Subprogram 2 **2017** (indicative)
Policy Area 1: Policies to address labor issues and communication strategy introduced, monitoring system designed, and costs and benefits ascertained.	
	1. The Government of Pakistan to have (i) monitored the progress in the PSE reform program; and (ii) completed detailed assessment on the costs incurred in carrying out the PSE reform program and reduction in budgetary transfers to the PSEs, attributable to the PSE reform program and (ii) progress on PSE reforms (**Documents required: MOF reports on progress on PSE reforms and costs incurred).**
1. Privatization Commission Board approved a communication strategy for PSE privatization and restructuring. (**Documents required: Communication strategy duly approved by the Privatization Commission board)**	2. Privatization Commission to have completed three nation-wide public awareness campaigns highlighting the costs and benefits of PSE reforms. (**Documents required:** Privatization Commission **reports on public awareness activities**).
2. Privatization Commission board approved strategies to address labor issues, related to voluntary separation schemes, pensions and training in PSE reforms for submission to Cabinet Committee on Privatization (CCOP). (**Documents required: Approved strategy and letter confirming CCOP submission status**).	3. The Board of Directors of at least 3 electricity distribution PSEs (DISCOs) to have (i) approved Retirement Cost Funds as separate institutions with board of trustees, professional management and prudent investment policies, and (ii) deposited at least 20% of the pension liability with the Retirement Cost Fund (**Documents required: a report on Retirement Cost Funds and financial statements of the Retirement Cost Funds prepared by the Board of Directors and submitted to MOF).**
Policy Area 2: Financial transparency, monitoring and corporate governance in PSEs improved	
	4. MOF to have mandated the establishment of an IT based PSE performance monitoring system and approved the IT systems architecture and implementation plan. (**Documents required: MOF resolution, MOF approval notification and the approved report on the structure of the IT systems and implementation plan**)
3. Finance Division published a comprehensive stock-take and financial performance report on all federal government PSEs for FY 2014, and committed to such annual publication in respect of each succeeding fiscal year within 15 months of end of that fiscal year	5. Finance Division to have submitted financial performance report for all federal government PSEs for FY2015 and FY2016 for review of the Economic Coordination Committee and to have published such report on its website (**Documents required: Financial performance report for FY2015 and FY2016 and website link to the reports**).

Subprogram 1 **2016**	**Subprogram 2** **2017** (indicative)
(**Documents required: A report on financial performance of PSEs including financial statements and some key non-financial information for FY2014 and a letter detailing the publication schedule of the financial performance report for FY2015 and FY2016**).	
4. Securities and Exchange Commission of Pakistan (SECP) ensured that at least 35% of PSEs submitted statement of compliance with Corporate Governance Rules (CGR) for FY2015 and the audit opinions thereon. (**Document required: Report of compliance rate for FY2015 from SECP).**	6. SECP to have ensured that at least 50% of PSEs submitted statement of compliance with CGR for FY2016 and the audit opinions thereon (**Document required: Compliance report on CGR**).
5. SECP monitored non-compliance of CGR by PSE for FY2015 and submitted a quarterly report to Finance Division (**Document required: Non-compliance report (First quarterly report ending 31st March 2016 for FY2015**)).	7. SECP to have submitted all the quarterly reports of non-compliance of CGR to Finance Division. (**Document required: Quarterly reports**).
6. SECP strengthened enforcement on filing requirements of CGR applicable for PSEs for FY2015 through issuing show cause notices to non-compliant PSEs (**Documents required: Show causes notices of all non-compliant PSEs to be provided by SECP to the government. The government will provide (i) list of show causes notices with their dates and addressees and (ii) one sample to ADB for review, with an option that ADB will have access to all the notices**).	8. SECP to have published the names of PSEs that are non-compliant with CGR on SECP website (**Document required: A report on publication of the list of non-compliant PSEs).**
7. MOF mandated the task force on corporate governance to (i) devise a strategy to bring all the PSEs in the ambit of the CGR, (ii) improve women representation on the Boards of PSEs, and (iii) design performance evaluation criteria	9. All PSEs to be subject to CGR and MOF to have approved directors' appointment framework and performance evaluation criteria. (**Documents required: Notification from MOF to include all PSEs under CGR and appointment framework and the performance evaluation criteria).**

Subprogram 1 2016	Subprogram 2 2017 (indicative)
(**Document required: MOF order to expand the terms of reference of the task force to cover the additional mandates**).	
Policy Area 3: Restructuring and reform of selected PSEs initiated.	
	10. The government to have completed restructuring or privatization of (i) House Building Finance Company and (ii) SME Bank and to have initiated the process of corporatization of (i) Postal Life Insurance; and (ii) Pakistan Post Savings Bank (**Documents required: the government's decisions regarding restructuring/privatization of House Building Finance Corporations and SME Bank and action-taken report on status of corporatization of Postal Life Insurance and Pakistan Post Savings Bank)**
8. Pakistan Railways (i) appointed Chief Internal Auditor with relevant professional experience to lead the internal audit department; and (ii) approved a roadmap for strengthening the internal audit department in line with the best management practices. (**Document required: (i) Certificate by the Secretary Railway Board on the appointment of the Chief Internal Auditor; and (ii) roadmap for strengthening the internal audit department**).	11. Pakistan Railways to have implemented the risk-based internal audit (**Document required: Action taken report by Pakistan Railways internal audit department**).
9. Pakistan Railways commenced selection of consultants to carry out detailed assessment on departmental restructuring and workforce rationalization (**Document required: progress report on the procurement of consultants provided by Pakistan Railways**).	12. Pakistan Railways to have approved the key recommendations on departmental restructuring and workforce rationalization, including related budgetary requirements. (**Documents required: Report on departmental restructuring and workforce rationalization and Pakistan Railways' approval notification)**
10. Pakistan Railways to commence creation of a digital land asset database including satellite imagery and digital copies of all land records of the land assets of Pakistan Railways. (**Document required: Progress report).**	13. Pakistan Railways to have reconciled the database with the revenue authorities; and completed IT based automation of its land database. (**Documents required: Report on establishment of land asset database and an action taken report on reconciliation and automation).**
11. Ministry of Railways notified the establishment of a dedicated PPP unit for implementation of approved (i)	14. Pakistan Railways to have (i) initiated the process of private participation in at least two railway services; and (ii) established and operationalized its PPP unit.

Subprogram 1 **2016**	**Subprogram 2** **2017** (indicative)
PPP framework for the railway sector, and (ii) strategy for private participation in selected railways services (**Documents required: (i) copy of PPP Framework (ii) copy of strategy; and (iii) notification of establishment of PPP unit for implementation of PPP Framework)**	(**Document required: Detailed report by Pakistan Railways on private participation and PPP unit activities)**.
12. Ministry of Railways mandated the phased migration of Pakistan Railways from current accounting practice to an internationally recognized set of accounting standards (IFRS/IPSAS), including the adoption of accrual based accounting. (**Documents required: Ministry of Railway's instruction to Pakistan Railways of implementation plan of phased migration and the implementation plan)**	15. Pakistan Railways to have (i) commenced adoption of IFRS; and (ii) prepared draft financial statements compliant with IFRS and approved the publication of its annual audited financial statements for the financial year ending 30 June 2018. (**Documents required: Implementation report and draft financial statement**).
13. Pakistan Railways improved transparency and efficiency in procurement processes by initiating reforms in the areas of bidding procedures, bid evaluation procedures, and e-procurement. (**Document required: Detailed status report on procurement reforms taken in the areas of e-procurement; bidding procedures; bid evaluation procedures; and identification of further reforms**).	16. Pakistan Railways to have commenced the process of transition to Enterprise Resource Planning System in a phased manner for integration of the procurement system for improvement of the internal controls, and to have implemented: (i) floating of all tenders on the Pakistan Railways website to improve transparency and competition, (ii) uploading of bid evaluation reports of all major procurement packages on the Pakistan Railways website with the approval of the Secretary of Railways, (iii) preparation of consolidated Annual Procurement Plan for all works and development projects and uploading on the website of Pakistan Railways and Public Procurement Regulatory Authority, and (iv) reduction in tender finalization time within the bid validity period to improve efficiency in the procurement process. (**Document required: Action taken report on implementation of procurement reforms**).

ADB = Asian Development Bank; CCOP = Cabinet Committee on Privatization; IFRS = International Financial Reporting Standards; IPSAS = International Public Sector Accounting Standard; MOF = Ministry of Finance; MOR = Ministry of Railways, PPP = public-private partnerships; PSE = Public Sector Enterprise; SECP = Securities and Exchange Commission of Pakistan; SLIC = State Life Insurance Corporation (SLIC)