



Concept Paper

Project Number: 48065-002
December 2014

Proposed Programmatic Approach, Policy-Based Loan for Subprogram 1, and Technical Assistance Grant Pakistan: Public Sector Enterprises Reform Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 2 December 2014)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	0.0098
\$1.00	=	PRs101.87

ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
PSE	–	public sector enterprise
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., FY2014 ends on 30 June 2014.
- (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 Borrower	Pakistan Islamic Republic of Pakistan	Executing Agency	Ministry of Finance
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Economic affairs management Reforms of state owned enterprises		18.00 132.00
		Total	150.00
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) Partnerships (PAR)	Institutional systems and political economy Implementation International finance institutions (IFI)	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		150.00	
Sovereign Program loan: Asian Development Fund		150.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		150.00	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROGRAM

A. Rationale

1. The proposed Public Sector Enterprises Reform Program for Pakistan will support the Government of Pakistan's efforts to restructure and privatize selected public sector enterprises (PSEs).

2. **High fiscal and economic costs.** The federal government has equity interests in more than 200 commercial and semicommercial organizations. However, limited financial data are available on these PSEs and capacity to monitor their performance is low. While some PSEs are profitable, most are poor performers and their returns are low or negative. Corporate governance practices are also very weak. The costs of these inefficiencies are ultimately borne by the taxpayer. Many PSEs have regularly required discretionary fiscal transfers and sovereign credit guarantees to continue operating.¹ Over the years, by not imposing strict performance conditions and credible sunset clauses for its financial support, the government has inadvertently enabled a PSE corporate culture of soft budget constraints that needs to be overturned.

3. **Reform momentum.** Introducing properly regulated private sector participation and privatization is now perceived to be the only way to sustainably reduce these fiscal and economic costs. The government is implementing an ambitious economic reform agenda to stabilize the balance of payments and put the country on a different, more sustainable growth path.² It requested a 36-month Extended Fund Facility for the equivalent of about \$6.6 billion from the International Monetary Fund (IMF) to support the implementation of its reforms agenda. Agreement was reached on a set of structural reforms and policy benchmarks that include structural policies related to PSE reform.³ The pace at which an agreement was reached between the government and the IMF reflected the government's commitment to a comprehensive economic reform program.

4. **Reform requirements.** The government's identification of the strategic, policy, technical, and financial requirements of the PSE reform agenda is still emerging. Two major challenges exist:

- (i) No comprehensive policy and strategy are in place for PSE reforms in Pakistan, one that could (a) help the different government agencies coordinate responsibilities and objectives (e.g., Privatisation Commission versus line departments on the restructuring process for each PSE); (b) articulate crucial guiding principles, such as transparency and consistency on labor retrenchment issues; (c) take into account important trade-offs in the timing of transactions and the availability of fiscal space necessary to bear the corresponding adjustment costs; and (d) enable an effective communications strategy.⁴

¹ The different types of fiscal transfers to PSEs are estimated to reach several hundred billion Pakistan rupees per year. J. Speakman. 2012. SOE Reform: Time for Serious Corporate Governance. *World Bank Policy Series*. PK 04/12. Washington, DC: World Bank.

² Letter of Intent from the Government of Pakistan to the IMF (August 2013).

³ The Cabinet Committee on Privatization approved a short list of 31 PSEs for privatization and/or restructuring. Eleven companies have been identified to be the first PSEs to be privatized through a series of capital market transactions. Strategic private sector participation has been identified for 17 companies. Three major PSEs—Pakistan International Airlines, Pakistan Steel Mills, and Pakistan Railways—have been identified for restructuring, but restructuring objectives extend to many other PSEs.

⁴ Capacity at the Privatisation Commission and Finance Division to implement the PSE restructuring agenda is also limited.

- (ii) The implementation of PSE reforms cannot be done without incurring substantial adjustment costs, which is a challenge in Pakistan's fiscal context.⁵ These costs need to be planned for and addressed during the PSE reform process.

5. The first area is technical in nature and requires technical assistance (TA) support. The processing of a \$20 million loan is under way to help address it, and to strengthen the government's capacity to privatize and restructure its designated PSEs.⁶ The policy-based loan is part of the 2015 pipeline in the Asian Development Bank (ADB) country operations business plan, 2014–2016,⁷ and is in line with the interim country partnership strategy (CPS), 2014–2015.⁸ The program will provide crucial leverage for the TA investments under preparation, and help the government address the significant policy challenges and adjustment costs of this agenda (para. 4). It also complements ADB's Sustainable Energy Sector Reform Program, which is under implementation.⁹

B. Impact, Outcome, and Outputs

6. The impact will be improved PSE performance in Pakistan, as measured by the reduction of PSEs' annual losses. The outcome will be the implementation of a comprehensive and robust privatization and restructuring program. The program has four outputs.

- (i) **Output 1: Supporting public sector enterprise privatization efforts.** The government has an ambitious privatization program, supported by multiple development partners. Processes to privatize PSEs have been established, but limited capacity exists to coordinate and undertake a program of transactions in ways that ensure consistency and the best value for the respective assets. Leveraging TA made available to the Privatisation Commission by several development partners, including ADB, this policy output will ensure maximum levels of transparency, effective communication, strategic consistency, and compliance with labor safeguards.
- (ii) **Output 2: Ensuring the restructuring of selected public sector enterprises is achieved.** Many PSEs are in poor financial condition and may not generate much market interest. Various forms of PSE restructuring will need to take place to bring these firms closer to sale, but upgrades in corporate governance practices are urgent. The extent and depth of the corporate restructuring work will depend on the conditions of each PSE, sector rules and circumstances, and whether the restructuring work will yield greater marginal divestiture proceeds compared with immediate costs. This output is the most challenging in the PSE reform agenda. It will ensure the implementation of restructuring efforts, and sustainable improvement in PSEs' compliance with the new corporate governance rules of the Securities and Exchange Commission of Pakistan.

⁵ The adjustment costs considered include the substantial labor separation costs that privatization outcomes are projected to require (such as voluntary separation schemes), the costs of retiring legacy debt in key PSEs or, in the case of power distribution companies, the costs of addressing more than PRs480 billion receivables of doubtful realizable value.

⁶ The TA loan of \$20 million is targeted for approval by December 2014, and will complement TA anticipated from other development partners. Development partners involved in this reform agenda have developed a comprehensive coordination framework.

⁷ ADB. 2014. *Country Operations Business Plan: Pakistan, 2014–2016*. Manila.

⁸ ADB. 2014. *Interim Country Partnership Strategy: Pakistan, 2014–2015*. Manila.

⁹ 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. This programmatic intervention focuses on the technical, commercial, and regulatory issues in the energy sector, which complements the efforts to reform energy sector PSEs.

- (iii) **Output 3: Establishing a conditionality framework for fiscal transfers to public sector enterprises.** Experience has generated a culture of soft budget constraints, which has reduced PSE management incentives to become more efficient and commercially focused. This output involves systems and procedures for a credible framework of conditionality for fiscal support to PSEs, coordinated with the restructuring and corporate governance upgrading objectives of output 2. The Ministry of Finance (MOF) will strengthen the capacity of its Corporate Finance Wing to achieve this result, as a technically more active and rigorous agent for MOF as shareholder. The TA loan will support technical work under this output.
- (iv) **Output 4: Enhancing economic regulatory regimes.** Sound regulatory structures are needed to ensure consumers' interests are taken into account if they conflict with the commercial interests of privatized PSEs. This is particularly relevant for sectors in which competition is limited and will remain so after divestment. This output will support the objective of establishing the necessary economic regulatory regimes, and build capacity in relevant regulatory agencies.

C. Program Costs and Financing

7. The proposed loan amount for the entire program is \$400 million, to be divided in three subprograms. Subprogram 1 (\$150 million) is expected to be completed in 2015, subprogram 2 (\$150 million) in 2016, and subprogram 3 (\$100 million) in 2017 (Table 1).¹⁰ The adjustment costs of PSE reforms far exceed this proposed amount. Restructuring and privatizing PSEs over the coming years will produce significant up-front costs, the most significant of which will be associated with the actual PSE restructuring: labor retrenchment, retirement of legacy debt, and meeting unfunded pension liabilities. ADB staff has estimated the magnitude of these adjustment costs for the 31 PSEs¹¹ to be close to \$2 billion. The program will help fund part of these reform financial requirements. Progressively, proceeds from partial divestment transactions will be able to support the government share in the adjustment costs. The subprogram 1 amount is commensurate with these development financing needs.

Table 1: Tentative Financing Plan (\$ million)

Source	Subprogram 1	Subprogram 2	Subprogram 3	Total
ADB (ordinary capital resources)	150	150	100	400
Total	150	150	100	400

ADB = Asian Development Bank.

Source: Asian Development Bank estimates.

D. Indicative Implementation Arrangements

8. The program is expected to be implemented over 4 years from January 2015 through December 2018. MOF will be the executing agency. MOF, the Privatisation Commission, the Securities and Exchange Commission of Pakistan, and at least one regulatory agency will be the implementing agencies.

¹⁰ A programmatic approach offers the flexibility to adjust the conditionality framework of the intervention to the evolving reform circumstances. One alternative to be assessed during processing is whether, for fiduciary reasons, a project approach could be feasible and preferable.

¹¹ The timing of costs will depend on the sequence and pace of the PSE restructuring reform program.

II. DUE DILIGENCE REQUIRED

9. The program is expected to have an indirect medium- and long-term positive impact on poverty. Labor retrenchment is likely to be a significant adjustment cost. These issues will be analyzed carefully, and methods will be identified to help manage this risk appropriately and responsibly. The program is expected to fully benefit and improve public financial management with regard to PSEs. A risk assessment at federal government and sector levels needs to be performed, and weaknesses identified. The steps to ensure improvements in fiduciary arrangements related to PSE reforms will be identified and incorporated in the program as policy conditions. The program has no impact on the environment or indigenous peoples, and does not entail involuntary resettlement. It is categorized C for these safeguard categories.¹²

III. PROCESSING PLAN

A. Risk Categorization

10. The program is categorized *complex*, as the total loan amount for the overall program exceeds \$50 million.

B. Resource Requirements

11. The processing team is comprised of six ADB staff, including one peer reviewer, who will dedicate an estimated 18 person-months to process the program. Project preparatory TA, presented in Appendix 3, will support the development and implementation of a policy agenda for PSE reforms, and undertake necessary due diligence. This project preparatory TA will recruit nine consultants for a total of 14.5 person-months.

C. Processing Schedule

12. The indicative processing schedule is in Table 2.

Table 2: Proposed Processing Schedule

Milestones	Expected Completion Date
Concept and project preparatory technical assistance approval	December 2014
Fact-finding mission	March 2015
Management review meeting	May 2015
Loan negotiations	May 2015
Board consideration	July 2015
Loan effectiveness	August 2015

Source: Asian Development Bank.

IV. KEY ISSUES

13. Labor retrenchment will likely remain a contentious issue throughout the PSE restructuring and privatization process. Ensuring that a robust framework is developed and applied consistently during this reform process is critical, not only to ensure that worker's rights are treated appropriately and fairly but also to help keep up momentum for PSE reform.

¹² No safeguard frameworks or assessments are required for category C projects.

DESIGN AND MONITORING FRAMEWORK^a

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved PSE performance in Pakistan	Annual losses of PSEs (in real terms) reduced by 25% in 2020 compared with 2014 (baseline: TBD) Fiscal transfers to PSEs (in real terms) for operational expenses reduced by 50% by 2020 (baseline: TBD)	MOF, annual federal budget reports PSE's annual reports MOF budget documents	Assumption PSE restructuring and privatizations continue as committed to by the government, and PSE reforms are sustained
Outcome A comprehensive and robust privatization and restructuring program implemented	Government completed at least three PSE restructurings, which lead to privatization, by 2019 Government completed at least 15 divestment transactions by 2019 Strengthened regulatory regime in place for at least one sector by 2019	Privatisation Commission annual reports Privatisation Commission annual reports Sector regulator annual report	Assumptions International Monetary Fund program remains on track Government commits sufficient funds to finance adjustment and privatization costs Risk An unstable security situation deters potential investors
Outputs 1. Supporting PSE privatization efforts	Mitigation framework for labor-related issues prepared by December 2015 and implemented from 2016 to 2019 Government produced a policy document, by 2016, which outlines its stance and objectives with regard to its ownership interests in PSEs, including a road map for its implementation from 2016 to 2019 Government adopted, by the end of 2015, a public communications strategy to guide its PSE reforms, and initiates implementation in 2016	Privatisation Commission legal document	Assumption Privatisation Commission capacity is augmented by transaction advisors in a timely manner
2. Ensuring the restructuring of selected PSEs is achieved	Government publically outlined restructuring plan for at least three PSEs by December 2016 Government outlined its	Privatisation Commission legal documents Privatisation	Assumption Good coordination between the Privatisation Commission, MOF, line

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	approach on debt legacy issues for PSEs to be restructured (by December 2015)	Commission legal documents	ministries, and boards and management of PSEs
3. Establishing a conditionality framework for fiscal transfers to PSEs	Government created a transparent mechanism to provide financial support to PSEs by December 2015	MOF program progress reports	Risk Unknown problems with financial consequences become apparent through improved government oversight
4. Enhancing economic regulatory regimes	Blueprints for revised market structures, with efficient and transparent separation of regulatory and operational roles finalized for two sectors by 2016 Competition assessment studies conducted for at least three sectors impacted by privatization and restructuring of PSEs by 2016	MOF program progress reports Competition Commission's website	Assumption Establishment of regulatory bodies is aligned to the timing of the PSE privatization process
Activities with Milestones			Inputs
<p>1. Supporting PSE privatization efforts (2015–2018)</p> <p>1.1 Review the government's privatization strategy, sequencing, and execution of transactions to date, and plan the way forward.</p> <p>1.2 Review the Privatisation Commission's founding legislation, internal regulations, rules and procedures, and capacity to undertake transactions; and address these institutional gaps.</p> <p>1.3 Assess in detail the adjustment costs associated with privatizations and the government's approach to funding these costs, and plan the way forward accordingly.</p> <p>2. Ensuring the restructuring of selected PSEs is achieved (2015–2018)</p> <p>2.1 Review the government's restructuring strategy, sequencing, and execution of actions to date; develop and implement restructuring plans for concrete PSEs.</p> <p>2.2 Review the government's approach to assessing, valuing, and consulting on adjustment costs issues.</p> <p>2.3 Review how the government measures progress in restructuring PSEs, and the accountability of PSE boards and management in meeting targets; and address these institutional gaps.</p> <p>3. Establishing a conditionality framework for fiscal transfers to PSEs (2015–2018)</p> <p>3.1 Review the government's PSE policy or approach to decision making with regard to the PSE portfolio, financial support, etc.</p> <p>3.2 Review the policy and treasury processes for releasing fiscal injections to the PSEs (cash and guarantees), including interactions with line ministries.</p> <p>3.3 Assist MOF to develop and implement a new mechanism that transparently outlines procedures for fiscal injections to PSEs.</p> <p>3.4 Review the laws, standards, and processes associated with director appointments for PSEs.</p>			<p>ADB Loan (subprogram 1): \$150 million (ordinary capital resources)</p> <p>Indicatively, subprogram 2 is for \$150 million and subprogram 3 is for \$100 million, also from ordinary capital resources</p> <p>Project Preparatory Technical Assistance: \$500,000</p>

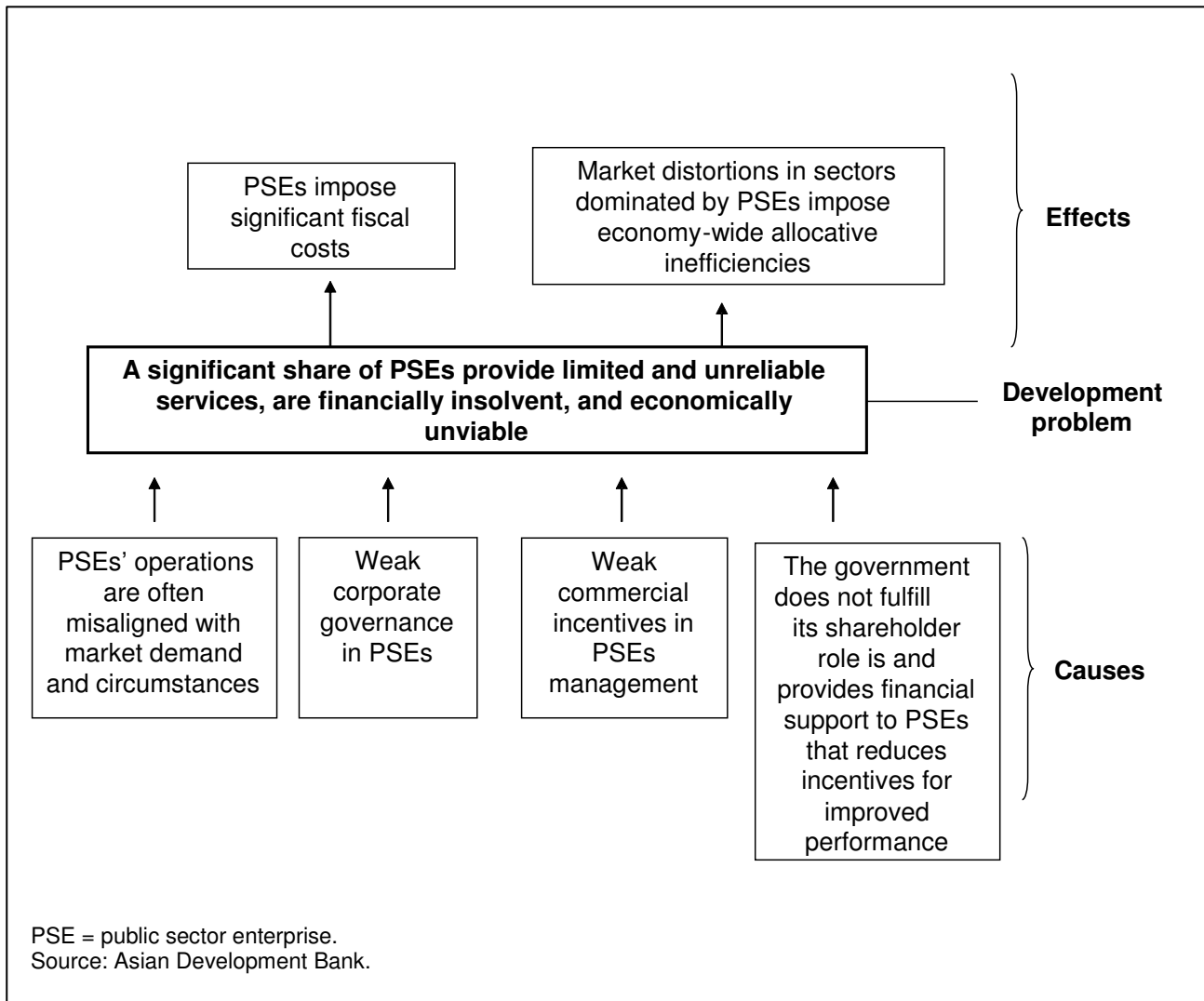
Activities with Milestones	
<p>4. Enhancing economic regulatory regimes (2015–2018)</p> <p>4.1 Review the government’s approach to regulating at least one sector and the associated institutional arrangements following that sector’s liberalization as a result of privatizations.</p> <p>4.2 Review at least one sector on economic regulatory issues that will become more important following PSE privatizations—in the context of Pakistan’s competition framework.</p> <p>4.3 Assess the capacity of the regulatory agency with regard to economic regulation, and address institutional shortcomings.</p>	

ADB = Asian Development Bank, MOF = Ministry of Finance, PSE = public sector enterprise, TBD = to be determined.

^a Details will be aligned with the policy matrix for the program loan to be prepared during the project preparatory technical assistance. This design and monitoring framework is indicative for the entire cluster of subprograms proposed.

Source: Asian Development Bank.

PROBLEM TREE



PROJECT PREPARATORY TECHNICAL ASSISTANCE

A. Justification

1. To prepare the Public Sector Enterprises Reform Program, a project preparatory technical assistance (TA) is required. Through this TA, the Asian Development Bank (ADB) will flexibly provide strategic policy and operational advisory to the government in preparation for the program, and conduct necessary due diligence.

2. **Public sector enterprise reform strategy development and communications, restructuring, monitoring, and oversight.** Privatizing public sector enterprises (PSEs) is a resource-intensive and fraught process. An overall strategy is needed that sequences the transactions, and ensures the right advisory support and fiscal resource availability are in place. Communication with affected stakeholders needs to be actively managed, consistent, and clear so any problems can be dealt with swiftly and consistently. In many ways, restructuring PSEs is more complex and difficult than privatization. The end point is more difficult to quantify, day-to-day operations at each PSE need to continue (and improve) among the upheaval of change, and unknown risks can surface during the change process. Restructuring can also be expensive, with adjustment costs that need transparent financing. As with privatizations, communication with effective stakeholders and the government needs to be actively managed.

3. **Adjustment costs.** The most significant adjustment costs will be associated with PSE restructuring. Examples are labor retrenchment, retirement of legacy debt, and meeting unfunded pension liabilities.¹ During every PSE transaction process, significant due diligence will need to be undertaken to price these adjustment costs. To plan the sequence of transactions in connection with multiyear projections of fiscal space,² this TA will undertake more in-depth estimates of the adjustment costs of PSE reforms (and the timing). Based on the transaction sequencing scenarios, the TA will highlight the fiscal space limitations to consider.

4. **Public sector enterprise policy and economic coordination capacity.** The government needs to have a clear and distinct approach to PSEs as a shareholder. To support this role, more information about PSE performance must be readily available, more reporting on individual PSEs or the PSE portfolio must be undertaken, and a single body within the government must fulfil the financial oversight responsibilities of a shareholder. The Corporate Finance Wing within the Ministry of Finance (MOF) has been awarded some of these responsibilities, but very limited technical resources. For these functions to be performed effectively, capacity needs to be built and expanded within MOF. Specialists in analyzing financial statements need to be hired to work with people who can critically assess business plans submitted by PSEs or track performance. Coordination between MOF and the relevant line ministries needs to be fundamentally refocused, so that decisions regarding fiscal injections are more robust and achieve improved performance of PSEs.

B. Major Outputs and Activities

5. The major outputs are (i) supporting Pakistan's PSE privatization efforts, (ii) ensuring the restructuring of Pakistan's PSEs, (iii) reducing fiscal expenditure in Pakistan's PSEs, and (iv) enhancing Pakistan's regulatory regimes. Major activities are summarized in Table A3.1.

¹ Their magnitude will depend on many factors, including how much excess labor exists in these PSEs, how long and how old is their workforce (i.e., time served in a PSE and the age of the employee impacts on the calculation for voluntary separation and the pension liability), or how weak a PSE's balance sheet is (e.g., likely funding needs of a PSE over coming years).

² The timing of these costs will depend on the sequence and pace of the PSE restructuring reform program.

Table A3.1: Summary of Major Activities

Activities	Expected Implementation
Prepare a draft set of policy actions to be used as a basis for discussions with the government for programmatic assistance.	March–April 2015
Assess the Ministry of Finance’s budget, debt management, and treasury systems and processes.	February–April 2015
Assess the government’s privatization strategy, sequencing, and execution of transactions to date; and propose a way forward.	February–March 2015
Reviewing the government’s restructuring strategy, sequencing, and execution of actions to date; and propose a way forward.	February–March 2015
Review the government’s approach to assessing, valuing, and consulting on adjustment cost issues in terms of privatizing and restructuring.	January–March 2015
Review the policy and treasury processes for releasing fiscal injections to the PSEs (cash and guarantees), including interactions with line ministries.	February–April 2015
Review at least one sector on regulatory issues that will become more important following PSE privatizations, in the context of Pakistan’s competition framework.	February–April 2015

PSE = public sector enterprise.
Source: Asian Development Bank.

C. Cost Estimate and Proposed Financing Arrangement

6. The TA is estimated to cost \$550,000 equivalent, of which \$500,000 equivalent will be financed on a grant basis by ADB’s Technical Assistance Special Fund (TASF-V). The government will provide counterpart support in the form of counterpart staff, office supplies, secretarial assistance, domestic transportation, provision of office space, communication facilities for consultants, and other in-kind contributions. The cost estimates and financing plan are in Table A3.2.

Table A3.2: Cost Estimates and Financing Plan (\$’000)

Item	Total Cost
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (10 person-months)	200.0
ii. National consultants (43 person-months)	215.0
b. International and local travel	50.0
c. Reports and communications	5.0
2. Workshops, training, and seminars	10.0
3. Miscellaneous administration and support costs	5.0
4. Contingencies	15.0
Total^b	500.0

^a Financed by the Asian Development Bank’s Technical Assistance Special Fund (TASF-V).

^b Government contribution will be in kind and is estimated to account for 9% of the total cost.

Source: Asian Development Bank estimates.

D. Consulting Services

8. A team of nine specialists is required to (i) assist the government in meeting its PSE reform objectives, (ii) develop a credible and robust policy matrix that will ensure the PSE reform program is sustainable, and (iii) undertake various due diligence activities in support of the programmatic assistance. Individual consultants will be procured—four international experts (for a total of 10 person-months) and five national experts (for a total of 43 person-months).³

³ If required, individual assignments can be divided by several experts, while keeping constant the total number of person-months per position.

9. **Public sector enterprise reform expert and team leader** (international, 4 person-months). The expert will have primary responsibility for reviewing the government's PSE reform program, including the sequencing of privatizations, the capacity of the departments involved in the reforms, the structure and timing of the PSE restructuring program, communication with affected stakeholders, policy advice to the government, and the institutional architecture after the PSE reform program. The expert will also be responsible for calculating the adjustment costs from the PSE reform program and recommending financing arrangements. He or she will lead in the development of a policy matrix. The expert will be supported by the PSE reform expert (national) in undertaking his or her work. As team leader, the expert will be responsible for overall management of the TA and timely delivery of outputs and deliverables.

10. **Regulatory expert** (international, 2 person-months). The expert will be responsible for reviewing the regulatory regime of at least one sector that will be substantially affected by PSE privatizations. The focus of the regulatory review will be on economic regulatory issues, but should also include institutional arrangements, agency and individual capacity, and whether legal changes are required. The expert will collect relevant data on poverty incidence, and household expenditures on basic goods and services whose supply or prices could be affected by the program; and survey affected groups to ensure that no poor or vulnerable groups will be worse off as a result of the program. The expert will be supported in his or her work by the regulatory expert (national) and legal specialist (national) as required.

11. **Fiscal policy expert** (international, 2 person-months). The expert will be responsible for reviewing the legal, policy, and financial policies and procedures within MOF for fiscal transfers, including cash, guarantees, or other financial instruments. The expert will also be responsible for assessing the capacity of MOF to review fiscal requests from PSEs, provide policy advice to the government, and ensure the advice is implemented. The expert will support the PSE reform experts (international and national) in calculating the adjustment costs and recommending financing arrangements. The expert will be supported in his or her work by the fiscal policy expert (national) and other experts as required.

12. **Labor expert** (international, 2 person-months). The expert will be responsible for ensuring that the government's approach to dealing with labor retrenchments (or other forms of labor reductions such as reduced hours) is consistent with legal obligations and ADB's policy related to core labor standards. The expert will assist the government in developing a strategy to deal with stakeholders (employees, unions, nongovernment organizations, etc.) associated with labor retrenchments. The expert will conduct a brief assessment of the proposed policy conditions under the program to anticipate the likely poverty and social impacts on poor and vulnerable groups, avoid anticipated negative effects on these groups, and design measures to mitigate any unavoidable adverse effects in the short and medium term (up to 10 years). Finally, the expert will support the PSE reform expert (national) in calculating the adjustment costs associated with labor retrenchment, including redundancy costs and pension liabilities.

13. **Public sector enterprise reform expert** (national, 12 person-months). A corporate finance expert, this individual will support the PSE reform expert (international) in his or her work. The expert will work with MOF, the Privatisation Commission, and other government agencies as required to understand the PSE reform strategy, methods of developing policy advice for the government, and the procedures to implement directives and undertake the PSE reform program; and understand the institutional and individual capacity within these agencies to undertake the PSE reform program. The expert will assist other experts as required.

14. **Regulatory expert** (national, 5 person-months). The expert will assist the regulatory expert (international) in his or her work. The expert will be responsible for researching and

understanding the regulatory implications from the PSE privatization program in one sector. This review will feed into the overall regulatory analysis of this sector and recommend a regulatory regime going forward. The expert will also lead the work in assessing the institutional and individual capacity of the regulator of that sector.

15. **Fiscal policy expert** (national, 8 person-months). The expert, also expected to have a corporate finance background, will assist the fiscal policy expert (international) in his or her work. The expert will have primary responsibility for the work involved in understanding the legal, policy, and procedural processes for fiscal transfers to PSEs and the day-to-day interactions between MOF and line ministries that have responsibility for the PSEs. The expert will need to assess how MOF officers who are on the boards of PSEs manage the conflict of interest of the two roles, and recommend any changes, if required. The expert is also expected to support MOF in developing a better PSE monitoring framework.

16. **Financial management expert** (national, 9 person-months). The expert will have three primary responsibilities. First, undertake a thorough financial management assessment of MOF and, in particular, of the financial flows that are established with PSEs. This includes understanding how fiscal transfers to PSEs are actioned, how guarantees are given to PSEs (and recorded accordingly), and how dividends from PSEs are received and recorded. Second, the expert will coordinate the work of the other experts in calculating the adjustment costs associated with the PSE reform program. Third, a risk assessment at sector level needs to be performed by the expert, and specific weaknesses identified. The steps necessary to ensure improvements in fiduciary arrangements will be identified and proposed as policy conditions in the program. The expert will support MOF in developing a better PSE monitoring framework.

17. **Legal expert** (national, 9 person-months). The expert will support the rest of the experts in their work where detailed analysis is required of legislation, contracts, and other legal instruments. The expert will also support the regulatory experts (international and national) in their regulatory regime review of one sector. The expert will support the Privatisation Commission, as appropriate, in its privatization and restructuring reform program. An in-depth understanding of commercial legal issues is desirable.

Table A3.3: Summary of Consulting Services Requirement

Positions	Person-Months Required
A. International	
1. Public sector enterprise reform expert	4
2. Regulatory expert	2
3. Fiscal policy expert	2
4. Labor expert	2
B. National	
1. Public sector enterprise reform expert	12
2. Regulatory expert	5
3. Fiscal policy expert	8
4. Financial management expert	9
5. Legal expert	9

Source: Asian Development Bank.

E. Implementation Arrangements

7. The TA is expected to be implemented from January 2015 through December 2017. MOF will be the executing agency, and will be responsible for overall coordination of implementing agencies. MOF, the Privatisation Commission, the Securities and Exchange Commission of Pakistan, and at least one regulatory agency will be the implementing agencies. All disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Islamic Republic of Pakistan	Program Title:	Public Sector Enterprises Reform Program
Lending/Financing Modality:	Programmatic approach and policy-based loan for subprogram 1 and technical assistance grant	Department/ Division:	Central and West Asia Department Public Management, Financial Sector, and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The Government of Pakistan's Poverty Reduction Strategy Paper covers FY2009–FY2011 and provides a framework for subsequent years. The proposed policy-based loan is linked with three of the strategy's nine pillars:

(i) macroeconomic stability and real sector growth, (ii) an integrated energy development program, and (iii) removing infrastructure bottlenecks through public–private partnerships.

The policy-based loan is expected to support infrastructure development by restructuring public sector enterprises (PSEs) that provide infrastructure services to the population (e.g., energy, transport) and bringing in strategic private partners that can increase PSEs' economic and financial feasibility.

Some large PSEs have been running substantial deficits that are a major burden to public finances. Reforming PSEs increases their economic feasibility and thus the government's fiscal space for extended delivery of social services.

The policy-based loan is part of the 2015 pipeline in the Asian Development Bank (ADB) country operations business plan, 2014–2016, and is in line with the interim country partnership strategy (CPS), 2014–2015.^a ADB's CPS 2015–2019 for Pakistan is under preparation.

B. Poverty Targeting

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The program is expected to support modernization of PSEs and, indirectly, to improve their capacity to provide basic infrastructure services. It will also reduce the fiscal costs of inefficient PSEs. This is expected to have an indirect but important medium- and long-term positive impact on poverty and the welfare level.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

PSEs contribute about 10% to Pakistan's gross domestic product, mostly by providing infrastructure services and other public goods, but also in the production of purely private goods.^b However, PSEs' service delivery is poor and economically disadvantaged groups are not able to substitute inefficient services provided by PSEs with private sector services. Restructuring PSEs might also involve a revision of fee and tariff structures. Affordability will need to be assessed throughout the program period through means which are appropriate in the Pakistan context. A complementary proposed technical assistance loan will assist the government in developing and implementing a mitigation framework for possible labor retrenchment in PSEs to be restructured under the government's reform program.

2. Impact channels and expected systemic changes.

Higher efficiency in PSEs increases quality and quantity in the provision of public goods and services to the public. The program is expected to support improved delivery of public goods and services by PSEs to customers in Pakistan. Equal access to public goods and services is a precondition for inclusive economic growth. Infrastructure development will also contribute to economic growth and employment generation by reducing costs of production, contributing to economic diversification, and increasing labor productivity.

3. Focus of (and resources allocated in) the PPTA or due diligence.

The due diligence will analyze the effects on the poor of possible labor retrenchment in the course of implementing the government's PSE reform program.

4. Specific analysis for policy-based lending.

The government interacts with PSEs on a number of levels including as a shareholder, regulator, and in terms of policy objectives for various sectors. The government needs to develop this policy position, which should be based on economic and financial sustainability, while ensuring public policy objectives can still be met. Social objectives

<p>need not be excluded from PSE operations, but they should be explicitly mentioned and ideally funded from the national treasury. Such policy positions can have social impacts and will be analyzed accordingly.</p>
II. GENDER AND DEVELOPMENT
<p>1. What are the key gender issues in the sector/subsector that are likely to be relevant to this program? Gender dimensions of PSE reforms—such as women’s participation in PSE boards and management, and labor redeployment—may produce gender issues, which might become more apparent during restructuring and privatizing of PSEs. If these arise and are relevant for the main challenge at hand, mitigating options will be identified.</p> <p>2. Does the proposed program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women’s access to and use of opportunities, services, resources, assets, and participation in decision making? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No A preliminary assessment indicates limited potential. However, the processing team will conduct due diligence to explore opportunities in this area.</p> <p>3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The processing team will conduct further due diligence on this area.</p> <p>4. Indicate the intended gender mainstreaming category: <input type="checkbox"/> GEN (gender equity) <input type="checkbox"/> EGM (effective gender mainstreaming) <input type="checkbox"/> SGE (some gender elements) <input checked="" type="checkbox"/> NGE (no gender elements)</p>
III. PARTICIPATION AND EMPOWERMENT
<p>1. Who are the main stakeholders of the program, including beneficiaries and negatively affected people? Identify how they will participate in the program design. The main stakeholders are PSEs’ boards, management and staff, regulatory authorities, and ministries. All stakeholders will continue to be consulted throughout program processing. The beneficiaries are expected to be the urban and rural recipients of services (customers), as well as other industrial, agricultural, commercial, and domestic clients of public goods and services provided by PSEs.</p> <p>2. How can the program contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly the poor, vulnerable, and excluded groups? What issues in the program design require participation of the poor and excluded? A preliminary assessment indicates that the program does not seem amenable to participation of the poor and excluded in decision making, given the complexity and specificities of PSE privatizing and restructuring. A public communications strategy will be prepared to ensure understanding, transparency, and public support.</p> <p>3. What are the key, active, and relevant civil society organizations in the program area? What is the level of civil society organization participation in the program design? <input type="checkbox"/> Information generation and sharing <input type="checkbox"/> Consultation <input checked="" type="checkbox"/> Collaboration <input checked="" type="checkbox"/> Partnership Labor unions relevant to the affected PSEs will be consulted during program design.</p> <p>4. Are there issues during program design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The poor and excluded are not directly impacted by the process of restructuring PSEs.</p>
IV. SOCIAL SAFEGUARDS
<p>A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the program have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process? <input type="checkbox"/> Program safeguard system assessment and actions <input checked="" type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the proposed program have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the program require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process? <input type="checkbox"/> Program safeguard system assessment and actions <input checked="" type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the program design?</p>

<input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input checked="" type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input checked="" type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____
<p>2. How are these additional social issues and risks going to be addressed in the program design?</p> <p>Consultation with labor unions relevant to affected PSEs will be conducted to define initiatives that can help improve skills for staff that may be subject to redeployment or layoff as a result of the government's PSE reform program—thus broadening their job and entrepreneurial options.</p>
VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the PPTA (or program assessments) contain key information needed to be gathered during PPTA or the program assessment process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Consultants will support ADB staff in analyzing the labor force in selected PSEs, including gender dimensions, and possible downsizing resulting from restructuring and privatization arising from the government's program. The experts will also propose mitigation measures such as training and redeployment. The assessment will be supported by ongoing poverty and gender assessments being completed for preparation of ADB's CPS, 2015–2019 for Pakistan.</p>
<p>2. What resources (e.g., consultants, survey budget, and budget for workshop(s)) are allocated for conducting poverty, social and/or gender analysis and participation plan during the PPTA or program assessments?</p> <p>Due diligence will be conducted by consultants and ADB staff. Poverty and social analysis will be complemented by the assessments being prepared for the CPS.</p>

^a ADB. 2014. *Country Operations Business Plan: Pakistan, 2014–2016*. Manila; and ADB. 2014. *Interim Country Partnership Strategy: Pakistan, 2014–2015*. Manila.

^b According to the Ministry of Finance's estimates, more than 200 commercial and noncommercial organizations exist at the federal level.

Source: Asian Development Bank.