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Technical Assistance Report

Project Number: 51204-002
Knowledge and Support Technical Assistance (KSTA)
September 2018

Islamic Republic of Pakistan: Promoting Investments and Economic Growth through International Trade

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 26 July 2018)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.00806
\$1.00	=	PRs124.06

ABBREVIATIONS

ADB	–	Asian Development Bank
EXIMBP	–	Export–Import Bank of Pakistan
MOF	–	Ministry of Finance
TA	–	technical assistance

NOTE

In this report, “\$” refers to United States dollars.

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CONTENTS

	Page
KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE	
I. INTRODUCTION	1
II. ISSUES	1
III. THE TECHNICAL ASSISTANCE	2
A. Impact and Outcome	2
B. Outputs, Methods, and Activities	2
C. Cost and Financing	3
D. Implementation Arrangements	3
IV. THE PRESIDENT'S DECISION	3
APPENDIXES	
1. Design and Monitoring Framework	4
2. Cost Estimates and Financing Plan	7
3. List of Linked Documents	8

KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 51204-002
Project Name	Promoting Investments and Economic Growth through International Trade	Department/Division CWRD/CWPF
Nature of Activity Modality	Capacity Development, Policy Advice Regular	Executing Agency Ministry of Finance
Country	Pakistan	
2. Sector	Subsector(s)	ADB Financing (\$ million)
✓ Finance	Trade finance	0.50
	Total	0.50
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
Knowledge solutions (KNS) Private sector development (PSD)	Application and use of new knowledge solutions in key operational areas Promotion of private sector investment	No gender elements (NGE) ✓
5. Poverty and SDG Targeting		Location Impact
Geographic Targeting Household Targeting SDG Targeting SDG Goals	No No Yes SDG8	Nation-wide High
6. Risk Categorization	Low	
7. Safeguard Categorization	Safeguard Policy Statement does not apply	
8. Financing		
Modality and Sources		Amount (\$ million)
ADB		0.50
Knowledge and Support technical assistance: Technical Assistance Special Fund		0.50
Cofinancing		0.00
None		0.00
Counterpart		0.13
Government		0.13
Total		0.63

I. INTRODUCTION

1. The knowledge and support technical assistance (TA) from the Asian Development Bank (ADB) will support the operationalization of the Export–Import Bank of Pakistan (EXIMBP), which will provide much needed trade financing facilities to help local exporters trade competitively. This will help the economy increase and diversify its export base and promote long-term economic growth.
2. The TA will build on the outputs of ADB’s TA for Prioritizing Interventions for Financial Sector Development in Pakistan which produced a draft operational road map for EXIMBP.¹
3. The TA is not included in ADB’s current country operations business plan.² The Ministry of Finance (MOF) requested the TA³ to support the operationalization of EXIMBP.⁴

II. ISSUES

4. International trade has historically been a precursor to economic growth of developed countries and, more recently, of many emerging economies. The Government of Pakistan recognizes that constraints on international trade inhibit economic expansion, competitiveness, and growth. Key barriers to export trade in Pakistan include limited trade facilitation mechanisms and inadequate trade-related infrastructure facilities and institutional financial support systems.⁵
5. Trade-related financing is largely intermediated by local commercial banks, which limit their exposure by preferring larger and more established banking clients over prospective local exporters and suppliers that are often small and medium-sized enterprises. In many cases, funding lines from banks, if available, are not competitive, have short tenors, and require high levels of collateral that impose significant capital and liquidity constraints on borrowers, particularly local export-oriented manufacturers and producers that rely on imports of capital goods and raw materials. Moreover, most exporters do not purchase credit insurance against nonpayment of their accounts receivables, because of the limited access to international credit insurance. Such insurance is typically provided by a national export credit agency like EXIMBP, which is not yet in operation.
6. Limited access to trade finance places many small and medium-sized enterprises and other exporters at a disadvantage to international competitors that can access financial support from their country’s national export credit agency, including credit enhancements, lower-cost financing, and insurance for extended payment terms. This disparity discourages trade competition and deprives the economy of productivity growth.⁶
7. To address some of these trade constraints, the government established EXIMBP to help expand and diversify Pakistan’s export base and mitigate the risks local businesses face in

¹ ADB. 2015. Quarterly Summary Report on Approved (A) Project Preparatory Technical Assistance Not Exceeding \$1,500,000; (B) Technical Assistance Projects Not Exceeding \$225,000; and (C) Technical Assistance Cluster Subprojects (October–December 2014). Manila (TA 8832-PAK).

² ADB. 2017. Country Operations Business Plan: Pakistan, 2018–2020. Manila.

³ MOF letter dated 14 November 2017.

⁴ The TA first appeared in the business opportunities section of ADB’s website on 26 July 2018.

⁵ R. Amjad, E. Ghani, M. Din, and T. Mahmood. 2012. Export Barriers in Pakistan: Results of a Firm-Level Survey. *The Lahore Journal of Economics*. Lahore. 17. pp. 103–134.

⁶ H. Brunner. 2015. Testing the Link between Accessible Export Finance and Insurance, and Regional Trade Growth in Africa and Asia: A Role for Regional Export Credit and Investment Guarantee Agency (ECIGA). *ADB Economics Working Paper Series*. No. 433. Manila: ADB.

international trade.⁷ It was incorporated as a company limited by shares under the Companies Ordinance, 1984 in June 2015 with an authorized capital of PRs100 billion, of which PRs7 billion has been paid in and PRs30 billion is expected to be paid in by 2018. The State Bank of Pakistan, Pakistan's central bank, has assigned five staff to managerial positions at EXIMBP, including its chief executive officer,⁸ who is spearheading its operationalization process. EXIMBP has yet to secure its certificate to start business. It is seeking ADB's assistance to operationalize the company through the TA and may ask ADB to capitalize the company in the future.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

8. The TA is aligned with the following impact: export competitiveness and diversification improved.⁹ The TA will have the following outcome: EXIMBP operationalized.¹⁰

B. Outputs, Methods, and Activities

9. **Output 1: EXIMBP operational and institutional structure reviewed.** The TA will review EXIMBP's operational and institutional arrangements and benchmark them against international best practices. EXIMBP was incorporated in June 2015 and the government provided initial capital to kick start its formation, but it does not have sufficient resources (both human and capital) and the legal and institutional arrangements to assume full operation.

10. **Output 2: Operational road map and business plan updated.** The TA will revisit and enhance the preliminary road map (established in 2017 and financed under ADB's TA for Prioritizing Interventions for Financial Sector Development in Pakistan), incorporating key issues identified in the review. The TA will also formulate a business plan that articulates EXIMBP's short- and medium-term objectives and strategies. Based on a market assessment, the plan will focus on supporting key sectors and industries that will benefit from the service offering and will contribute significantly to the country's export diversity and economic growth. The TA will develop standard documentation on various product offerings and corresponding operational policies and manuals.

11. **Output 3: Legal and regulatory framework and other institutional arrangements required for EXIMBP's operation determined and enacted.** The TA will help the government establish (i) a legal and regulatory framework in which EXIM Bank can operate successfully and (ii) relevant guidelines for the management and MOF approval of a national interest account that provides credit support for EXIM Bank's liabilities. The government credit support, through MOF, will be vital to EXIM Bank's credit worthiness and overall market acceptance.

12. **Output 4: Economic, financial, and safeguards assessment performed.** The TA will assess EXIMBP's economic and financial viability, evaluate its financial management, and develop an environmental and social management system.

⁷ EXIM Bank of Pakistan: eximbank.gov.pk.

⁸ Rana Rashid Mehmood is a senior joint director at the State Bank of Pakistan.

⁹ Government of Pakistan. 2017. *Strategic Trade Policy Framework 2018–2023*. Islamabad.

¹⁰ The design and monitoring framework is in Appendix 1.

C. Cost and Financing

13. The TA is estimated to cost \$625,000, of which \$500,000 and will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6). The government will provide counterpart support in the form of staff, office accommodation, interdepartmental coordination, and other in-kind contributions. The key expenditure items are in Appendix 2.

D. Implementation Arrangements

14. ADB will administer the TA through its Central and West Asia Department, Public Management, Financial Sector and Trade Division, which will select, supervise, and evaluate consultants, organize discussions, and provide staff to act as the resource persons as required to implement the TA. ADB's Pakistan Resident Mission will provide, as needed, local administrative and coordination support.

15. The implementation arrangements are summarized in the table.

Implementation Arrangements			
Aspects	Arrangements		
Indicative implementation period	September 2018–December 2019		
Executing agency	Ministry of Finance		
Implementing agency	ADB's Central and West Asia Department, Public Management, Financial Sector and Trade Division		
Consultants	To be selected and engaged by ADB		
	Selection Method	Selection Title	Amount
	Firm	QBS	\$400,000
	Individual Consultants	Individual consultant recruitment	\$40,000
Disbursement	The technical assistance resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		

ADB = Asian Development Bank, QBS = quality-based selection.

Source: Asian Development Bank.

16. **Consulting services.** ADB will engage a consulting firm through quality-based selection as the quality of the services is of overriding importance for the outcome of the TA and the downstream impact on the export competitiveness of the country. It is therefore important that the constitutive documents, strategy, systems, and policies are developed in line with international best practices. Individual consultants will also be engaged to complement the consulting firm. ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.¹¹

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis to the Government of Pakistan for Promoting Investments and Economic Growth through International Trade, and hereby reports this action to the Board.

¹¹ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

DESIGN AND MONITORING FRAMEWORK

Impact the Technical Assistance is Aligned with Export competitiveness and diversification improved (Pakistan's Strategic Trade Policy Framework 2018–2023). ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome EXIMBP operationalized	By 2020: a. EXIMBP appropriately staffed and capitalized for operation (2018 baseline: Not operational) b. Certificate of commencement acquired (2018 baseline: No certificate of commencement)	a. Certificate of commencement posted on EXIMBP website b. Government circular announcing EXIMBP's commencement of operation	Unexpected delays in implementing key actions identified in the operationalization plan
Outputs 1. EXIMBP operational and institutional structure reviewed 2. Operational road map and business plan updated	By 2019: 1. Recommendations on operational and institutional structure adopted by EXIMBP (2018 baseline: Not reviewed) 2a. Updated operational road map and business plan adopted by EXIMBP. (2018 baseline: Not updated) 2b. Product suite offering for exporters and banks developed (2018 baseline: Not developed) 2c. Operational policies and manuals established by EXIMBP. (2018 baseline: Not established) 2d. Management information system established by EXIMBP. (2018 baseline: Not established)	1. EXIMBP board minutes 2a.–d. EXIMBP board minutes	EXIMBP board not accepting and implementing ADB's recommendations and actions
3. Legal and regulatory framework and other institutional arrangements required for EXIM BP's operation	3a. Relevant government legal act enacted, or legal framework established (2018 baseline: Not established) 3b. Board charter and manual developed (2018 baseline: Not developed)	3a.–c. The government circular on enactment of law or establishment of framework for EXIM BP and EXIMBP board minutes	

determined and enacted	3c. Mode of government financial backing finalized for EXIMBP and national interest account established (2018 baseline: Not established)		
4. Economic, financial, and safeguards assessment performed	<p>4a. EXIMBP capital structure and forecast financial model established by EXIMBP. (2018 baseline: Not established)</p> <p>4b. Financial management assessment recommendation adopted by EXIMBP (2018 baseline: Not assessed)</p> <p>4c. ESMS established by EXIMBP (2018 baseline: Not established)</p>	4a.-c. EXIMBP board minutes	

Key Activities with Milestones
<p>1. EXIMBP operational and institutional structure reviewed</p> <p>1.1 Award consulting contract by Q4 2018.</p> <p>1.2 Benchmark EXIMBP operational and institutional structure against international best practices by Q1 2019.</p> <p>1.3 Adopt the recommendations on operational and institutional structure by EXIMBP by Q2 2019.</p> <p>2. Operational road map and business plan updated</p> <p>2.1 Award consulting contract by Q4 2018.</p> <p>2.2 Adopt the updated operational road map and business plan by EXIMBP by Q2 2019.</p> <p>2.3 Develop product suite offering for exporters and banks by Q2 2019.</p> <p>2.4 Develop standard documentation for product offering, eligibility criteria, and product pricing schedule by Q4 2019.</p> <p>2.5 Identify strategic partnerships by Q3 2019.</p> <p>2.6 Develop agreements for underwriting agent and reinsurance brokers by Q3 2019.</p> <p>2.7 Prepare operational policies and manuals for human resources, financial management, internal audit, procurement, risk management, and corporate policies and procedures by Q3 2019.</p> <p>2.8 Adopt and implement operational policies and manuals by EXIMBP by Q3 2019.</p> <p>2.9 Assess information technology requirements and implement management information system by EXIMBP by Q4 2019.</p> <p>3. Legal and regulatory framework and other institutional arrangements required for EXIMBP's operation enacted</p> <p>3.1 Award consulting contract by Q4 2018.</p> <p>3.2 Submit relevant act to the cabinet for enactment in Q3 2019.</p> <p>3.3 Develop board charter and manual Q1 2019.</p> <p>3.4 Finalize mode of government financial backing and obtain MOF approval by Q1 2019.</p> <p>3.5 Establish national interest account by Q3 2019.</p> <p>3.6 Establish process of approval and management of national interest account cases by Q3 2019.</p> <p>4. Economic, financial, and safeguards assessment performed</p> <p>4.1 Award consulting contract by Q4 2018.</p> <p>4.2 Establish EXIM BP capital structure and forecast financial model and agree with EXIMBP by Q2 2019.</p> <p>4.3 Complete economic and financial assessment by Q3 2019.</p> <p>4.4 Complete financial management assessment and adopt recommendation by EXIMBP by Q3 2019.</p> <p>4.5 Establish and approve ESMS by EXIMBP by Q4 2019.</p>
<p>Inputs</p> <p>ADB: \$500,000 Technical Assistance Special Fund (TASF 6)</p> <p>Note: The government will provide counterpart staff in the form of counterpart staff, office accommodation, interdepartmental coordination, and other in-kind contributions.</p>
<p>Assumptions for Partner Financing</p> <p>Not Applicable.</p>

ADB = Asian Development Bank, ESMS = environmental and social management system, EXIMBP = Exim Bank of Pakistan; and MOF = Ministry of Finance, Q = quarter.

^a Government of Pakistan. 2017. *Strategic Trade Policy Framework 2018–2023*. Islamabad.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	400.0
ii. National consultants	40.0
b. Out-of-pocket expenditures	
i. International and local travel	40.0
ii. Others ^b	1.0
2. Contingencies	19.0
Total	500.0

Note: The technical assistance is estimated to cost \$625,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation, interdepartmental coordination, and other in-kind contributions. The value of government contribution is estimated to account for 20% of the total technical assistance cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF 6).

^b Insurance.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=51204-002-TARreport>

1. Terms of Reference for Consultants