



Report and Recommendation of the President to the Board of Directors

Project Number: 53165-002
November 2021

Proposed Policy-Based Loan for Subprogram 2 Islamic Republic of Pakistan: Energy Sector Reforms and Financial Sustainability Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 22 November 2021)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.005
\$1.00	=	PRs175.16

ABBREVIATIONS

ADB	–	Asian Development Bank
CDMP	–	Circular Debt Management Plan
COVID-19	–	coronavirus disease
DISCO	–	distribution company
EFF	–	Extended Fund Facility
FY	–	fiscal year
GDP	–	gross domestic product
IMF	–	International Monetary Fund
IPP	–	independent power producer
kWh	–	kilowatt-hour
LNG	–	liquefied natural gas
MOE	–	Ministry of Energy
NEPRA	–	National Electric Power Regulatory Authority
NTDC	–	National Transmission and Despatch Company
OP	–	operational priority
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Pakistan ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2021 ends on 30 June 2021.
- (ii) In this report, “\$” refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 53165-002	
Project Name	Energy Sector Reforms and Financial Sustainability Program (Subprogram 2)	Department/Division	CWRD/CWEN
Country	Pakistan	Executing Agency	Ministry of Finance
Borrower	Pakistan		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=53165-002-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=53165-002-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Energy	Energy sector development and institutional reform		300.00
		Total	300.00
3. Operational Priorities		Climate Change Information¹	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0.000
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Strengthening governance and institutional capacity		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	87.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 7.1		Some gender elements (SGE)	✓
SDG 9.1			
SDG 12.2		Poverty Targeting	
SDG 13.a		General Intervention on Poverty	✓
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: C	Involuntary Resettlement: C	Indigenous Peoples: C
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		300.00	
Sovereign Programmatic Approach Policy-Based Lending (Concessional Loan): Ordinary capital resources		300.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		300.00	
Currency of ADB Financing: US Dollar			

¹ The project reduces greenhouse gas emissions. However, it does not fall under the eligibility criteria for climate mitigation finance as defined by the joint multilateral development bank methodology on tracking climate finance, which notes that not all activities that reduce greenhouse gases in the short term are eligible to be counted towards climate mitigation finance. Accordingly, greenfield fossil fuel projects are excluded, and climate mitigation finance is considered zero.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to the Islamic Republic of Pakistan for subprogram 2 of the Energy Sector Reforms and Financial Sustainability Program.

2. The programmatic approach and subprogram 1 were approved on 6 December 2019 to address financial, technical, and governance deficits in the energy sector that adversely impact sector sustainability and affordability, and Pakistan's fiscal balance and macroeconomic stability.¹ Subprogram 2 aims to (i) secure financial sustainability by controlling the accumulation of and reducing "circular debt";² (ii) strengthen governance by implementing a road map for a competitive electricity market, appointing appellate tribunals, implementing multiyear tariffs,³ and unbundling the gas segment; and (iii) reinforce infrastructure improvements through integrated planning to facilitate public and private sector investment across the energy sector.

3. Subprogram 2⁴ is embedded in the programmatic approach and is consistent with the Sustainable Development Finance Policy.⁵ It complements and mutually reinforces energy reforms with the International Monetary Fund (IMF) under its \$6 billion Extended Fund Facility (EFF)⁶ and the World Bank's approved \$400 million Program for Affordable Clean Energy 1 for sector sustainability enhancement.⁷ The second through fifth reviews of the IMF's EFF were approved on 24 March 2021, effecting a disbursement of \$500 million.⁸ The sixth review was concluded on 18 November 2021, making available for disbursement \$1,059 million, bringing total disbursements under the EFF to about \$3,027 million.⁹ Subprogram 2 (footnote 4) is linked with operational priority (OP) 1 (addressing remaining poverty and reducing inequalities), OP2 (accelerating progress in gender equality), OP3 (tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability), and OP6 (strengthening governance and institutional capacity) of the Asian Development Bank (ADB) Strategy 2030.¹⁰ Subprogram 2 is aligned with meeting Pakistan's Nationally Determined Contribution targets for climate change through the deployment of renewable energy by replacing thermal generation,

¹ ADB. 2019. [Report and Recommendations of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Islamic Republic of Pakistan for the Energy Sector Reforms and Financial Sustainability Program. Manila; and Government of Pakistan. 2014. Pakistan 2025 One Nation–One Vision](#). Islamabad. The policy design and monitoring framework is in Appendix 1.

² Circular debt is the accumulated cash shortfall across the power supply chain as the deficits in power distribution companies (DISCOs) cascade to power generators and fuel suppliers.

³ Multiyear tariffs regulate the returns, profits, and operational targets of licensees; and the trajectory of the individual cost and revenue elements of the utilities are determined in advance for multiple years.

⁴ ADB. 2021. [Country Operations Business Plan: Pakistan, 2021–2023](#). Manila. Subprogram 2 is included in ADB's country operations business plan for Pakistan, 2021–2023.

⁵ ADB. 2020. [Donors Agree Replenishment of More than \\$4 Billion for ADB's Grant Funds](#). News release. 16 September; and International Development Association. 2020. [Sustainable Development Finance Policy](#). Washington, DC.

⁶ IMF. 2019. [Pakistan: Request for an Extended Arrangement under the Extended Fund Facility—Press Release; Staff Report; and Statement by the Executive Director of Pakistan](#). IMF Country Report, No. 19/212. Washington, DC.

⁷ World Bank. 2021. [Program for Affordable Clean Energy](#). Washington, DC.

⁸ IMF. 2021. [IMF Staff and Pakistan Reach Staff-Level Agreement on the Pending Reviews Under the Extended Fund Facility](#). Press release. No. 21/41. 16 February. The EFF reviews were suspended during February–December 2020 and were consolidated in the 2nd–5th reviews in early 2021.

⁹ IMF. 2021. Pakistan: [Staff Concluding Statement of the 2021 Article IV Mission and Staff-Level Agreement on the Sixth Review under the Extended Fund Facility](#). The sixth review was completed on 18 November 2021.

¹⁰ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila. Subprogram 2 will contribute \$87 million to climate mitigation financing. No climate change mitigation factor under subprogram 2 involves the creation of infrastructure. Climate Change Assessment is accessible from the list of linked documents in Appendix 2.

improving demand-side energy efficiency, and reducing unaccounted for gas losses. Hence, SP2 contributes to Sustainable Development Goal (SDG) 9 (finding lasting innovation and technological solutions for increased energy resources and efficiency), SDG 12 (encouraging sustainable energy production and consumption patterns), and SDG 13 (taking urgent action to climate change and its impacts). It also contributes to the achievement of Sustainable Development Goal 7 (ensure access to affordable, reliable, sustainable, and modern energy for all) through improved energy access across Pakistan.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

4. **Macroeconomic management challenges.** The coronavirus disease (COVID-19) pandemic hit Pakistan's macroeconomic performance at a critical juncture in its macroeconomic recovery program. The economy was affected by the COVID-19 pandemic in 2020, causing real gross domestic product (GDP) growth to contract to -0.5% in fiscal year (FY) 2020; GDP per capita continued to decrease from \$1,321 in FY2019 to \$1,250 in FY2020; inflation was exacerbated, averaging 10.7% in FY2020; and total debt climbed to 87.2% of GDP. The government announced a relief package of PRs1,200 billion (2.9% of GDP) in March 2020, of which PRs715 billion (1.7% of GDP) was budgeted for FY2020 and PRs485 billion (1.2% of GDP) was for FY2021. Support to consumers in agriculture, residential, and small and medium-sized enterprises was provided through deferred bill payments and industry support packages with a fixed tariff regime. Due to the government's swift response to the pandemic, GDP growth rebounded strongly to 3.9% in FY2021. Inflation declined from 10.7% in FY2020 to 8.9% in FY2021, but rising food and energy prices kept it above the central bank's 6.5% target for the year. The current account deficit eased slightly from the equivalent of 1.7% of GDP in FY2020 to 0.6% in FY2021, driven by healthy growth in remittances.

5. In response to the COVID-19 crisis, the government shifted its policy priorities to sustain the economy, save lives and livelihoods, and expand social safety nets to prevent people from plunging into poverty. However, the economy is still struggling. Poverty incidence, measured at \$3.2/day, has risen from 35.4% in 2019 to 39.1% in 2020; it is projected to remain around 31.9% even in 2021.¹¹ The unemployment rate for FY2021, is still being assessed and is expected to increase to 9.56% in FY2021 from 5.79% in FY2018. In FY2020, losses of large state-owned enterprises (SOEs) grew rapidly, constraining the government's fiscal position. Energy SOEs, which comprise about 60% of total SOE assets, were a major driver of these losses. The pandemic has stressed the finances and fragmented the supply chain of the energy sector. This disruption has led to a substantial slowdown in the pace of sector reforms initiated by the government since early 2019. The impact on the country's energy sector circular debt arising from these losses, and exacerbated by the pandemic relief measures, has put unprecedented pressure on sector liquidity and finances. The programmatic approach has been adjusted to continue with the reforms in the current challenging environment.

6. **Circular debt.** During the processing of subprogram 1 in January–December 2019, in parallel with the approval and first review of the IMF's EFF program in the first half of FY2020, the cabinet approved a 3-year Circular Debt Management Plan (CDMP).¹² The implementation of the plan was on track and circular debt accumulation decreased during FY2019 and in early FY2020

¹¹ J. Bulan, R. Hasan, A. Martinez, and I. Sebastian. 2021. COVID-19 and Poverty: Some Scenarios. Unpublished note prepared for the Economic Research and Regional Cooperation Department, ADB.

¹² Government of Pakistan. 2019. *Circular Debt Management Plan*. Islamabad.

to \$215 million per month, from an average buildup of \$272 million per month in FY2018. However, with the challenges of the pandemic during the second half of FY2020, circular debt accumulation soared to nearly \$300 million per month.¹³ The demand for electricity plunged to 52% for industrial users and 66% for commercial users compared with FY2019 volumes, while demand for domestic and agricultural users grew 10%–15%. Since agriculture and residential consumer tariffs are cross-subsidized by industrial and commercial tariffs, given the decrease in industrial and commercial energy use and the Ministry of Finance’s delayed disbursement of subsidies, the revenues of power distribution companies (DISCOs) decreased significantly. Further, collection rates during FY2020 for domestic customers fell to 34% on average, partially because of the government’s COVID-19 relief measures (tariff moratorium and rolling bill installments) during April–December 2020. Total bill collections decreased from around 91% in FY2019 to 86% in FY2020. The result was increased circular debt accumulation to PRs538 billion against the government’s business-as-usual forecasts of PRs127 billion for FY2020.¹⁴ Despite the FY2020 circular debt challenges, FY2021 evidenced significantly lower circular debt flow of PRs297 billion as compared to previously forecasted PRs436 billion.¹⁵ To continue the constructive mitigation of increased circular debt flow, reform policies must continue. Causes of circular debt continue to include (i) inadequate tariffs and inefficient subsidies, (ii) high generation costs, (iii) unsustainable losses, (iv) weak governance and collections, and (v) lack of integrated planning. These need to be addressed through reform actions to manage and reduce circular debt accumulation, in line with the government’s updated 2021 CDMP (footnote 15). Figure 1 shows updated 2021 CDMP circular debt trend and projections, and Figure 2 shows updated 2021 CDMP accumulated circular debt projections with and without reforms.

Figure 1: Circular Debt Trendline (PRs billion)

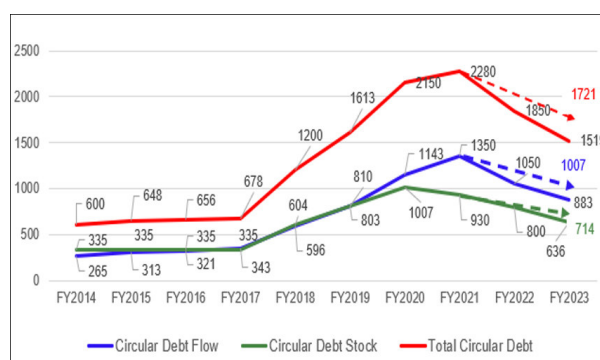
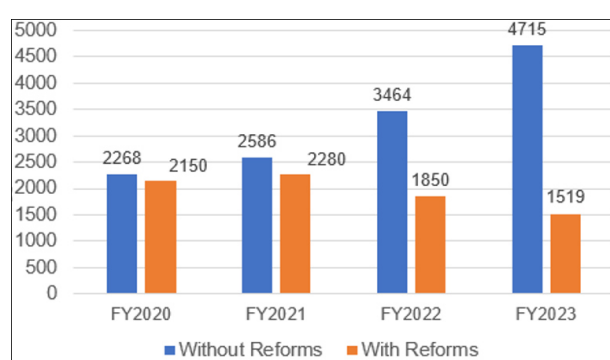


Figure 2: Circular Debt Projections (PRs billion)



Note: Dotted lines are Asian Development Bank staff estimates.

Sources (Fig. 1 and 2): Government of Pakistan, Ministry of Energy; and Asian Development Bank estimates.

7. Inadequate tariffs and inefficient subsidies. The government aims to reduce the sector’s financial deficits through regular annual and automatic quarterly tariff assessments and notifications. Under subprogram 1 in 2019, the National Electric Power Regulatory Authority (NEPRA) determined and the Ministry of Energy (MOE) Power Division notified the FY2018 and FY2019 tariffs, adjusting tariffs to cover a PRs469 billion backlog accumulated since early 2017. With a tariff increase trajectory in place for FY2020–FY2022, under the cabinet-approved CDMP, the government budgeted only PRs130 billion, 46% less than the FY2020 budget, for power subsidies in FY2021. The challenges of the pandemic in the first half of FY2021 caused tariffs to be frozen; bill payments to be phased over a 9-month period (April–December 2020); and

¹³ Ministry of Energy estimates.

¹⁴ Government of Pakistan. March 2021. *Circular Debt Management Plan*. Islamabad.

¹⁵ Government of Pakistan. September 2021. *Circular Debt Management Plan*. Islamabad.

agriculture, export-oriented industries, and small and medium-sized enterprise consumers to be provided with subsidy support packages to limit their energy costs. Disruptions to collection cash flows and irregular subsidy payments to DISCOs, among others, caused circular debt flow to grow by PRs211 billion during July–December 2020, against the projected savings surplus of PRs54 billion.¹⁶

8. **High cost of generation.** Pakistan’s power policies of 1994, 2002, 2006, and 2015 were reactive to the country’s generation crises and encouraged aggressive private sector participation through the establishment of fossil fuel-based generation because of the short gestation period. This distorted the generation mix toward imported fuels (oil, liquified natural gas [LNG], and coal) under the take-or-pay contracts, while reduced reliance on indigenous hydropower, renewable energy sources, and local fuels increased the cost of generation. Independent power producers (IPPs) were offered 16%–20% returns on investment, pegged to the US dollar, which turned out to be much higher as the US dollar appreciated 5.3 times against the Pakistan rupee in 1995–2020. The high cost of generation is also because of multiple other factors, including (i) indecision on hydropower profits, (ii) transmission constraints that cannot evacuate about 13,000 megawatts of power, (iii) a flawed dispatch merit order policy, (iv) the financing cost of circular debt, and (v) pricing of local gas and imported LNG. In April 2020, the government initiated discussions to renegotiate power purchase agreements with IPPs to reduce capacity payments,¹⁷ by lowering returns and interest on debt, extending debt tenors, and sharing operation and maintenance expenses equitably. Further, the National Electricity Policy (2021) and the Alternative and Renewable Energy Policy (2020) were prepared under subprogram 1. Both policies mandate competitive procurement of energy to optimize the generation cost and mix.¹⁸

9. **Unsustainable losses.** The unrecovered cost of the generated units, combined with the lack of regulatory and private sector mechanisms to improve DISCOs’ operational performance, remain a recurring cause of circular debt. Of the 123 billion energy units (kilowatt-hours) generated in FY2019, the revenue of nearly 30% of these units was unaccounted for because (i) transmission and distribution losses averaged 20%, and (ii) non-recoveries of the billed amount averaged 10%. The average DISCO inefficiency losses and under-recoveries in FY2020 were PRs241 billion. The programmatic approach and the government’s reform program focus on mitigating technical and commercial losses, and reducing inefficiencies through private sector targeted investments in the sector.

10. **Weak governance.** Heavy reliance on sovereign financing has led to a heavy public sector influence on energy sector governance. Board and management positions of government-owned generation, transmission, and distribution companies continue to be held primarily by civil servants with limited sector experience and commercial focus. Under subprogram 1, the MOE adopted a general government policy applicable to all SOEs, to select board candidates through a competitive and transparent process with at least one female board member. In April 2020, the cabinet approved the SOE governance reforms to divest and commercialize SOEs through private sector and public–private participation modalities. Instead of targeting outright privatization of power DISCOs, which had been unsuccessful in the past, the government aims to consider concession, management contracting, and outsourcing models. An SOE law, supported by ADB,

¹⁶ Additional factors behind the rise in circular debt are the increasing capacity payment component in the generation tariff, interest and late fee payments to generators, and inefficiencies of DISCOs.

¹⁷ A capacity payment is a tariff mechanism representing fixed required revenue, in exchange for dedicated fixed unit availability, to a generator/power producer based on per unit size (megawatt) of an electricity generator, calculated on an annual basis by the regulator.

¹⁸ Earlier power sector policies stipulated provision of up-front tariffs and cost-plus tariffs on a noncompetitive basis.

is close to final approval and public announcement.¹⁹ Federal and provincial public–private partnership laws and government agencies are already working to achieve these outcomes. Currently, not all boards have female members, and increased focus is needed to diversify and open the sector’s talent pool. Without open, inclusive, and transparent appointments of board and management with adequate sector experience, poor governance accentuates sector inefficiencies and adverse impacts on circular debt.

11. **Lack of integrated system planning.** Without integrated system planning accounting for the total cost of supply and service, Pakistan continues to face intermittent energy supply–demand imbalances, an uneven generation mix, unbalanced switching costs between the gas and power segments, and mismatch between idle generation capacity and network availability. With no generation crisis and the availability of surplus power, the government has utilized this opportunity to develop, with ADB support, a 25-year Indicative Generation Capacity Expansion Plan, the 5-year National Electricity Policy and Electricity Plan, and a market-oriented multi buyer–multi seller electricity trading model to address these planning constraints. Without further reform action to prepare the sector for a market-oriented trading model, lack of integrated system planning instills inefficiencies and contributes to mounting circular debt.

B. Policy Reform, ADB’s Value Addition, and Sustainability

12. Despite the challenges posed by the pandemic, the government remains committed to reform actions developed under the programmatic approach in achieving the requisite impact, outcome, and outputs. This includes implementing actions achieved and completed under subprogram 1 in 2019 that continued through subprogram 2 and progresses further under subprogram 3. In developing the program, ADB has undertaken multiple diagnostic and analytical studies since 2018, and ADB has taken into account the recommendations of the Independent Evaluation Department’s sector assessment performance evaluation of Pakistan’s energy sector,²⁰ which confirms that the reform and investment deficit in the sector would have been worse without ADB support.²¹ Given the changed sector context resulting from an unprecedented pandemic, ADB also considered the industry analysis of the International Energy Agency, the International Renewable Energy Agency, and other ADB corporate and country reports to reassess the programmatic approach. In April 2020, the cabinet endorsed five pillars of ongoing reforms following the programmatic approach to (i) realign generation costs, (ii) commercialize distribution systems, (iii) strengthen SOE governance, (iv) optimize sector operations to reduce costs, and (v) implement regulatory reforms for an open market. Support for this was endorsed through a joint letter from the presidents of ADB and the World Bank to the Prime Minister of Pakistan in May 2020. The implementation period of the programmatic approach, as approved by ADB’s Board of Directors, remains 2019–2022. While revisions have been made, all reform actions included in the original policy matrix remain within the original scope and all actions are expected to be completed within the Board-approved programmatic period. Subprogram 2 continues the programmatic approach and drills deeper to reduce financial, technical, and governance deficits in the sector by focusing on three reform areas. Based on ADB’s assessment of the documents received, all subprogram 2 policy actions have been completed.

¹⁹ The government engaged a legal drafting team with support from ADB TA (ADB. 2018. Technical Assistance to the Islamic Republic of Pakistan for Economic Management Support. Manila). The cabinet approved proposed law covers SOE efficiency, benchmarked performance, management accountability, and ensured transparency.

²⁰ Independent Evaluation Department. 2019. [Sector Assistance Program Evaluation: ADB’s Support to Pakistan Energy Sector \(2005–2017\)](#). Manila. ADB.

²¹ Sector Assessment (Summary): Energy (accessible from the list of linked documents in Appendix 2). The assessment is based on findings from ADB. 2017. [Technical Assistance to the Islamic Republic of Pakistan for the Update on Energy Sector Plan](#). Manila.

13. **Reform area 1: financial sustainability improved.** Actions in this pillar aim to address inefficient tariffs and subsidies, high generation costs, system losses, and lack of integrated planning. Subprogram 1 (i) cleared a backlog of PRs469 billion through pending tariff adjustments, (ii) prepared and secured cabinet approval for the implementation of the CDMP from November 2019 until the pandemic disruptions in March 2020, (iii) developed the first market-oriented National Electricity Policy, (iv) revised the Renewable Energy Policy (2006) for transparent and competitive energy procurement, and (v) encouraged increased women’s employment in the sector. Although the cabinet approved the CDMP under subprogram 1 in November 2019, the government could not continue its implementation beyond March 2020 because of the ongoing pandemic—as tariff adjustments stalled and tariff subsidies could not be released regularly. By January 2020, the government had raised tariffs for a fourth time, reaching a cumulative increase of 17% from the pre-January 2019 base tariff, and collected nearly PRs120 billion through an anti-theft and bill recovery drive. The CDMP also entailed multiple measures to strengthen the efficiency of power entities following the State-Owned Enterprise (Governance and Operations) Act, 2020.

14. Under subprogram 2, in close coordination with the IMF and the World Bank, the cabinet approved an updated CDMP in March 2021 that was revalidated in September 2021 and includes a timetable for power tariff adjustments consistent with the NEPRA Act amendment 2021. The amendment, effective 11 August 2021, aims to ensure automatic quarterly tariff adjustments and allowance for surcharges.²² Keeping in mind the need for cost recovery, while protecting the most vulnerable and avoiding further socioeconomic harm from COVID-19, following incremental tariff adjustments were determined and notified for (i) PRs1.95 per kilowatt-hour (kWh) in February 2021, (ii) PRs1.66 per kWh in October, 2021 and (iii) PRs1.39 per kWh from November 2021.²³ In addition, the government approved the National Electricity Policy (2021)—a key umbrella policy that facilitates integrated resources planning and a movement to more open and competitive markets, covering efficiency, transparency, competition in renewable energy, transmission, distribution, hydropower, and thermal power generation. Under subprogram 2, the MOE initiated a diagnostic study with technical assistance (TA) support from ADB, to mainstream gender elements into relevant energy sector plans, to attain effective gender mainstreaming in the next subprogram.

15. Subprogram 3 actions reflect government plans to curtail circular debt accumulation by continuing tariff adjustments consistent with the NEPRA Act amendments adopted by Parliament in 2021 (footnote 22), expanding multiyear tariffs, and furthering the formulation and implementation of sector plans (including gender mainstreaming components after subprogram 2) to reduce transmission and distribution losses and the cost of electricity generation, by deploying indigenous and less expensive renewable energy in Pakistan’s overall energy mix.

16. **Reform area 2: institutional and regulatory governance strengthened.** Actions in this pillar aim to professionalize management to improve the operational and financial performance of sector entities. Under subprogram 1, the government initiated the transparent constitution of boards of energy sector entities and the inclusion of female representation, obtained regulatory approval with a time-bound action plan for the implementation of a competitive electricity model, started the separation of regulatory and policy functions in oil and gas procurement, confirmed

²² Government of Pakistan, *Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act, 2021* (Also, known as the 2021 NEPRA Act Amendment).

²³ Additional tariff increases per the Government of Pakistan Circular Debt Management Plan September 2021 include: a FY2022 Q2 quarterly tariff adjustment of PRs0.22 in February 2022; a FY2022 annual rebasing of PRs0.63 in January 2022, and a FY2023 annual rebasing of PRs2.17 in July 2022.

the establishment of appellate tribunals to address complaints against the electricity regulator, and began the sale of two LNG-based power plants to facilitate private sector participation with aim of improving operational and financial performance in the sector.

17. Subprogram 2 (i) progressed with reconstituting of boards of DISCOs and the National Transmission and Despatch Company (NTDC) as well as appointing the respective chief executive officers in these entities through a merit-based and transparent process, (ii) ensured that the first phase of NTDC organizational restructuring was completed to commence the necessary human resources reforms in 2022, and (iii) expanded privatization and commercialization plans beyond the two LNG-powered generation plants and two DISCO restructurings to explore and move forward divestment options for all 10 DISCOs through customized concessions adapted to the local environment (i.e., management contracts and partial outsourcing of assets underpinned by monitorable performance targets and an incentive structure). Subprogram 2 Policy Actions and Investment Opportunities details the private sector participation perspective on reform area 2 planned divestments and SOE reform actions and other policy interventions.²⁴ Gas industry reforms also progressed, including the implementation of unaccounted for gas plans and associated monitoring, to diversify the fuel mix to lower overall power generation costs.

18. Subprogram 3 will reinforce the actions implemented under subprogram 2 to ensure continued restructuring of the NTDC through the final phase of reform implementation—placing employees within the organization based on knowledge and skill. The appellate tribunal is expected to be fully operational under subprogram 3, with results set to be monitored. The commencement of bilateral contracting with the Central Power Purchase Agency-Guarantee Limited as the settlement center is a subprogram 3 objective that aims to enable sustainable efficiencies through open and transparent electricity trade and competition. Subprogram 3 will also aim to carry through privatization efforts that include finalizing the sale of two LNG power plants, and monitoring and supporting private sector investments and participation in the downstream sector, to improve sector efficiencies and address sector deficits.

19. **Reform area 3: energy infrastructure improved.** Actions in this pillar aim to improve energy infrastructure by focusing on reduction plans for unaccounted for gas; and formulating an off-grid plan for conservation, energy efficiency, and renewables that includes technical training for women in off-grid technology and domestic energy efficiency. Subprogram 1 developed time-bound implementation plans for a reduction in gas transmission and commercial losses.

20. Under subprogram 2, the regulator approved unaccounted for gas reduction plans and implementation commenced. In January 2021, the Ministry of Energy established a plan development unit to lead the formulation of a national energy plan which includes conservation, energy efficiency, and renewable options for off- and on-grid consumers. The national energy plan will be completed in June 2022. The completion of the national energy plan, now moved to subprogram 3, will be closely monitored by ADB, the IMF, and the World Bank together with its implementation.

21. Subprogram 3 will focus on effective monitoring and evaluation of unaccounted for gas results; ensure approval and implementation of the national energy plan; implement a net metering policy to increase renewable energy on the grid; modernize the National Power Control Center, with the installation of a supervisory control and data acquisition system; and strengthen

²⁴ ADB Private Sector Operations: Subprogram 2 Policy Actions and Investment Opportunities (accessible from the list of linked documents in Appendix 2).

energy accounting through advance metering infrastructure to move toward the implementation of an action plan for DISCO commercialization, including efficient infrastructure and commercialization analysis.

22. Revisions to subprogram 2 policy actions. Revisions of subprogram 2 policy actions may be divided into three types: (i) revisions that clarify original policy actions, reflecting the originally intended responsible party or parties and objectives; (ii) revisions that combine policy actions that have interlinking effects; and (iii) revisions that capture the actual and current circumstances that reflect both slower reform progress and areas of reform that have been implemented earlier than expected. The subprogram 2 policy matrix revisions keep the original programmatic approach reform objectives, and identify progress and necessary synergies across policy actions in subprograms 1 and 2 and subsequent actions anticipated in subprogram 3. COVID-19 slowed progress in some areas because of the government's redirection of fiscal resources to more urgent pandemic needs, such as saving lives and livelihoods. Electricity tariff increases were delayed because of socioeconomic pressure in the pandemic during 2020, but were adjusted in February, October, and November 2021 to mitigate burgeoning circular debt. However, other related tariff and plan development actions gave way to the urgent need for quick relief policies to offset sector constraints resulting from the pandemic. During the pandemic, the opportunity was taken to reevaluate actual changes in the power sector and the need for reform actions more fitting to altered circumstances. For example, expanding DISCO reforms beyond two and using a wider lens to assess the financial health and sustainability of all 10 DISCOs helps to advance more comprehensive downstream reform and opportunity for private sector entry.

23. Of the total 22 indicative policy actions for Subprogram 2 originally approved in December 2019, 2 upstream hydrocarbon related policy actions have been dropped, 10 actions remain unchanged while the other 10 policy actions have been revised and adjusted. Eight of the original 22 actions have been merged to consolidate into four. Subprogram 2 policy actions now total 16. Of these 16 policy actions, 3 are weaker, 3 are strengthened, and the remaining 10 equally as strong as the original policy actions. All reform actions remain within the programmatic approach and are expected to be completed by subprogram 3 in December 2022 (original expected program completion).²⁵

24. ADB's value addition. ADB is the largest development partner in Pakistan's energy sector; and has supported each administration in advancing reforms for a sustainable, affordable, and efficient sector. This has been done by combining analysis, policy dialogue, and projects with a focus on donor coordination. ADB support across all energy subsectors has helped expand and strengthen the national power grid, build power plants, increase access to electricity, and initiate important sector reforms. ADB has provided reform support under the Third Capital Markets Program,²⁶ setting the foundation for the formation of initial capital markets in Pakistan through demand and supply reform measures that broaden and deepen the financial system in Pakistan and ground it in a strong legal and regulatory framework. Reform support under the Trade and Competitiveness Program²⁷ also supported Pakistan to recover its current account deficit in a sustained manner and promote macroeconomic stability by facilitating improved trade competitiveness and exports. ADB's value addition is based on its long-term engagement with policy-based and investment loans in Pakistan and a unified One ADB approach, combining staff

²⁵ Subprogram 2 Original Policy Action Revisions (accessible from the list of linked documents in Appendix 2).

²⁶ ADB. 2020. [Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loans for Subprogram 1 and Technical Assistance Grant to the Islamic Republic of Pakistan for the Third Capital Market Development Program](#). Manila.

²⁷ ADB. 2020. [Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to the Islamic Republic of Pakistan for the Trade and Competitiveness Program](#). Manila.

resources covering economics, legal, private sector, public policy and finance, and social development. Subprogram 2 complements subprogram 1 by further remediating economic harms resulting from circular debt through tariff rate-base and design improvement, tariff notification streamlining, generation cost reduction, open competitive bidding, and increasing private sector participation in the sector.

25. **Previous ADB reform efforts.** ADB's earlier support through the Accelerating Economic Transformation Program²⁸ in 2008–2009 and the Sustainable Energy Sector Reform Program²⁹ in 2014–2017 delivered limited progress in addressing the underlying causes of circular debt and strengthening the sector's financial sustainability. Despite these limitations, the situation of the sector would have been even more precarious without ADB support. Earlier reforms included the automatic fuel cost adjustment in tariff rationalization; the application of debt service surcharges to reduce subsidies; the implementation of multiyear tariffs; the separation of system and market operators; and an amendment to the NEPRA Act to clarify the government's policy-making functions and NEPRA's regulatory functions, especially in tariff setting. The amendments also provided the foundation for an electricity trading market and an appellate tribunal as a dedicated dispute settlement mechanism for NEPRA decisions, included in the ongoing program. The CDMP developed in the Sustainable Energy Sector Reform Program could not attain the required results as it did not fully appreciate the surge in generation capacity costs of nearly 153% caused by new IPPs, from FY2017 to FY2021. Further, it relied excessively on DISCOs' efficiency improvements and on strategic sales proceeds from outright privatization, both of which were more challenging than envisaged. Most distribution and generation companies are running at a loss, and IPPs are not being paid according to their contracts, which requires them to take out expensive short-term financing to keep operating. The current program has addressed these deficiencies, but tariff adjustments were stalled (albeit with delayed tariff adjustments), and the release of tariff subsidies has been irregular, among other CDMP requirements, because of limited fiscal space and redirected fiscal policy during the pandemic.

26. **Lessons learned.** The program incorporates lessons from previous ADB policy-based interventions and ADB's sector assistance program evaluation recommendations (footnote 20). The key lessons identified by IED include: (i) incomplete policies and timid reforms cannot fully address the underlying causes of circular debt, which jeopardizes the financial situation of the sector and the country and prolongs the reliance on government subsidies and bailouts; (ii) the operational and financial performance of unbundled sector entities cannot improve unless full autonomy is coupled with appropriate ownership and incentive structures to strengthen staff skills and capabilities, reduce overstaffing, and foster accountability; (iii) a multiyear reform commitment through a flexible programmatic approach is necessary to achieve the sector's structural transformation objectives and achieve long-term financial sustainability; (iv) neglecting integrated energy planning contributes to sector inefficiencies because of a focus on short-term fixes for structural problems; and (v) collaboration and continuous dialogue with the government and development partners is essential for effectuating reforms, while joint monitoring and evaluation and TA capacity support are key to the successful design and implementation of reforms. Continued and strong political support and guidance are essential to implement significant reforms. The ongoing programmatic approach is addressing all these aspects.

²⁸ ADB. 2008. [*Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loans for Subprogram 1 to the Islamic Republic of Pakistan for the Accelerating Economic Transformation Program.*](#) Manila.

²⁹ ADB. 2014. [*Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Islamic Republic of Pakistan for the Sustainable Energy Sector Reform Program.*](#) Manila.

27. ADB will continue to support reform implementation through new energy sector initiatives, including TA projects in areas such as developing and monitoring the progress of the circular debt reduction plan, implementing the market-based financial settlement model, establishing the appellate tribunal, and strengthening capacity support to sector entities.³⁰ ADB's pipeline of loan projects is aligned with the identified infrastructure needs and supplements reform actions (footnotes 1 and 4).

28. **Development partner coordination.** Subprogram 2 was prepared in coordination with key development partners and complements their projects and programs. It underpins energy sector reforms in the IMF EFF and the World Bank's Resilient Institutions for Sustainable Economy³¹ and its Program for Affordable Clean Energy (footnote 7) Development Policy Financing. Subprogram 2 policy actions on tariff notification, the circular debt reduction plan, and automatic quarterly adjustments are supported in the IMF EFF. The scope and coverage of subprogram 2 have been discussed with development donors, including the IMF, the World Bank, ADB, the US, the United Kingdom, and other bilateral development partners active in the sector. IMF asserted upon recent conclusion of its sixth review that ADB's energy sector reforms under the programmatic approach, complements IMF-led reform initiatives by advancing electricity sector reform strategy agreed with international partners; tackling adverse energy sector spillovers on the budget, financial sector, and the real economy; and progressing the sector to financial viability (footnote 9). Regular consultations with the IMF continue, especially in the context of EFF implementation. The Circular Debt Management Plan, jointly agreed by ADB, the IMF, and the World Bank, was updated in 2021 by the MOE and endorsed by the cabinet. As recently articulated by IMF, the CDMP guides planned management improvements, cost reductions, timely alignment of tariffs with cost recovery levels, and better target subsidies to the most vulnerable (footnote 9). Subprogram 2's debt sustainability analysis, program monitoring, and disbursements sequencing have been fully coordinated with the IMF and the World Bank; and are consistent with the Sustainable Development Finance Policy (footnote 5).

C. Expected Outcome of the Reforms

29. The program's key impact remains financial sustainability and a self-reliant energy sector through reduced financial, technical, and governance deficits. The program's theory of change assumes that improved circular debt reduction and management leads to greater fiscal space for the government to prioritize public spending in areas that stimulate economic growth, thereby improving macroeconomic stability.³² This assumes that tariffs are adjusted as needed, generation costs are decreased, and distribution and transmission are efficient and competitive. However, if the reduced circular debt leads to imprudent public sector spending³³ in other areas of the energy sector or economy, gains from the circular debt reduction would be lost and the threat of continued macroeconomic instability would remain. ADB staff has made adjustments to the expected program outcome indicators for circular debt flow and stock because of the unprecedented COVID-19 pandemic shocks to the sector. The government has recalibrated

³⁰ ADB. 2017. [Technical Assistance to the Islamic Republic of Pakistan for the Update on Energy Sector Plan](#). Manila; ADB. 2018. [Technical Assistance to the Islamic Republic of Pakistan for Developing an Electricity Market](#). Manila; and ADB. 2019. [Technical Assistance to the Islamic Republic of Pakistan for Preparing Sustainable Energy Projects](#). Manila.

³¹ World Bank. [Resilient Institutions for Sustainable Economy](#).

³² The IMF EFF aims to constructively impact Pakistan's fiscal balance and macroeconomic stability.

³³ The IMF 2nd–5th review staff report notes that Pakistan must remain committed to the establishment and development of public financial management control systems to improve the efficiency of government spending and budget processing (footnote 8).

circular debt reduction forecasts, and the adjustments are reflected in the CDMP.³⁴ By 2024, with successful program implementation, expected program outcomes include: (i) new accumulation of circular debt per year will be reduced from PRs333 billion in FY2020 to less than PRs50 billion, (ii) accumulated payables will drop from PRs1,007 billion in FY2020 to PRs750 billion, and (iii) the weighted average electricity generation cost will fall from \$0.097/kWh in 2019 to \$0.070/kWh. The appellate tribunal is expected to resolve 60% of appeals of NEPRA decisions within 6 months. Past challenges to NEPRA determinations required court proceedings in Pakistan’s judicial system, where regulatory determinations were stayed and cases would remain for years without resolution, delaying tariff adjustments while circular debt mounted. Timely adjudication of appellate challenges to NEPRA determinations is expected to have constructive impacts on reducing circular debt. Through improved circular debt management, the government expects DISCOs’ collections to increase from 90.3% in 2019 to 99.4% in 2022 and losses to decrease in six DISCOs by 1% annually, generating additional revenue of PRs118 billion by the end of FY2023.³⁵ A reduction in the budgeted subsidy is expected from better targeting.

D. Development Financing Needs and Budget Support

30. Pakistan’s financing requirements are expected to be \$94.5 billion in FY2022, to be financed by domestic and foreign sources (Table 1). The government’s foreign borrowing is expected to be \$25.43 billion in FY2022 against foreign financing needs of \$19.26 billion. The surplus will be reflected as an increase in the reserve assets at the end of the fiscal year, after adjustments are made for any fluctuations in the gross financing requirement estimates. Table 1 presents Pakistan development financing needs for FY2022.

Table 1: Development Financing Needs (\$ million)

Item	Amount
Gross financing requirement	94,506
Gross domestic financing requirement	75,244
Gross foreign financing requirement	19,262
Available financing	25,434
Asian Development Bank’s policy-based loans and results-based loan	
Third Capital Market Development Program, subprogram 2	300
Energy Sector Reform Program, subprogram 2	300
Integrated Social Protection Development Program (results-based loan) ^a	112
World Bank, others	2,517
International Monetary Fund	2,000
Bilateral	
People’s Republic of China	4,063
Others	111
Commercial bonds	9,082
Private sector creditors	6,149
Other net capital inflows	800

^a The amount represents expected disbursement of \$112.5 million in FY2022 from the proposed loan amount of \$600 million.

³⁴ ADB modified the CDMP forecasts in light of a resurging COVID-19 wave in FY2021 and continued pandemic challenges anticipated in FY2022.

³⁵ To recover the interest portion of circular debt stock, a surcharge of PRs0.43 per unit is levied in the consumer bill. The remaining stock is being retired through the phased transfer of Power Holding Private Limited debt into public debt (fiscalization) during 2021–2028. The schedule envisaged for the retirement of the principal is PRs47 billion in FY2021; PRs130 billion in FY2022; PRs164 billion in FY2023; and PRs127 billion each year thereafter until FY2028 to fully retire the debt. Interest payments of circular debt stock are being paid through budget and tariffs.

Sources: Debt Management Office, Ministry of Finance, and Asian Development Bank estimates.

31. **Debt sustainability.** The debt sustainability analysis suggests that the public debt-to-GDP ratio is expected to decline gradually from 92.9% in FY2020 to 69.2% by FY2026.³⁶ While total public debt remains sustainable, during FY2020–FY2025 the public debt-to-GDP ratio remains higher than the debt threshold of 70.0%, before declining to 69.2% in FY2026. Despite improvement in the maturity structure of the public debt, macro-fiscal shocks continue to pose a threat to debt sustainability. The government has so far successfully secured external financing to meet the financing gap, yet the lower-than-expected economic growth, the rise in primary deficit, the increase in real interest rate, the surge in contingent liabilities, and the depreciation in the exchange rate can potentially widen the financing gap and thereby undermine debt sustainability. Although financial assistance from ADB and other development partners will not impair debt sustainability, the government will need to monitor fiscal risks and remain committed to fiscal consolidation to maintain macroeconomic stability to ensure debt sustainability. Financing under the proposed subprogram 2 is integrated into the IMF’s debt analysis.³⁷

E. Implementation Arrangements

32. The Ministry of Finance is the executing agency, responsible for overall program monitoring and reporting. The MOE (Power and Petroleum Divisions) is the implementing agency. Three TA projects support the policy actions for subprograms 2 and 3 (footnote 30). Subprogram 2’s implementation period is from 1 January 2020 to 30 June 2021, with disbursement in one tranche. Based on ADB’s assessment of documents received, all subprogram 2 policy actions have been completed. The proceeds of the policy-based loan will be withdrawn following ADB’s *Loan Disbursement Handbook* (2017, as amended from time to time). The loan closing date for subprogram 2 is 30 June 2022.

III. DUE DILIGENCE

33. **Safeguards.** Subprogram 2 is classified *category C* for the environment, involuntary resettlement, and indigenous peoples because of the absence of direct or indirect impacts, as it is not expected to result in infrastructure development activities with adverse environmental or social impacts. Investment activities prohibited under ADB’s Safeguard Policy Statement (2009) are excluded.

34. **Technical.** Several subprogram outputs have technical components at their core. The implementation of the revised CDMP requires strong technical, financial, and project management skills, while operationalizing the Indicative Generation Capacity Expansion Plan needs sound technical and systems planning knowledge. Capacity support under the programmatic approach assists government entities to better manage these technical operations. Policy reforms are complemented by ADB’s strong energy investment portfolio of \$2 billion and the 2021–2023 pipeline of \$2.5 billion for sustainable infrastructure development to strengthen generation, transmission, and distribution systems.

³⁶ Debt Sustainability Analysis (accessible from the list of linked documents in Appendix 2).

³⁷ The IMF program includes general budget support financing plans of the government, including this programmatic approach and lending programs of all other development partners for 2019–2025. The Fiscal Responsibility and Debt Limitation Act, 2005 of Pakistan (amended in 2016) allows the government to borrow above the 60% of GDP public debt ceiling by providing the justification for additional borrowing in the annual debt policy statement.

35. **Governance.** Governance risk assessment was conducted in line with the Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan.³⁸ The governance assessment found risks that could affect the programmatic approach, such as (i) unanticipated resistance from stakeholders with vested interests; (ii) reform delays attributed to the difficult fiscal position caused by unforeseen crises, e.g., worsening effects from the continued COVID-19 pandemic; and (iii) increased energy sector payables and slow recovery of energy sector entities discouraging private sector investments. The subprogram institutes improved governance mechanisms that remain in effect through political changes. Energy remains the largest sector of ADB assistance in Pakistan, and the MOE has successfully implemented ADB's energy portfolio of more than \$7.5 billion since 2005. The cabinet approved the CDMP, supported by the IMF, ADB, and the World Bank; and is bridging sector governance deficits through sequenced policy interventions in the medium term. While no major resource mismanagement risks at the implementing level could be discerned, areas relating to the sector's institutional capacity and financial sustainability were targeted for capacity development in the TA projects and the program's policy actions (footnote 30).

36. **Poverty, social, and gender.** The poverty reduction and social impacts are positive. The country's current energy crisis has adversely affected growth, squeezing limited employment opportunities in formal labor markets for both men and women. The program is expected to improve the quality and reliability of power supply while benefiting commercial, domestic, urban, and rural consumers. The program has indirect benefits for the public, including poor segments of the population, by increasing job opportunities and thus improving the well-being of all, reducing indirect taxes, lowering costs, and increasing the outreach and access of energy services to remote districts. Encouraging private sector participation in the energy sector increases job opportunities. Compared with urban areas, rural poverty is high, accounting for four out of five poor individuals.³⁹ Subprogram 2 supports the country's financial and economic stability, which is crucial for the continuation of the government's social protection program being implemented under the post-COVID-19 Ehsaas Strategy.⁴⁰ Nearly half of the population's livelihoods are directly or indirectly associated with the agriculture sector. The labor force survey, 2017–2018⁴¹ estimates that the informal sector accounts for 71.7% of employment in non-agriculture jobs.

37. Subprogram 2 is categorized *some gender elements*. A parallel cluster TA subproject supports the preparation and implementation of the gender actions under subprograms 2 and 3.⁴² Subprogram 2 enables development of the National Electricity Plan, 2021–2025 to be implemented under subprogram 3, which reflects the government's gender mainstreaming policy to increase women's technical participation and representation in decision-making bodies. It bolsters women's participation through capacity building activities that enables women to take on technical and management positions. Subprogram 2 also strengthens women's foothold in energy, through targeted training to produce women technicians and entrepreneurs.

38. **Risks and mitigating measures.** Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.⁴³

³⁸ ADB. 2008. [Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan \(GACAP II\)](#). Manila.

³⁹ S. Redaelli. 2019. [Pakistan at 100: From Poverty to Equity](#). Washington, DC: World Bank.

⁴⁰ Government of Pakistan. 2020. [Ehsaas Strategy Post COVID-19](#). Islamabad.

⁴¹ Government of Pakistan. 2018. [Labour Force Survey 2017-2018](#). Islamabad.

⁴² ADB. 2020. [Technical Assistance Cluster: Preparing and Implementing Gender-Inclusive Projects in Central and West Asia Subproject 12 to Pakistan: Building Capacities of Women in the Energy Sector](#). Manila.

⁴³ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Unanticipated resistance by stakeholders with vested interests impedes implementation.	The program is based on the government's policy and reform initiatives and is backed by strong political will and commitment. Requisite consultations were made with industry associations and the private sector during the formulation of electricity and renewable energy policies, as well as NEPRA tariff hearings. The program is strongly supported by key development partners and technical assistance was provided to the government.
Government delays attributed to the difficult fiscal position caused by unforeseen crisis, such as worsening effects from the continued COVID-19 pandemic.	While no direct mitigation mechanism exists for delays because of the continued exacerbation of the COVID-19 pandemic, ADB will continue the policy dialogue and lead the coordination of development partners' activities in energy sector reforms to ensure timely implementation of the medium-term development policy agenda.
Increased energy sector payables and slow recovery of energy sector entities discourage private sector investments.	The Alternative and Renewable Energy Policy (2020) provides competitive incentives for foreign direct investment and private sector participation. The circular debt reduction plan provides the basis for improved efficiency and multiple structural measures to improve sector governance.

ADB = Asian Development Bank, COVID-19 = coronavirus disease, NEPRA = National Power Regulatory Authority.
Source: Asian Development Bank.

39. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the Ministry of Finance.

IV. ASSURANCES

40. The government has assured ADB that implementation of the program 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 draft loan agreement.

V. RECOMMENDATION

41. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$300,000,000 to the Islamic Republic of Pakistan for subprogram 2 of the Energy Sector Reforms and Financial Sustainability Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 2% per year 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 presented to the Board.

Masatsugu Asakawa
President

24 November 2021

POLICY DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Financial sustainability and self-reliance of energy sector achieved (Vision 2025) ^a			
Outcome Financial, technical, and governance deficits in the energy sector reduced		Risks and Critical Assumptions R Macro and microeconomic shocks caused by unforeseen crisis delays tariff adjustment and notification. R Reduced and limited fiscal space due to redirected fiscal policy to address pandemic shocks and prolonged pandemic recovery, delays reform momentum. A Strong ownership and steadfast reform implementation despite unusually high uncertainty and risks during COVID-19 pandemic.	
Prior Actions: Subprogram 1 Completed January 2019–December 2019	Prior Actions: Subprogram 2 Completed January 2020–June 2021	Policy Actions: Subprogram 3 July 2021–December 2022	Outcome Indicators By 2024 ^b
Reform Area 1– Financial Sustainability Improved: To control accumulation of circular debt			
1.1 FY2018 tariff, quarterly adjustments for Q1–Q4 FY2019 were notified, adjusting tariffs for PRs469 billion of backlog.	2.1 National Electric Power Regulatory Authority (NEPRA) Act Amendment that include automatic quarterly tariff adjustments and allowance for surcharges, was submitted by MOE to the Parliament for approval, ^c and Electricity Tariff Rules Modification Summary, as moved by MOE, was approved by Cabinet Committee of Legislative Cases, based on NEPRA Act Amendments (2018). ^d (originally SP2.1 and 2.7) 2.2 FY2021 tariff was notified ^e by MOE to enable required corrections to rate-base and to commence timely tariff	3.1 FY2022 tariff will be notified by Ministry of Energy, further reducing circular debt flow.	a. Circular debt flow accumulation reduced to less than PRs50 billion (FY2019 baseline: PRs450 billion) (FY2020: PRs333 billion) b. Circular debt stock reduced to PRs750 billion (30 June 2020 baseline: PRs1,007 billion) c. Weighted average cost of generation lowered to \$0.070 per kWh (2019 baseline: \$0.097 per kWh)

Prior Actions: Subprogram 1 Completed January 2019–December 2019	Prior Actions: Subprogram 2 Completed January 2020– June 2021	Policy Actions: Subprogram 3 July 2021–December 2022	Outcome Indicators By 2024 ^b
<p>1.2 Ministry of Energy approved and started implementation of a circular debt reduction plan, including implementing anti-theft drive, quarterly tariff notifications, and improve collections, to control the new accumulation of circular debt.^h</p>	<p>adjustments consistent with NEPRA Act Amendment.</p> <p>2.3 Multiyear tariff (MYT)^f petitions were submitted by 3 additional^g DISCOs to NEPRA for approval; and the Ministry of Energy approved NEPRA determined mechanism (formulated in previous MYT tariff determinations) to link tariffs of respective DISCOs with operational performance. (originally SP2.3 and 2.4)</p> <p>2.4 Government (joint MOE and MOF effort) updated the Circular Debt Management Plan to include measures to reduce accumulated payables (debt flow) and loans of Power Holding Private Limited (PHPL debt stock); and consistent with updated Circular Debt Management Plan, new accumulation of circular debt flow and stock is contained.ⁱ (originally SP2.5 and 2.6)</p>	<p>3.2 Multiyear tariff will be determined and notified by NEPRA for all DISCOs, and NEPRA will continue to apply a consistent mechanism approved by Ministry of Energy (approved under subprogram 2) to link tariffs of respective DISCOs with operational performance; thus, improving financial transparency and operational efficiency for all DISCOs. (originally SP3.2 and 3.3)</p> <p>3.3 The Government of Pakistan will reduce Circular Debt flow by PRs325 billion and PRs724 billion at close of FY2022 and PHPL debt between PRs130 billion and PRs180 billion through debt restructuring, enabling improved sector financial sustainability. (originally SP3.4, 3.5, and 3.6)</p>	

Prior Actions: Subprogram 1 Completed January 2019–December 2019	Prior Actions: Subprogram 2 Completed January 2020–June 2021	Policy Actions: Subprogram 3 July 2021–December 2022	Outcome Indicators By 2024 ^b
<p>1.3 Ministry of Energy has completed consultations and submitted the National Electricity Policy for approval by provinces, ensuring measures for a rationalized generation mix, demand side management and increased women employment in the sector.</p> <p>1.4 Ministry of Energy approved and published the draft Renewable Energy Policy 2019</p>	<p>2.5 The Council of Common Interests (CCI) approved the 2020 Alternative and Renewable Energy Policy (ARE), a component of the Cabinet approved 2021 National Electricity Policy, with ARE implementation commenced to further greener power and lower power generation cost.(originally SP2.8)ⁱ</p> <p>2.6 Ministry of Energy endorsed and submitted to NEPRA the NTDC Indicative Generation Capacity Expansion Plan (IGCEP) and Ministry of Energy has commenced implementation with the immediate aim of effectuating the 2020 approved Alternative and Renewable Energy Policy 2020. (originally SP2.9).</p> <p>2.7 Ministry of Energy completed stakeholder consultations and approved the modified dispatch merit order^l guidelines to optimize generation and service delivery costs. (originally SP2.10)</p>	<p>3.4 Ministry of Energy will implement the CCI approved National Electricity Policy^k along-side the updates of relevant national energy plans, including gender mainstreaming components formulated post SP2 pursuant to ADB TA 54111–006. (originally SP3.7)</p> <p>3.5 NEPRA will approve updates to NTDC IGCEP, establishing a NEPRA mechanism for annual review and update.^m (originally SP3.8)</p>	
Reform Area 2 – Institutional and Regulatory Governance Strengthened: To promote transparency through sector restructuring			
	2.8 National Transmission and Despatch Company	3.6 NTDC will complete Phase 2 of the two-phase	d. By 2024, power subsector appellate tribunal resolves

Prior Actions: Subprogram 1 Completed January 2019–December 2019	Prior Actions: Subprogram 2 Completed January 2020–June 2021	Policy Actions: Subprogram 3 July 2021–December 2022	Outcome Indicators By 2024 ^b
<p>1.5 The Government implemented a policy to require at least one female board member for public sector enterprises including DISCOs, and shortlisted candidates for 4 DISCOs based on a competitive process.</p> <p>1.6 NEPRA completed public consultations for the market-oriented electricity trading model and Economic Coordination Committee of the Cabinet (ECC) approved extension in its commercial operation date.</p>	<p>implemented Phase 1 of the two-phase recommended restructuring for improved performance management and quality assurance; coordinated action plans with longer-term viability; enhanced visibility of project delivery status; and clearer roles, responsibilities, and accountabilities. (originally SP2.11)</p> <p>2.9 Ministry of Energy implemented a merit-based transparent process upon which Board of Directors of all DISCOs were selected and respective Boards of Directors of DISCOs and NTDC selected for appointment of the Chief Executive Officers. (consolidates SP2.12 and 2.13)ⁿ</p> <p>2.10 Cabinet Committee on Energy^o approved the detailed mechanism of the competitive trading and bilateral contracting model,^p facilitating movement toward direct power purchases and sales. (originally SP2.14)</p>	<p>restructuring with final project approval resting with National Transmission and Despatch Company and DISCO Boards in accordance with Companies Act 2017 enabling direct foreign assistance for projects. (originally SP3.9)</p> <p>3.7 Government will roll out new suite of tools, based on gender diagnostic report findings, to increase the representation of women in management and leadership roles in the sector.</p> <p>3.8 NEPRA will approve the use of bilateral contracting with Central Power Purchasing Agency-Guarantee (CPPA-G) serving as the bilateral market settlement center. (originally SP3.10)</p>	<p>60% of complaints within 6 months of application submission on average (2019 baseline: not established)</p>

Prior Actions: Subprogram 1 Completed January 2019–December 2019	Prior Actions: Subprogram 2 Completed January 2020–June 2021	Policy Actions: Subprogram 3 July 2021–December 2022	Outcome Indicators By 2024 ^b
<p>1.7 Cabinet Committee on Privatization (CCOP) has approved the privatization of two Liquefied Natural Gas (LNG) based power plants.</p> <p>1.8 Ministry of Energy has approved separation of policy-making and regulatory functions in the hydrocarbons sector and establishing Pakistan Petroleum Exploration and Production Regulatory Authority.</p>	<p>2.11 Cabinet Committee on Privatization (CCOP) approved the concept for private sector participation and divestment roadmap for all power distribution companies. (originally SP2.15)</p> <p>2.12 Two Liquefied Natural Gas (LNG) based power plants are advertised by Ministry of Privatization for competitive auction and expression of interests (EOIs) received. (originally SP2.16)</p> <p>2.13 MOE facilitated third party access to pipelines and direct purchase by users, with first contracts of third party access for gas pipelines signed and effective, as part of downstream gas restructuring.^q (originally SP2.18)</p> <p>2.14 Appellate tribunal is staffed and established with governing rules and regulations fully operationalized. (originally SP2.19)^r</p>	<p>3.9 Ministry of Privatization will finalize the sale of two LNG based power plants. Sales proceeds are available to pay down circular debt.</p>	

Prior Actions: Subprogram 1 Completed January 2019–December 2019	Prior Actions: Subprogram 2 Completed January 2020–June 2021	Policy Actions: Subprogram 3 July 2021–December 2022	Outcome Indicators By 2024 ^b
1.9 Ministry of Energy, in consultation with Ministry of Law and Justice, approved timebound targets to establish the Appellate Tribunal under the NEPRA Act amendments by end 2020.			
Reform Area 3 – Energy Infrastructure Improved: To reinforce supply chain improvements			
1.10 The Cabinet has ratified the Unaccounted for Gas (UFG) Reduction plan of Sui Southern Gas Company (SSGC) and Sui Northern Gas Company (SNGPL) with monitoring targets and implementation roadmap.	<p>2.15 Oil and Gas Regulatory Authority endorsed through determination, cabinet committee approved Sui Southern Gas Company (SSGC) and Sui Northern Gas Company (SNGPL) UFG (Unaccounted for Gas) Reduction plans with targets that can be monitored, and implementation started. (originally SP2.20)</p> <p>2.16 Ministry of Energy established a Plan Development Unit to lead formulation, coordination, implementation and monitoring of the National Electricity Plan that includes conservation, energy efficiency, and renewable options for off- and on-grid consumers (including technical training for women in off-grid technology and domestic energy efficiency). (linked to SP2.5, 2.6, and 2.7) (originally SP2.21)</p>	<p>3.10 SSGC and SNGPL will reduce unaccounted for Gas (UFG) based on respective loss reduction plans determined by OGRA to improve energy sector efficiencies. (originally SP3.14)</p> <p>3.11 MOE will approve the National Electricity Plan with implementation started to enable improved intra-sectoral efficiencies and increased electricity access.</p> <p>3.12 Government will complete the first stage of advance metering, covering Islamabad Electricity Supply consumers, and net metering policy will be implemented across 5 DISCOs to increase share</p>	

Prior Actions: Subprogram 1 Completed January 2019–December 2019	Prior Actions: Subprogram 2 Completed January 2020–June 2021	Policy Actions: Subprogram 3 July 2021–December 2022	Outcome Indicators By 2024 ^b
1.11 Ministry of Energy approved an incentive policy for increasing bidding rounds for oil and gas blocks through smaller and continual rounds to encourage sustained and reliable exploration in oil and gas sectors		<p>of renewable energy into the grid. (targets to be determined) (originally SP3.15)</p> <p>3.13 National Power Control Center will be operationalized and modernized through installation of SCADA metering and energy accounting system for network stability and economic dispatch. (originally SP3.16)</p>	
<p>Budget Support ADB</p> <p>Subprogram 1: \$300 million (concessional OCR loan) Subprogram 2: \$300 million in 2021 Subprogram 3: \$400 million in 2022</p>			

A = Assumption, ADB = Asian Development Bank, CCOP = Cabinet Committee on Privatization, CPPA-G = Central Power Purchasing Agency-Guarantee, DISCO = distribution company, ECC = Economic Coordination Committee of the Cabinet, FY = fiscal year, IGCEP = Indicative Generation Capacity Expansion Plan, kWh = kilowatt-hour, LNG = liquefied natural gas, MOE = Ministry of Energy, MOF = Ministry of Finance, MYT = multiyear tariffs, NEPRA = National Electric Power Regulatory Authority, NTDC = National Transmission & Despatch Company, OCR = ordinary capital resources, OGRA = Oil and Gas Regulatory Authority, PHPL = Power Holding Private Limited, PR = Pakistan rupee, R = Risk, SCADA = Supervisory Control and Data Acquisition, SNGPL = Sui Northern Gas Company, SP = subprogram, SSGC = Sui Southern Gas Company, TA = technical assistance, UFG = Unaccounted for Gas.

^a Government of Pakistan, Ministry of Planning, Development and Reform. 2014. Islamabad.

^b Adjustments have been made to expected program outcome indicators for circular debt flow and stock, due to unprecedented COVID-19 pandemic shocks to the sector. Government authorities have recalibrated circular debt reduction forecasts and the adjustments are reflected in the government's approved Circular Debt Management Plan. Forecasts have been modified by ADB in light of a resurging COVID-19 wave in FY2021 and continued pandemic challenges anticipated in FY2022.

- ^c The NEPRA Amendment is currently before Parliament for approval. While Parliament was on recess, a Presidential Ordinance was issued, providing a six-month bridge approval of the amendments.
- ^d NEPRA Act Amendments (2018) is the legal title that remains despite periodic amendments to the Act.
- ^e Notification is a legal term meaning published by relevant government authority to the public via Gazette or any other method. Absent notification a policy, determination, or rule is not legally binding upon the public.
- ^f Multiyear tariffs improve efficiency and financial transparency when linked with a system of incentives and penalties designed to improve operational performance.
- ^g Three DISCO's already have multiyear tariffs. This policy actions aims to extend that to 3 more.
- ^h Circular debt is payables from distribution companies to power generators and fuel suppliers. These are caused by electricity system losses including commercial losses, non-payment of financial obligations by end-users and regulatory deficiencies. Circular debt flow is the increase in payables towards suppliers in a certain period. Circular debt stock is the accumulated liabilities towards suppliers and lenders. Implementation of actions to curtail the circular debt flow started since 1 July 2019 by instituting cost reflective tariffs and accelerating recoveries of arrears.
- ⁱ Actual Circular Debt Management Plan containment amounts for FY2021 have been retained and moved to Outcome Indicators for purpose of improved clarity on monitoring and evaluation of results. This is consistent with ADB Strategy, Policy, and Partnership Department's shared approach for assessing PBL results.
- ^j In parallel, technical assistance is being provided under ADB. 2020. [Cluster Technical Assistance for Central and West Asia: Preparing and Implementing Gender-Inclusive Projects in Central and West Asia Subproject 12 to Pakistan: Building Capacities of Women in the Energy Sector](#). Manila to support the Ministry of Energy diagnostic study under ADB TA 54111-006 to mainstream gender into relevant energy sector plans. The study is expected to establish baselines and measurable targets for gender mainstreaming into Pakistan's energy sector.
- ^k The National Electricity Policy is a general policy framework that contains a portfolio of policies. Among a priority policy under ADB's programmatic approach is Pakistan's Alternative and Renewable Energy Policy. The NEP is intentionally broad, leaving specifics to subsector policy documents – including relevant development of subsector plans. Overarching key principles are equally broad and include efficiency, transparency, competition, financial viability, indigenous research and development, and environmental responsibility.
- ^l Modifications to the ranking of available sources of electrical generation.
- ^m The IGCEP is a fluid document to be updated annually. It identifies new capacity requirements, location and possible commissioning dates while considering loss of load probability criteria, load growth forecast, operating reserve requirements and other related capacity planning criteria. It is seen as the integrated least cost plan for the sector, and is the plan that implements the Alternative and Renewable Energy Policy 2020.
- ⁿ In parallel, technical assistance is being provided under ADB. 2020. [Cluster Technical Assistance for Central and West Asia: Preparing and Implementing Gender-Inclusive Projects in Central and West Asia Subproject 12 to Pakistan: Building Capacities of Women in the Energy Sector](#). Manila, to develop a professional leadership training program to help prepare female employees for managerial roles and to increase women recruitment in the energy sector.
- ^o The Cabinet Committee on Energy is a consultative forum used by Pakistan's Prime Minister for matters concerning the country's energy sector projects, governance, policy, and reform issues. The CCOE is chaired by the Minister of Planning, Development & Special Initiatives, with the Prime Minister reserving the right to serve as chairperson.
- ^p The NEPRA (Amendment) Act, 2018 explicitly identifies the sector's transition to an electric power market with reduced regulatory oversight. Fundamental structural changes have been introduced by the regulator to realistically facilitate the formation of wholesale and retail markets in the power sector. At the distribution level wires and supply services have been disaggregated by the regulator's new separate licensing requirement to supply retail power. At the wholesale level, the regulator has formulated a power trader license to facilitate the development of wholesale power trade entities that are power generation asset free and able to engage in direct power supply agreements with any interested and right priced generator.
- ^q "First contract of third party access for gas pipelines are signed and effective" was an original policy action for subprogram 3. The action has been advanced and implemented under subprogram 2. Removal of gas transmission costs could reduce power generation fuel cost, resulting in positive impact on weighted average cost of generation.
- ^r Pursuant to the NEPRA Act, the Appellate Tribunal is an entity to hear and determine appeals filed by sector stakeholders challenging NEPRA rulings. The formation of the tribunal is skills based and prescribed by the NEPRA Act. Its purpose is to expedite power sector related appellate proceedings that in the past were tied up for years in traditional Pakistani courts and judicial system.

Contribution to Strategy 2030 Operational Priorities: Operational priority indicators to which this operation contributes results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=53165-002-3>

1. Loan Agreement
2. Sector Assessment (Summary): Energy
3. Contribution to Strategy 2030 Operational Priorities
4. Development Coordination
5. International Monetary Fund Assessment
6. Summary Poverty Reduction and Social Strategy
7. Program Economic Assessment
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Parallel Technical Assistance Report
11. Approved Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Islamic Republic of Pakistan for the Energy Sector Reforms and Financial Sustainability Program

Supplementary Documents

12. Circular Debt Impact on Power Sector Investment
13. Subprogram 2 Original Policy Actions Revisions
14. ADB Private Sector Operations: Subprogram 2 Policy Actions and Investment Opportunities
15. Safeguard Assessment Policy Matrix
16. Climate Change Assessment
17. Debt Sustainability Analysis

DEVELOPMENT POLICY LETTER

Shaukat Tarin
Adviser to Prime Minister
on Finance and Revenue

F. No. I(11)ADB/2020

ISLAMABAD
November 22, 2021

DEVELOPMENT POLICY LETTER

Dear President Asakawa,

I would like to thank you and the Asian Development Bank for your continued support to the Government of Pakistan (the Government). The structural reforms introduced by the Government, and fully supported by the ADB, have been instrumental in setting Pakistan on a medium-term trajectory of sustained and balanced economic growth and macroeconomic stability. Through this letter we wish to inform you of the progress made in our energy sector reform program and our vision and objectives under the medium-term implementation roadmap (2019-2023).

In order to bring down the cost of power supply and improve the financial sustainability of the energy sector, the Cabinet approved a comprehensive program that is under implementation to (i) realign cost of generation by rationalizing power purchase agreements, decommissioning inefficient thermal plants with rapid deployment of renewable and indigenous energy resources and improving fuel mix; (ii) increase private sector participation in the power distribution segment through concessions, management contracts and outsourcing modalities relating to existing energy distribution companies; (iii) improve governance reforms for state-owned enterprises through anti-theft drive, disconnection of defaulters, at source deduction of unpaid bills of public entities and reconstitution of boards of all ten power distribution companies; (iv) optimize operations to lower costs through revamping of power dispatch merit order, seasonal pricing; and (v) effectuate regulatory reforms through the implementation of a competitive electricity trading market and of cost reflective tariffs. The Government has already taken some difficult decisions including substantial electricity tariff increases of nearly 52% since assuming office in mid-2018.

Pakistan's energy sector is challenged with multiple constraints including circular debt and cash shortfall across power supply chain, inadequate tariffs and inefficient subsidies, high cost of generation, unsustainable losses, weak governance, and lack on

integrated planning. Despite COVID headwinds, the government is addressing these challenges which adversely impact sector sustainability and affordability and Pakistan's fiscal balance and macroeconomic stability. ADB's Energy Sector Reforms and Financial Sustainability Program (the Program) sequences these key reforms under the programmatic approach and supports government's reform agenda by drilling deeper into the three reform areas to (i) secure financial sustainability by controlling accumulation and addressing reduction of circular debt; (ii) strengthen governance by rationalizing a competitive market road map, the appointment of appellate tribunals, the implementation of multiyear tariffs and the unbundling of the gas subsector; and (iii) reinforce infrastructure improvements through integrated planning to facilitate public and private sector investment across the energy supply chain. The 2024 target outcomes for the Program are: (i) new accumulation of circular debt flow reduced to less than PRs50 billion; (ii) circular debt stock reduced to PRs750 billion, (iii) weighted average cost of generation is lowered from 9.7 to 7.0 US cents/kWh, and (iv) power sector appellate tribunal to resolve 60% of complaints within 6 months of application on average.

Subprogram 2 of the Program has the Government's full commitment and is a priority in the reforms roadmap as it aims to reduce accumulated power sector circular debt, currently estimated at about Rs. 2.3 trillion. Important areas targeted under the proposed subprogram 2 reforms include (i) strengthening the power sector regulatory tariff through parliamentary consideration of NEPRA Act amendments; (ii) improving the sector's financial sustainability through an updated post-COVID-19 recalibrated tariff and Circular Debt Management Plan; (iii) formulating a solid subsectors' policy and planning regime to increase energy sector efficiencies and equitable access for marginalized people; (iv) restructuring energy sector state-owned enterprises, public sector management responsibilities, and buyer and supplier rules to strengthen institutional and regulatory governance through improved transparency; and (v) producing, more optimally, indigenous resources through reduction in unaccounted for energy, improved access to alternative resources and energy efficiency, and an operationalized incentive-based resource expansion plans to improve energy infrastructure. Subprogram 2 reforms will reduce financial, technical, and governance deficits in the energy sector through decreased circular debt flow and stock; lowered weighted average cost of generation, effective system of cost reflective tariffs protected against political changes, effective interagency coordination, commercialization of power entities, lower cost of generation, support into transmission and distribution infrastructure, long-term sector integrated planning; and rolling out of a competitive

electricity market. The measures complement and reinforce the energy reform programs supported by the International Monetary Fund and the World Bank.

We confirm that the Government is fully committed to the implementation of the policy actions under Subprogram 2, as included in the attachment to this letter, and that those actions reflect the reform agenda of the Government. The proposed loan for Subprogram 2, amounting to \$300 million will allow the Government to sustain momentum in implementing its reform program in the energy sector. The loan proceeds from Subprogram 2 will support government's overall financing needs.

We recognize the challenges and risks of delay under this Program due to COVID-19 pandemic and recovery. We face significant external financing requirements in coming years and the financing commitment from our development partners is critical to cover the financing gap and impact of reforms. We remain firmly committed to the Program's full and comprehensive implementation. I assure you that the Government is steadfast in continuing implementation and sustaining all reforms under this Program. We believe that with the continued support of international financial institutions we will be able to continue the progressive reduction of circular debt, bringing it to the level of Rs 1.850 trillion for FY2022, and Rs 1.519 trillion for FY2023 (reducing by one-third of the current accumulation). The progress of our energy reform program is monitored by the Cabinet Committee on Energy every week and key indicators are posted to ensure transparency. We are also pleased to inform you that we have reached staff level agreement with IMF on the 6th review of the EFF program.

In closing, I thank the ADB team for working closely with the Government and key development partners in developing this Program. I look forward to continuing to work closely with ADB in our shared objective of improving Pakistan's economic opportunities and progress.

With kind regards,

Yours sincerely,



(SHAUKAT FARIN)

Mr. Masatsugu Asakawa,
President,
Asian Development Bank
Manila, Philippines

Subprogram 2 Policy Actions

2.1 National Electric Power Regulatory Authority (NEPRA) Act Amendment that include automatic quarterly tariff adjustments and allowance for surcharges, was submitted by MOE to the Parliament for approval ¹ , and Electricity Tariff Rules Modification Summary, as moved by MOE, was approved by Cabinet Committee of Legislative Cases, based on NEPRA Act Amendments
2.2 FY2021 tariff was notified ² by MOE to enable required corrections to rate-base and to commence timely tariff adjustments consistent with NEPRA Act Amendment.
2.3 Multiyear tariff (MYT) ³ petitions were submitted by 3 additional ⁴ DISCOs to NEPRA for approval; and the Ministry of Energy approved NEPRA determined mechanism (formulated in previous MYT tariff determinations) to link tariffs of respective DISCOs with operational performance.
2.4 Government (joint MOE and MOF effort) updated the Circular Debt Management Plan to include measures to reduce accumulated payables (debt flow) and loans of Power Holding Private Limited (PHPL debt stock); and consistent with updated Circular Debt Management Plan, new accumulation of circular debt flow and stock is contained.
2.5 The Council of Common Interest (CCI) approved the 2020 Alternative and Renewable Energy Policy (ARE), a policy in the portfolio of policies comprising the Cabinet approved 2021 National Electricity Policy, with ARE implementation commenced to further greener power and lower power generation cost.
2.6 Ministry of Energy endorsed and submitted to NEPRA the NTDC Indicative Generation Capacity Expansion Plan (IGCEP) and Ministry of Energy has commenced implementation with the immediate aim of effectuating the 2020 approved Alternative and Renewable Energy Policy 2020.
2.7 Ministry of Energy completed stakeholder consultations and approved the modified dispatch merit order ⁵ guidelines to optimize generation and service delivery costs.
2.8 National Transmission and Despatch Company implemented Phase 1 of the two-phase recommended restructuring for improved performance management and quality assurance; coordinated action plans with longer-term viability; enhanced visibility of project delivery status; and clearer roles, responsibilities, and accountabilities.
2.9 Ministry of Energy implemented a merit-based transparent process upon which Board of Directors of all DISCOs were selected and respective Boards of Directors of DISCOs and NTDC selected for appointment of the Chief Executive Officers.
2.10 Cabinet Committee on Energy approved the detailed mechanism of the competitive trading and bilateral contracting model, facilitating movement toward direct power purchases and sales.
2.11 Cabinet Committee on Privatization (CCOP) approved the concept for private sector participation and divestment roadmap for all power distribution companies.

¹ The NEPRA Amendment is currently before Parliament for approval. While Parliament was on recess, a Presidential Ordinance was issued, providing a six-month bridge approval of the amendments.

² Notification is a legal term meaning published by relevant government authority to the public via Gazette or any other method. Absent notification a policy, determination, or rule is not legally binding upon the public.

³ Multiyear tariffs improve efficiency and financial transparency when linked with a system of incentives and penalties designed to improve operational performance.

⁴ Three DISCO's already have multiyear tariffs. This policy actions aims to extend that to 3 more.

⁵ Modifications to the ranking of available sources of electrical generation.

2.12 Two Liquefied Natural Gas (LNG) based power plants were advertised by Ministry of Privatization for competitive auction and expression of interests (EOIs) received.
2.13 MOE facilitated third party access to pipelines and direct purchase by users, with first contracts of third party access for gas pipelines signed and effective, as part of downstream gas restructuring.
2.14 Appellate tribunal is staffed and established with governing rules and regulations fully operationalized.
2.15 Oil and Gas Regulatory Authority endorsed through determination, cabinet committee approved Sui Southern Gas Company (SSGC) and Sui Northern Gas Company (SNGPL) UFG (Unaccounted for Gas) Reduction plans with targets that can be monitored, and implementation started.
2.16 Ministry of Energy established a Plan Development Unit to lead formulation, coordination, implementation and monitoring of the National Electricity Plan that includes conservation, energy efficiency, and renewable options for off-grid customers (including technical training for women in off-grid technology and domestic energy efficiency).