



# Technical Assistance Subproject Report

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**PUBLIC**

Project Number: 54442-002  
Knowledge and Support Technical Assistance (C-KSTA)  
August 2022

## Islamic Republic of Pakistan: Supporting Debt Management and Transparency Subproject 1: Support to Public Debt Management in Pakistan

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**Asian Development Bank**

## **CURRENCY EQUIVALENTS**

(as of 20 July 2022)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.00452
\$1.00	=	PRs221.031

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
SDFP	–	Sustainable Development Finance Policy
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., FY2022 ends on 30 June 2022.
- (ii) In this report, "\$" refers to United States dollars.

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## KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 54442-002
<b>Project Name</b>	Support to Public Debt Management in Pakistan	<b>Department/Division</b> CWRD/CWPF
<b>Nature of Activity Modality</b>	Capacity Development, Policy Advice Subproject	<b>Executing Agency</b> Ministry of Finance
<b>Country</b>	Pakistan	
<b>2. Sector</b>		<b>ADB Financing (\$ million)</b>
✓ Public sector management	Economic affairs management	0.300
	Public administration	0.300
	Public expenditure and fiscal management	0.300
		<b>Total</b> <u>0.900</u>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>
✓ OP6: Strengthening governance and institutional capacity		GHG Reductions (tons per annum) 0
		Climate Change impact on the Project Low
		<b>ADB Financing</b>
		Adaptation (\$ million) 0.000
		Mitigation (\$ million) 0.000
		<b>Cofinancing</b>
		Adaptation (\$ million) 0.000
		Mitigation (\$ million) 0.000
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>
SDG 1.b		Some gender elements (SGE) ✓
SDG 5.5		
SDG 16.6, 16.8		
SDG 17.4		
<b>4. Risk Categorization</b> Risk Categorization does not apply		<b>Poverty Targeting</b>
		General Intervention on Poverty ✓
<b>5. Safeguard Categorization</b> Safeguard Policy Statement does not apply		
<b>6. Financing</b>		
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>
<b>ADB</b>		<b>0.900</b>
Knowledge and Support technical assistance: Technical Assistance Special Fund		0.900
<b>Cofinancing</b>		<b>0.000</b>
None		0.000
<b>Counterpart</b>		<b>0.000</b>
None		0.000
<b>Total</b>		<b>0.900</b>
<b>Currency of ADB Financing:</b> US Dollar		

## I. THE TECHNICAL ASSISTANCE SUBPROJECT

### A. Overall Progress of the Technical Assistance Cluster

1. The knowledge and support technical assistance (TA) cluster on Supporting Debt Management and Transparency, consisting of five subprojects, was approved by the Asian Development Bank (ADB) on a no-objection basis in November 2021.<sup>1</sup> In addition to the proposed technical assistance subproject, subprojects 3 and 4 are expected to be committed within 2022, to support public debt management and transparency in Tajikistan and the Kyrgyz Republic, respectively. Subproject 2 which will support debt management and transparency in Uzbekistan and subproject 5 which will support public debt sustainability and transparency in Central and West Asia, are expected to be approved by the fourth quarter of 2022.

### B. Subproject Outcome

2. The TA will have the following outcome: debt sustainability and transparency in Pakistan improved. ADB will build on its longstanding policy dialogue with the Government of Pakistan on debt management to ensure that the proposed TA subproject will promote increased sustainability and transparency in Pakistan's borrowing practices. In order to support this overarching objective, the TA rests on three interrelated outputs: (i) implementation of the Sustainable Development Finance Policy (SDFP); (ii) fiscal risk management practices strengthened; and (iii) public debt recording, management and reporting strengthened.

### C. Subproject Outputs, Methods, and Activities

3. **Output 1: Policy actions agreed under the Sustainable Development Finance Policy (SDFP) implemented.** While Pakistan's public debt is assessed as sustainable, macro-fiscal shocks, including changes in primary and fiscal deficits, real interest rate movements, and exchange rate depreciation, continue to pose a risk to debt sustainability in Pakistan.<sup>2</sup> ADB's support for debt sustainability will be strengthened by aligning with the SDFP principles of the International Development Association (IDA). One of the pillars of SDFP is a debt sustainability enhancement program, which creates additional incentives for countries to move toward sustainable development financing. ADB's SDFP seeks to improve debt transparency and debt management capacity in Pakistan linking specific reforms to future concessional resource allocations. Under the SDFP, ADB has promoted policy reforms that help mitigate the adverse effects of debt accumulation through improved macro-fiscal policy frameworks, strengthened domestic resource mobilization, more efficient spending of scarce fiscal resources through improved public financial management systems, and strengthened institutional capacity for debt management. ADB is also monitoring IDA's SDFP implementation in close collaboration with the Government, IDA, and the International Monetary Fund.

4. During its first year of implementation, Pakistan managed to implement all but one policy action, leading it to set aside 10% of its concessional resource allocation from ADB.<sup>3</sup> To avoid

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<sup>1</sup> ADB. 2021. [Technical Assistance for Supporting Debt Management and Transparency](#). Manila.

<sup>2</sup> International Monetary Fund. 2021. [Pakistan: Staff Concluding Statement of the 2021 Article IV Mission and Staff-Level Agreement on the Sixth Review under the Extended Fund Facility](#). Washington, DC.

<sup>3</sup> Completed policy actions include: (1) The Finance Division issues an office order ensuring implementation of an integrated debt recording and information system for all domestic and external public debt; and (2) The Finance Division publishes: (i) semi-annual debt bulletins; (ii) an annual report comparing debt management strategy implementation with targets for end FY21; and (iii) a report on federal coronavirus disease (COVID-19) specific

future reductions in concessional resources available to Pakistan, the proposed TA subproject will support the government with the identification and implementation of policy actions of the SDFP for the remainder of the Asian Development Fund-13 period.

5. **Output 2: Fiscal risk management strengthened.** Exposure to fiscal risks represents a significant threat to fiscal stability in Pakistan. The materialization of risks that are unaccounted for threatens credibility of the medium-term budget framework. Failure to identify, mitigate, manage, and disclose exposure to fiscal risks results in unanticipated government liabilities which, in turn, threatens fiscal stability and debt sustainability. To address this challenge, the proposed TA subproject will support the development of an integrated fiscal risk management framework that can ensure adequate identification, mitigation, management, and disclosure of fiscal risks. Identifying the sources of fiscal risk and assessing their size and likelihood of realization will allow the Finance Division to articulate adequate risk mitigation and risk management strategies under a comprehensive fiscal risk management strategy. At the same time, continued disclosure of fiscal risks will ensure strengthened budget credibility through increased transparency, particularly for larger sources of fiscal risks such as public-private partnerships, state-owned enterprises, natural disasters, and macroeconomic risks.

6. **Output 3: Public debt recording, management and reporting strengthened.** Notwithstanding notable strides in enhancing debt reporting and debt management, more progress on tackling long-standing institutional and technical capacity weaknesses is crucial. Under the proposed TA subproject, ADB will support implementation of the medium-term debt strategy (to be updated annually and published) and continue its support towards full operationalization of the Debt Policy Coordination Office that was initiated under Third Capital Market Development Program.<sup>4</sup> With ADB's technical assistance, the Debt Policy Coordination Office is expected to start performing all middle office functions as of 2022, and back-office functions for domestic debt starting in 2023. To this end, support towards setting clear standard operating procedures and rules of business for utilization of the Debt Management and Financial Analysis System will be provided, in coordination with United Nations Conference on Trade and Development. Further, to support the effective use of government monies, ADB has committed to supporting the enabling of an interface between the Debt Management and Financial Analysis System and an integrated financial management information system. This will support external debt payment orders to be processed electronically. Again, this has not been developed and should be considered as a means of populating external debt data in an integrated financial management information system which can then be used for cash flow forecasting. The data could include the disbursement profiles that are documented in the loan agreements to enable loans receipts to be more accurately forecasted.

#### **D. Subproject Cost and Financing**

7. The TA subproject financing amount is \$900,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7). The key expenditure items are listed in Appendix 2. The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions.

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expenditure for FY21. Pending policy action is the issuance of administrative rules assigning all debt management functions to the debt management office following amendments to the 2005 Fiscal Responsibility and Debt Limitation Act.

<sup>4</sup> ADB. 2020. [Pakistan: Third Capital Market Development Program](#). Manila

## E. Subproject Implementation Arrangements

8. ADB will administer the TA. The Public Management, Financial Sector and Trade Division of ADB's Central and West Asia Department will select, supervise, and evaluate consultants; procure goods (para. 10); organize workshops; and provide staff to act as resource persons in the workshop. The work on Output 1 will be carried out in close consultation and collaboration with the Regional Cooperation and Operations Coordination Division of Central and West Asia Department (CWRC).

9. Implementation arrangements are summarized in the table.

**Subproject Implementation Arrangements**

Aspects	Arrangements		
Indicative implementation period	August 2022–December 2024		
Executing agency	Ministry of Finance		
Implementing agencies	CWPF and CWRC		
Consultants	To be selected and engaged by ADB		
	Individual: individual selection	National expertise (40 person-months)	\$228,660
	Individual: individual selection	International (15 person-months)	\$281,850
	Firm: single source selection with prescribed Delivery of Outputs Agreement	UNCTAD	\$200,000
Disbursement	Disbursement of TA resources will follow ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		

ADB = Asian Development Bank, CWPF = Public Management, Financial Sector and Trade Division of the Central and West Asia Department, CWRC = Regional Cooperation and Operations Coordination Division of the Central and West Asia Department, TA = technical assistance, UNCTAD = United Nations Conference on Trade and Development.

Note: The single-source method is justified because UNCTAD is the developer of the debt management system in use by the Ministry of Finance and the Ministry of Economic Affairs. It is, therefore, the entity qualified and available, with exceptional experience for the assignment in Pakistan as well as the region. The services to be provided by UNCTAD will follow a prescribed Delivery of Outputs Agreement.

Source: Asian Development Bank.

10. **Consulting services.** ADB will engage the consultants and resource persons following the ADB Procurement Policy (2017, as amended from time to time) and its associated procurement staff instructions.<sup>5</sup> The United Nations Conference on Trade and Development will be engaged for Output 3 on a single source basis under an agreement for delivery of outputs.

<sup>5</sup> Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

## SUBPROJECT DESIGN AND MONITORING FRAMEWORK

<b>Impact the TA is Aligned with</b>			
Macroeconomic management strengthened, and more sustained and inclusive growth supported (Vision 2025) <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks and Critical Assumptions</b>
<p><b>Outcome</b> Debt sustainability and transparency improved.</p>	<p>By December 2024:</p> <p>a. Number of low scored (D, D+, or C) in PEFA Pillar 3 indicators for PI-10 and PI-13 decreases by at least 50% compared to pre-2020 baseline). (2020 baseline: Pakistan 16% indicators score D, D+ or C) (OP6.1; OP6.1.3)</p> <p>b. Score of DPI-4 4.1, DPI-6 6.1 and 6.2, and DPI-15 15.1, indicator in DEMPA improved by at least one grade. (2022 baseline: TBC) (OP6.1; OP6.1.3)</p>	<p>a. PEFA report published upon completion of TA.</p> <p>b. Rapid DEMPA update</p>	<p>R: High turnover of key government officials weakens institutional ownership</p>
<p><b>Outputs</b> 1. Policy actions agreed under the SDFP implemented.</p>	<p>By November 2022:</p> <p>1a. Satisfactory compliance with all policy actions agreed under the SDFP for 2022 and 2023. (2021 baseline: 2 out of 3 SDFP policy actions complied with) (OP6.1.4)</p> <p>1b. The DMO signs SLA with the EAD, the SBP, and the Central Directorate of National Savings on data recording and reporting. (2022 baseline: no SLAs signed) (OP 6.1.1)</p> <p>1c. The Federal Budget Strategy Paper is published with a detailed federal MTFF. The federal MTFF will include (i) detailed fiscal projections for the upcoming fiscal year and two outer fiscal years, including revenue projections for key revenue items, including the Federal Board of Revenue's tax revenue as well as non-tax revenue); (ii) federal expenditure projections by functional and/or object classification; and (iii) estimates of federal fiscal and primary balances. (2022 baseline: MTFF does not include detailed fiscal projections for two outer fiscal years for key revenue items) (OP 6.1.4)</p>	<p>1a. Annual progress reports on SDFP implementation approved by DG SPD, DG ERCD and DG CWRD.</p> <p>1b. SLA signed between DPCO and CNDS, SBP and EAD.</p> <p>1c. Federal Budget Strategy Paper 2022-2023.</p>	<p>A: The government maintains its commitment to implement the legislative changes for strengthening the debt office for better debt management and transparency.</p>



Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
2. Fiscal risk management strengthened.	<p>By March 2023</p> <p>2a. The Finance Division adopted an integrated fiscal risk management strategy that mandates the annual publication of a Fiscal Risk Statement to be submitted annually to the National Assembly along the Annual Budget Statement. (2022 baseline: Finance Division does not have an integrated fiscal risk management strategy) (OP 6.1.3)</p> <p>2b. The Finance Division approved methodology for quantification of macroeconomic fiscal risks, explicit contingent liabilities stemming from SOEs, PPPs, natural disasters and climate change. (2022 baseline: methodology for quantification of macroeconomic fiscal risks and contingent liabilities is not developed) (OP 6.1.3)</p> <p>By July 2023:</p> <p>2c. The Finance Division broadened the scope of the Fiscal Risk Statement to include quantitative assessment of macroeconomic fiscal risks and contingent liabilities stemming from SOEs, PPPs, and natural disasters and climate change submitted to Parliament alongside the Annual Budget Statement 2023-2024. (2022 baseline: Fiscal Risk Statement does not include quantitative assessment of macroeconomic fiscal risks and contingent liabilities) (OP 6.2.3)</p>	<p>2a. Integrated fiscal risk management strategy 2023-2028.</p> <p>2b. Integrated fiscal risk management strategy 2023-2028.</p> <p>2c. Annual Budget Statement 2023-2024.</p>	
3. Public debt recording, management and reporting strengthened	<p>By December 2022:</p> <p>3a. DPCO carries out diagnostic study to assess optimal interface between DMFAS and IFMIS. (2022 baseline: DMFAS and IFMIS are not linked) (OP6.1.4)</p> <p>3b. The DPCO drafts SOPs for entering domestic debt data into DMFAS. (2022 baseline: DPCO does not utilize DMFAS for domestic debt) (OP 6.1.4)</p>	<p>3a. Diagnostic study by UNCTAD.</p> <p>3b. SOP manual for DMFAS updated.</p>	

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
	By July 2023 3c. DPCO carries out back-office function for all domestic debt data and guarantees into DMFAS. (2021 baseline: DPCO only carries out middle office functions) (OP 6.1.4)	3c. Rapid DEMPA.	

### Key Activities with Milestones

#### 1. Policy actions agreed under the SDFP implemented.

- 1.1 Support implementation of policy actions agreed under the SDFP with ADB, by Q4-2023.
- 1.2 Prepare draft SLAs between DPCO and SBP, CNDS and EAD, by Q4-2022.
- 1.3 Prepare progress report for 2022 SDFP policy actions to be submitted to ADB senior management, by Q2-2023.
- 1.4 Draft policy actions for 2023 SDFP Identification Report to be submitted and approved by ADB senior management, by Q1-2023.
- 1.5 Prepare assessment of effectiveness of SDFP in Pakistan over the ADF-13 Period, by Q4-2023.

#### 2. Fiscal risk management strengthened

- 2.1 Undertake a diagnostic assessment of fiscal risk management capacity, by Q4-2022.
- 2.2 Undertake delivery of technical support for utilization of P-FRAM, by Q2-2023.
- 2.3 Support development of a dedicated fiscal risk management unit within the Finance Division, by Q1-2023.
- 2.4 Support the development of an integrated fiscal risk management strategy and workplan, which shall include the annual publication of a Fiscal Risk Statement, by Q1-2023.
- 2.5 Support the preparation of legal drafts to harmonize legislation according to requirements for fiscal risk disclosure, by Q4-2022.
- 2.6 Conduct capacity development workshops for drafting of fiscal risk statement, by Q4-2023.
- 2.7 Support expansion of scope and coverage of the Fiscal Risk Statement, by Q3-2023.

#### 3. Public debt recording, management and reporting strengthened

- 3.1 Undertake a diagnostic on needs for adjustment of current business processes for DMFAS to reflect amended FRDLA, by Q4-2022.
- 3.2 Provide training of DPCO staff to enter domestic debt data onto DMFAS, by Q1-2023.
- 3.3 Draft SOPs for access to DMFAS by DPCO, by Q4-2022.
- 3.4 Strengthen analytical capacity of DPCO to carry out middle office functions (DSA, MTDS) , by Q3-2023.
- 3.5 Design interface between DMFAS and IFMIS for cash management purposes, by Q4-2022.

#### Inputs

ADB: \$900,000 (TASF 7)

Note: The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions.

A = assumption, ADB = Asian Development Bank, CNDS = Central Directorate of National Savings, DEMPA = Debt Management Performance Assessment, DG = Director General, DMFAS = Debt Management and Financial Analysis System, DMO = debt management office, DPCO = Debt Policy Coordination Office, DSA = debt sustainability analysis, EAD = Economic Affairs Division, ERCD = Economic Research and Regional Cooperation Department, IFMIS = integrated financial management information system, MTFF = medium-term fiscal framework, OP = operational priority, PEFA = public expenditure and financial accountability, P-FRAM = public private partnership fiscal risk assessment model, PPP = public-private partnership, SBP = State Bank of Pakistan, SDFP = Sustainable Development Finance Policy, SLA = service level agreement, SOE = state-owned enterprise, SOP = standard operating procedure, SPD = Strategy, Policy, and Partnerships Department, R = risk, TA = technical assistance, TBC = To be confirmed, UNCTAD = United Nations Conference on Trade and Development.

<sup>a</sup> Government of Pakistan, Ministry of Planning, Development and Reform (Planning Commission). 2015. [Pakistan 2025: One Nation, One Vision](#). Islamabad.

Source: Asian Development Bank.

**SUBPROJECT COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

<b>Item</b>	<b>Amount</b>
<b>A. Asian Development Bank<sup>a</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	281.8
ii. National consultants	228.7
iii. Consulting firm	200.0
iv. Resource persons	35.0
b. Out-of-pocket expenditures	
i. International and local travel	32.5
ii. Miscellaneous administration and support costs <sup>b</sup>	3.6
2. Training, seminars, workshops, forum, and conferences <sup>c</sup>	15.0
3. Contingencies	103.4
<b>Total</b>	<b>900.0</b>

Note: The technical assistance (TA) is estimated to cost \$900,000, of which contributions by the Asian Development Bank are presented in the table. The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The value of the government contribution is estimated to account for 5% of the total TA cost.

<sup>a</sup> Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF 7).

<sup>b</sup> May include Microsoft O365 license, translation, interpretation, and communication expenses, among others.

<sup>c</sup> Payment for honorarium, travel expenses, and per diem of facilitators; workshop venue and logistics expenses; participants' allowances; travel of ADB staff acting as resource persons/facilitators/administrative support in accordance with Staff Instruction on Business Processes for Cost Sharing and Eligibility of Expenditures or ADB Financing and Memo on Use of Bank Resources: RETA/TA vs Internal Administrative Expenses; other incidental items (local surface transportation and visa expenses) for in-house programs; ADB will finance economy class airfare, per diem and local surface transportation and visa expenses of participants to external learning events; Cost Estimates subject to review and approval by TASU Officer.

Source: Asian Development Bank estimates.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=54442-002-TARreport>

1. Terms of Reference for Consultants
2. Contribution to Strategy 2030 Operational Priorities