



Pakistan: Sustainable Energy Sector Reform Program (Subprogram 3)

Project Name	Sustainable Energy Sector Reform Program (Subprogram 3)								
Project Number	47015-003								
Country	Pakistan								
Project Status	Approved								
Project Type / Modality of Assistance	Loan								
Source of Funding / Amount	<table border="1"> <tr> <td colspan="2">Loan 3537-PAK: Sustainable Energy Sector Reform Program - Subprogram 3</td> </tr> <tr> <td>Ordinary capital resources</td> <td>US\$ 300.00 million</td> </tr> <tr> <td colspan="2">Loan: Sustainable Energy Sector Reform Program - Subprogram 3</td> </tr> <tr> <td>Agence Francaise de Developpement</td> <td>US\$ 108.00 million</td> </tr> </table>	Loan 3537-PAK: Sustainable Energy Sector Reform Program - Subprogram 3		Ordinary capital resources	US\$ 300.00 million	Loan: Sustainable Energy Sector Reform Program - Subprogram 3		Agence Francaise de Developpement	US\$ 108.00 million
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Agence Francaise de Developpement	US\$ 108.00 million								
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth								
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development								
Sector / Subsector	Energy - Energy sector development and institutional reform								
Gender Equity and Mainstreaming	No gender elements								
Description	<p>The Program will help the Government with the short-term stabilization measures and start the long-term restructuring for a sustainable power sector. The impact of the overall program will be a more reliable, sustainable, and secure energy sector that supports the country's economic growth. The outcome will be an improved reliability, sustainability, and affordability of the energy system.</p> <p>The programmatic approach and subprogram 1 were approved on 24 April 2014 in support of the 2013 National Power Policy of the Government of Pakistan, which seeks to build an affordable, reliable, sustainable, and secure energy sector to support the countrys economic growth. The program, fully coordinated with the International Monetary Fund (IMF) under its extended fund facility, takes a phased approach over multiple years to provide dynamic, long-term support to multidimensional reforms, with subprograms that match the government's budget cycle. The IMF completed its final review of the program in September 2016. The World Bank and Japan International Cooperation Agency (JICA) cofinanced subprograms 1 and 2, and Agence Francaise de Developpement (AFD) will cofinance subprogram 3, which is the third and final year of the programmatic approach and builds on the reforms initiated during previous subprograms.</p>								

Project Rationale and Linkage to Country/Regional Strategy

Economic reforms are a priority of the Government of Pakistan. In 2017, the World Bank recognized Pakistan as among the countries with the most improved business environment. After 10 failed attempts, Pakistan successfully completed an IMF program in 2016. Apart from minor deviations, the results of the program were promising: (i) during FY2016, the economy grew by 4.7%, above the global growth of 3.1%; (ii) inflation was 0.8%, well below the IMF target of 4.0%; and (iii) the foreign reserves had more than doubled since June 2013. The IMF believes that as structural reforms take hold, bottlenecks will ease, growth will accelerate, and vulnerabilities will recede.

Energy data also demonstrate the positive results of the reforms: (i) load shedding in urban areas was reduced from 12 hours in FY2013 to 6 hours in FY2015; (ii) electricity losses were reduced, while collections increased; and (iii) better fuel management helped cut power generation costs. However, Pakistan's electricity generation capacity is about 5,500 megawatts short, and the inadequate energy supply has been a constraint to the economy. Further, only two-thirds of the population have access to power. Despite the improvements, persistent blackouts and brownouts negatively affect investor confidence and economic growth.

Since the 1990s, Pakistan has taken steps to restructure and improve its energy sector, but the results have been mixed and the expected outcomes were not always achieved. Previous reforms led to the unbundling of the Water and Power Development Authority into 15 corporatized entities: nine regional power distribution companies (DISCOs), four thermal power generation companies (GENCOs), the National Transmission and Despatch Company (NTDC), and the Water and Power Development Authority. Central Power Purchasing Agency Guarantee Limited (CPPA-G), the country's sole buyer and seller of electricity, used to be a unit within NTDC but became an independent corporate entity in 2015. The government fully owns all of these companies except for the Karachi Electric Supply Company, which was privatized in 2005. Independent power producers generate 56% of the country's power. The National Electric Power Regulatory Authority (NEPRA), established in 1997, sets tariffs, issues licenses, and regulates the sector

Subprogram 3 was prepared in coordination with the AFD, the IMF, JICA, the World Bank, and other development partners to increase the program's overall economic impact in Pakistan and meet the following objectives:

1. Clearly define functions, authority and responsibilities of the Federal Government and NEPRA through introduction of amendments to the one of the fundamental legislations of the electricity sector NEPRA Act;
2. Improve of financial sustainability of the sector through improvements in management and gradual elimination of electricity sector payables and controlling subsidy levels;
3. Adopt transmission tariff guidelines and introduce of multi-year tariffs by NEPRA;
4. Improve energy efficiency through adoption of National Energy Efficiency and conservation Act and establishing Energy Efficiency and Conservation Authority;
5. Improve the private sector participation in the electricity sector through: (i) merger of Alternative Energy Development Board and Private Power & Infrastructure Board (PPIB); and (ii) approval of new security package for PPIB;
6. Implement corporate restructuring of transmission and distribution of natural gas companies and review the upstream and downstream gas regulations;
7. Establish electricity sector market regulations unit;
8. Increase transparency and access to information in the energy sector and improving public communication policy.

Impact

More reliable, sustainable, and secure energy sector that supports the country's economic growth attained.

Project Outcome

Description of Outcome

Reliability, sustainability, and affordability of the energy system improved.

Progress Toward Outcome

Implementation Progress

Description of Project Outputs

Tariffs and subsidies managed
Sector performance and market access for private sector participation improved
Accountability and transparency in the power subsector achieved

Status of Implementation Progress (Outputs, Activities, and Issues)

Geographical Location

Safeguard Categories

Environment

C

Involuntary Resettlement

C

Indigenous Peoples

C

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible Staff

Responsible ADB Officer	Mtchedlishvili, Levan G.
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Energy Division, CWRD
Executing Agencies	<i>Ministry of Finance Economic Affairs Div. Rm. 308 Block "C" Secretariat Bldg Islamabad, Pakistan</i>

Timetable

Concept Clearance	-
Fact Finding	06 Apr 2017 to 11 Apr 2017
MRM	26 Apr 2017
Approval	15 Jun 2017
Last Review Mission	-
Last PDS Update	15 Jun 2017

Loan 3537-PAK

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	408.00	Cumulative Contract Awards			
ADB	300.00	-	0.00	0.00	%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	108.00	-	0.00	0.00	%

Project Page <https://www.adb.org/projects/47015-003/main>

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