Early Warning System

ADB-47015-002

Sustainable Energy Sector Reform Program - Subprogram 2

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Quick Facts

Countries	Pakistan
Financial Institutions	Asian Development Bank (ADB), World Bank (WB)
Status	Canceled
Bank Risk Rating	C
Voting Date	2015-11-20
Sectors	Climate and Environment, Energy
Investment Type(s)	Loan
Investment Amount (USD)	$ 400.00 million

Project Description

DESCRIPTION

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 sustainable energy sector that supports economic growth. The outcome will be a reliable and sustainable energy system.

PROJECT RATIONALE AND LINKAGE TO COUNTRY/REGIONAL STRATEGY

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 country's economic growth. The programmatic approach, fully coordinated with the International Monetary Fund (IMF) under its extended fund facility, takes a chronological approach of over 5 years to provide dynamic, long-term support to multidimensional reforms, with an annual subprogram that matches the budget cycle. Subprogram 1, cofinanced by the World Bank and the Japan International Cooperation Agency (JICA), established a solid foundation for implementation of reforms in subsequent subprograms. Subprogram 2 will support the second year of the programmatic approach. The eighth review of IMF was completed in September 2015.

In 2014, Pakistan's economy grew by 4.1%, above the forecasted global growth of 3.6%. The gap between electricity demand and supply is expected to remain about 5,500 megawatts, or 20% of peak demand, until 2018. The average duration of load shedding in 2014 was around 8 10 hours a day in most areas, and up to 18 20 hours in rural areas. The chronic energy shortage decreases business confidence and negatively affects manufacturing, trade, and consequently household income. Textile exports, which account for more than 50% of goods export receipts, have only increased marginally since 2010. The steady deterioration of power availability has also hurt business confidence. Private investment has decreased by 7.5% since 2008. Although power sector subsidies have decreased from 1.8% (FY2013) to 0.8% (FY2015) of gross domestic product, they are still a significant contributor to the government's weak fiscal position.

Pakistan initiated a comprehensive energy sector reform program in the early 1990s, but the results have been mixed and expected efficiencies have not been fully achieved. The past 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. The Central Power Purchasing Agency (CPPA), a unit within NTDC, was licensed to act as a single buyer and seller of electricity. All entities are still fully owned by the government except for the Karachi Electric Supply Company, which was privatized in 2005. Independent power producers (IPPs)generate 56% of the country's power. The National Electric Power Regulatory Authority (NEPRA), established in 1997, determines tariffs, issues licenses, and regulates the sector. About two-thirds of the population had access to grid electricity in 2014, and electricity consumption has remained constrained at about 80 terawatt hours per year since 2009 despite the growth in demand

The subprogram 2 was prepared in coordination with the IMF, World Bank, JICA, and other development partners in order to increase the overall economic impact. Pakistan's macroeconomic indicators are improving and all IMF quantitative performance criteria were met by the end of 2014. Inflation eased in July 2015 to a 1.3% annual rate. Financial sector indicators remain sound and foreign exchange reserves reached $13.5 billion by the end of June 2015. The Fiscal Responsibility and Debt Limitation Act 2005 required the government to reduce the ratio of public debt to gross domestic product to 60% by June 2013 & maintain it below 60% from then on. The ratio was 63% for FY2014, down from 63.6% in FY2013, mainly because of a lower fiscal deficit and appreciation of the Pakistan rupee against the US dollar. Although challenges remain, the IMF believes that as structural reforms take hold, bottlenecks will ease, growth will accelerate, and vulnerabilities will recede.

Investment Description

- Asian Development Bank (ADB)
- World Bank (WB)

Loan 3321-PAK: Sustainable Energy Sector Reform Program - Subprogram 2
Ordinary capital resources US$ 100.00 million

Loan 3322-PAK: Sustainable Energy Sector Reform Program - Subprogram 2
Concessional ordinary capital resources / Asian Development Fund US$ 300.00 million

Loan: Sustainable Energy Sector Reform Program - Subprogram 2
World Bank US$ 500.00 million

Loan: Sustainable Energy Sector Reform Program - Subprogram 2
Japan International Cooperation Agency US$ 41.32 million

Contact Information

ACCOUNTABILITY MECHANISM OF ADB

The Accountability Mechanism is an independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an Asian Development Bank-financed project. If you submit a complaint to the Accountability Mechanism, they may investigate to assess whether the Asian Development Bank is following its own policies and procedures for preventing harm to people or the environment. You can learn more about the Accountability Mechanism and how to file a complaint at: http://www.adb.org/site/accountability-mechanism/main

CONTACTS

Responsible ADB Officer Mtchedlishvili, Levan G.
Responsible ADB Department Central and West Asia Department
Responsible ADB Division Energy Division, CWRD
Executing Agencies
Ministry of Finance
SO_ADB_I@EAD_CC.SDNPK.UNDP.ORG
Economic Affairs Div.
Rm. 308 Block "C" Secretariat Bldg
Islamabad, Pakistan

Bank Documents

- Loan Agreement (Ordinary Operations) for Loan 3321-PAK: Sustainable Energy Sector Reform Program - S [Original Source]
- Loan Agreement (Special Operations) for Loan 3322-PAK: Sustainable Energy Sector Reform Program - Su [Original Source]
- Project Disclosure PDF
- Sustainable Energy Sector Reform Program - Subprogram 2: Report and Recommendation of the President [Original Source]

Other Related Projects

- ADB-47015-003 Sustainable Energy Sector Reform Program (Subprogram 3)
- ADB-47015-001 Sustainable Energy Sector Reform Program - Subprogram 1