

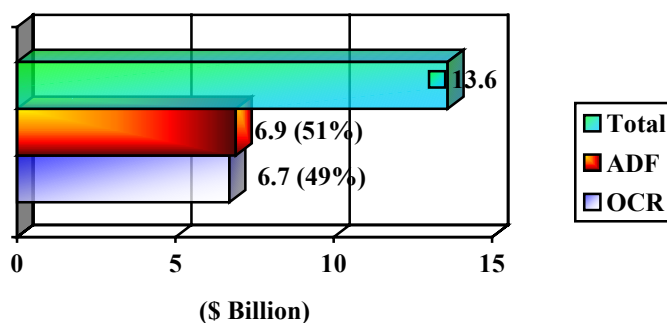
## Asian Development Bank and Pakistan: 2003 Operations

(Islamabad – 14 January 2004)

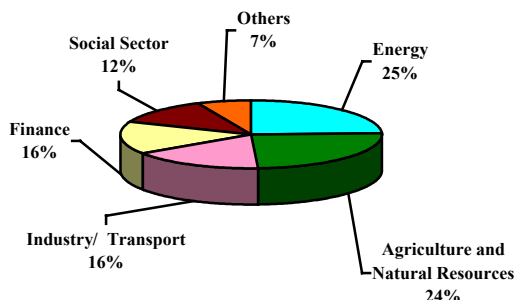
### I. Overview

1. ADB and Pakistan enjoy a longstanding development partnership. As of 31 December 2003, ADB's cumulative assistance to Pakistan in the form of 207 public sector loans totaled \$13.6 billion. In addition, ADB has provided \$109 million in grants for 273 technical assistance projects. Fifty one percent of the total assistance provided by ADB to Pakistan has been through the concessional Asian Development Fund (ADF) window. This is highlighted in the figure below (Figure 1). The sectoral composition of ADB lending is shown in the following figure (Figure 2).

**Figure 1: Cumulative ADB Lending to Pakistan**



**Figure 2: Sectoral Composition of ADB Lending**



### Media Inquiries Only

PRM ADB NR /02  
 Marshuk Ali Shah  
 Tel: (92-51) 282-5011 to 16  
 Email: mshah@adb.org

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## II. 2003 Country Program

2. ADB, in 2003, achieved significant progress in the various areas of its operations in 2003. Continuing with its strong commitment and support to the Government's reform program and poverty reduction strategy, ADB approved \$870.7 million in lending assistance in 2003 for 5 projects. In terms of sources of funds, \$178 million were from the ADF resources, and the balance from OCR. Projects approved in 2003 are in the table below. A total of \$10.028 million was also approved for 20 technical assistance (TA) projects in 2003.

### 2003 Approved Projects

Projects	Amount (\$ million)
SME Sector Development Program	170
Sindh Devolved Social Services Program	220
Balochistan Road Sector Development Project	186.7
Punjab Resource Management Program	204
Southern Punjab Basic Urban Services Project	90
<b>Total</b>	<b>870.7</b>

### A. Country Strategy and Program

3. ADB's Country Strategy and Program for Pakistan (CSP) for 2002-2006 was approved by the ADB Board in May 2002. The main thrust of the CSP is on supporting poverty reduction in Pakistan through the provisions of assistance in priority areas of shared strategic interest and importance. Good governance, sustainable pro-poor growth with emphasis on rural areas and employment generation, and inclusive social development are its areas of focus, with good governance as the key theme. Following delegation of programming responsibility from HQ, the Pakistan Resident Mission (PRM) undertook the Country Programming Mission in March 2003, following which a CSP Update (CSPU) for 2004-2006 was prepared, which was approved by the ADB Board in August 2003.

4. The CSPU concluded that the strategy articulated in the CSP continued to be relevant and was in line with the priorities of the new Government. Under the theme of good governance, the CSPU supports deepening of the ongoing governance and economic reform program through provision of assistance for second generation reforms at the province and sector levels. To promote pro-poor growth, the CSPU maintained emphasis on rural development and employment generation, and proposed renewed engagement in the water sector province-focused projects. Finally, for inclusive social development, emphasis will remain on improving delivery of social services by supporting both increased public sector allocations made possible by enhanced fiscal space, and improved governance through strengthening devolution, sector administration, and financial management.

### B. 2004 Country Program

5. PRM completed its Country Program Confirmation Mission in December 2003 to confirm and agree ADB's 2004 country program with the Government. In 2004, ADB is planning to provide \$800 million for 8 loans. Of this amount, approximately \$222 million will be provided through the ADF window. In addition, the Program includes 3 stand-by loans for \$300 million. Projects in 2004

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Email: mshah@adb.org

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are shown in the table below. The Program also includes approximately \$6 million in grant assistance for 20 TA projects.

### 2004 Projects

Projects	Amount (\$ million)
FATA Rural Development Project	40
Sustainable Livelihoods in Barani Areas Project (Punjab)	60
Decentralized Social Services (Punjab)	150
Balochistan Resource Management Program	120
Rawalpindi Environmental Improvement Project	80
NWFP Road Development Sector and Subregional Connectivity Project	250
Cleaner Fuel Project	50
Restructuring of Technical Education and Vocational Training System	50
<b>Total</b>	<b>800</b>
Stand-By Projects	
Agriculture Diversification and Agribusiness Development Project	100
Industrial Efficiency and Environment Management Project	100
Decentralized Social Services Program Sindh II	100

### C. Economic and Sector Work

6. As part of its economic and sector work in 2003, PRM published the third Sector Assessment Review for Pakistan in October 2003. The Review is intended to form the basis for a discussion on sector priorities as a whole, as well as on development targets and priorities within each sector of operation. In November 2003, PRM hosted a series of High Level Policy Forums on the topic of "Industry in Pakistan: Facing the Challenge of International Competitiveness", in collaboration with the Asian Development Bank Institute (ADBI). PRM also published its regular quarterly Economic Updates, the first of which appeared in April 2003, the second in August 2003, and the last in December 2003.

7. PRM took a lead role in sponsoring and implementing a major study on the impact of devolution on service delivery in Pakistan. This study, the Devolved Service Delivery Study (DSD), was jointly sponsored by the World Bank, ADB, DFID and CIDA, the latter bilateral agencies extending their support through the TA Support to Implementation of Devolution. PRM will also be publishing a report on a Private Sector Assessment for Pakistan for publication later this month. In addition, PRM is preparing a study on "Barriers to SME Development", which will be the second in its series of Working Papers.

### D. Subregional Cooperation

8. During 2003, PRM continued to support initiatives for subregional cooperation. Support was provided for the processing and approval of the Balochistan Road Development Sector Project for \$187 million, which has a major subregional road connectivity component linking Chaman on the border of Afghanistan to the upcoming deep sea port of Gwadar as well as to Port Qasim and Karachi. It also includes a component for constructing a cross-border facility at Chaman.

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Preparatory technical assistance was also processed for the North West Frontier Province Road Development Sector Project included in the 2004 pipeline of assistance for \$250 million, which also has a major sub-regional connectivity component. The Project will assist in the realization of the Torkham Border-Peshawar road, the construction of a cross-border facility at Torkham, and possible road connectivity and cross border facilities at Miran Shah.

9. A ministerial conference was organized on Transport and Trade in Central and South Asia in Manila during 31 July – 1 August, in which Mr. Shaukat Aziz, Federal Minister for Finance, led Pakistan's delegation. The Country Director PRM also participated in the 2<sup>nd</sup> Euro-Asian Road Transport Conference in Tehran during 6-7 October, and presented a paper on ADB's Support for Road Network Development and Subregional Cooperation. In the energy sector, the draft feasibility report, financed by ADB, for the Turkmenistan-Afghanistan-Pakistan (TAP) Gas Pipeline Project was presented in the Seventh Steering Committee meeting in Islamabad held during 8-9 December 2003.

## **E. Portfolio Management**

10. As of 31 December 2003, the ongoing portfolio of ADB assistance to Pakistan included 57 loans (37 projects) and 73 TAs. Of these, 20 loans (20 projects) were directly administered by PRM. In addition PRM's portfolio included 8 delegated private sector loan/equity projects and 9 TA projects.

11. The portfolio indicators showed good progress in 2003. For the total loan portfolio, actual contract award and disbursements amounted to \$513.92 million and \$464.95 million respectively against the 2003 projections of \$392.19 million and \$ 350.59 million, recording an achievement of 130.38% against the contract awards target and 132.5% against the disbursement target. The efforts to improve Pakistan's portfolio management of ADB projects continued in 2003. A Country Portfolio Review Mission, which concluded in May 2003, identified both short and medium/longer-term actions for improving portfolio performance. These included establishing Core Project Management Units (CPMU) by Executing Agencies (EAs), training PMU staff in ADB procedures through seminars and workshops, operationalizing new imprest account procedures, introducing project financial management systems in PMUs, and strengthening monitoring and evaluation procedures. PRM also continued with the quarterly provincial Projects Review Meetings (PPRMs) which were initiated in 2001. Finally, five workshops on portfolio management and project implementation management for EAs and project directors were organized.

12. There are, however, continuing challenges in strengthening portfolio performance in Pakistan. These include delays of up to 24 months or more in start-up of projects, frequent transfers of Project Directors, delays in adequate staffing of Project Management Units (PMUs), lack of timely action on procurement and award of contracts, lack of timely release of counterpart funds, and delays in operationalization of facilities constructed under projects. Against this backdrop, PRM will continue its focus and efforts in 2004 to work with the Government to further improve and streamline project portfolio performance.

## **F. Support for Governance Reforms**

13. PRM, in 2003, continued dialogue with the Government on governance reforms at both federal and provincial levels. Four provincial and one national Gender Reform Action Plans (GRAPs), covering policy, administrative and fiscal reforms, were widely discussed at various fora

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and will shortly be presented to provincial and federal cabinets for approval. Various meetings and stakeholder consultations were carried out under the Access to Justice Program, approved in 2001 for \$350 million, to facilitate wide-ranging reforms in five broad areas, namely, policy/legislation, service delivery, empowerment, governance and capacity building. The Decentralization Support Program, approved in 2002 for \$300 million, has been operational for almost one year. In that period, detailed dialogues were held on promulgation of Local Government Accounts Code by all provinces; enhancing outreach to local governments through annual workplan process covering all tiers of government, and strengthening relevant institutions including the Provincial Finance Commissions and Local Government Commissions.

### **G. Private Sector Operations**

14. PRM focused its private sector operations on portfolio management of private sector investment projects in Pakistan and in pursuing an intensive program directed at reactivating ADB operations for private sector investment. To this end, PRM actively followed up on the thirteen ongoing private sector projects, comprising five equity investments (\$12.9 million), seven loans (\$152.5 million) and two complementary co-financing loans (\$86.6 million). Three seminars were organized in major cities of Pakistan to raise awareness among stakeholders on ADB's private sector operations, with participation from ADB's Director General for private sector operations. Also, more than 15 initial screening exercises were undertaken for projects submitted by private sector investors seeking ADB assistance.

### **III. Conclusion**

15. In 2003, ADB continued to consolidate its operations in Pakistan. Amongst the main achievements during the year, the CSPU (2004-2006) for Pakistan was finalized and approved by the ADB Board in August. In terms of lending assistance, 5 projects for a total of \$870.7 million were approved. These projects included what may be described as second generation reforms and included the SME Sector Development Program, Sindh Devolved Social Services Program, Balochistan Road Development Sector Project, Punjab Resource Management Program, and Southern Punjab Basic Urban Services Project. Additionally, ADB approved grant assistance of \$10.028 million for 20 technical assistance projects. Continued effort was made to improve portfolio performance, and as a result, portfolio indicators showed good progress in 2003. Intensive dialogue with the Government continued on the implementation of governance reforms agreed under the various ADB loans and TAs. During the year, PRM also pursued an intensive program directed at reactivating the ADB financing operations for private sector investment projects.

16. ADB is fully cognizant of the development challenges facing Pakistan, and remains committed to providing all necessary financial and technical assistance for sustainable economic growth and reduction of poverty in the country. In this context, under its country strategy and program, ADB will continue to provide support for second generation reforms at the provincial and sector levels to deepen the ongoing governance and economic reform program in the country. Continued support and assistance will also be provided for targeted poverty reduction projects with a focus on employment creation and rural development. There will be a continued focus also on improving delivery of social services to promote and strengthen inclusive social development.

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