

ADB

NEWS

**EID MUBARAK &
HAPPY NEW YEAR**

FROM PAKISTAN

A newsletter of the ADB – Pakistan Resident Mission

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News from Pakistan, a periodic Newsletter of the ADB Pakistan Resident Mission, aims to enhance communication between ADB and its client groups. The newsletter disseminates relevant information on ADB activities and provides a forum on development issues in Pakistan. Articles in the newsletter, however, do not necessarily reflect official ADB views.

Readers' suggestions will be most welcome. Please write to:

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M. Ali Shah

ADB President Visits Pakistan

At the invitation of the Government of Pakistan, ADB President, Tadao Chino, paid a two days visit to Pakistan on 4/5 November 2001.



President Chino with President Musharraf in Islamabad.

During his visit, Mr. Chino met with President Pervez Musharraf, Finance Minister Shaukat Aziz and attended a meeting where many of the Cabinet Ministers gave presentations on the status of the economic reform program in Pakistan. President Chino appreciated the wide-ranging reform process being implemented by the Government and highlighted the need for the Government to continue the reform process.

To partially mitigate the effects of the regional conflict on Pakistan's economy, President Chino informed President Musharraf that he plans to propose to the

ADB Board to increase the level of assistance to Pakistan for CY 2001 from some \$630 million to \$950 million. The bulk of the increase in the lending program would be channeled through fast disbursing Program Loans such as the proposed Access to Justice Program Loan and

the Agriculture Sector Program Loan-II. Earlier on 16 August 2001, ADB had approved financial assistance of \$100 million, financed from loan savings of on-going projects nearing completion, for mitigating effects of the droughts in the country. This is in addition to the \$950 million assistance

referred to above.

On 4 November, President Chino accompanied by Finance Minister Aziz, visited a site office, in Rawalpindi, of the Khushali Bank, a microfinance institution established with ADB's assistance. President Chino saw an exhibition of works put



President Chino and Finance Minister Shaukat Aziz addressing a press conference in Islamabad.



President Chino distributing checks among approved applicants of Khushali Bank

ADB has provided assistance for such major irrigation initiatives as Chasma Right Bank Irrigation Project in NWFP and Punjab, Pat Feeder Canal Project in Balochistan, and the construction of the Pehur High-Level Canal in NWFP. ADB has also provided assistance for on-farm water management projects, forestry sector projects, and for the National Drainage Program.

up by the beneficiaries of the Khushali Bank and also distributed checks among approved applicants.

Earlier on 4 November 2001, President Chino visited the Pakistan Resident Mission where he met the staff and participated in a presentation on ADB operations in Pakistan. On 5 November 2001, the President gave interviews to leading local and international media.

ADB and Pakistan

ADB and Pakistan have been development partners for over 30 years. As of end December 2000, ADB's cumulative assistance to Pakistan totaled \$10.5 billion of which \$7.5 billion had been disbursed. During 1967-2000, ADB had also provided grant technical assistance to Pakistan amounting to \$85 million.

In the **energy sector**, ADB's assistance has been for improving the technical efficiency of the sector as well as for financing critical investments in both KESC and WAPDA.

In the **finance and industry sectors**, ADB has provided lines of foreign exchange credit for the private sector industrial development, and of late for the reform of the trade regime under the ongoing Trade, Export Promotion, and Industry Program Loan. To facilitate private sector access to foreign exchange for exports, the ADB has recently approved the Small and Medium Enterprises Trade Enhancement Facility. Under its recently completed Capital Market Development Program Loan, ADB assistance

ced primary education projects with special emphasis on education for girls, improving the service delivery by providing assistance for teacher training projects and contributed to skills development by financing Technical and Vocational education projects.

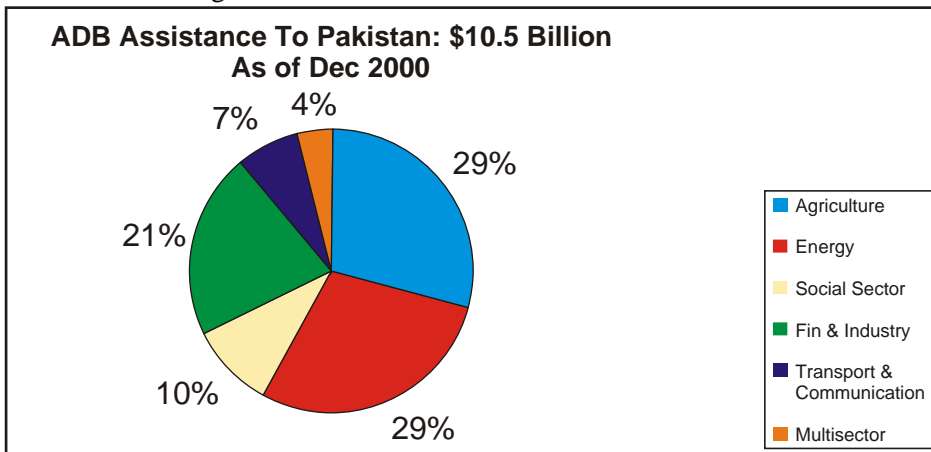
In the **transport sector**, ADB has provided assistance for the development of farm to market roads in all the four provinces of Pakistan, as well as for rehabilitation of the provincial road network. Support has also been provided for strengthening the road sector institutions, such as the communication and works departments and for developing an appropriate regulatory mechanism.

The grant technical assistance provided by the ADB has mainly been for capacity building and institutional development. In addition, it has also supported various in-country and foreign training programs for public and private sector institutions.

This year ADB is preparing a new Country Strategy and Program (CSP) to guide ADB operations in Pakistan for the next three years (2002-2004). The CSP reflects the Government's latest strategies for achieving economic recovery and addressing the increasing incidence of poverty and worsening social indicators. The CSP incorporates ADB's poverty reduction strategy for Pakistan, which is being developed with extensive stakeholder consultation.

ADB appreciates and supports the difficult economic reform measures that are being undertaken by the Government. These range from adjustment in utility prices, partial deregulation of the petroleum sector, rationalization of the domestic interest rate structure and pursuance of a competitive exchange rate regime. The adjustment costs of these reforms are significant and to this end ADB has provided quick disbursing assistance to mitigate the costs.

In the near-term, ADB looks forward to working with the Government on



In the **agriculture sector**, ADB has provided program and project assistance with the objectives of reforming the policy framework, ensuring greater role for the private sector and increasing agricultural productivity. In the irrigation sector,

facilitated the reforms of the capital market and strengthening of the regulatory environment.

In the **social sectors** ADB has provided assistance for the Social Action Program. In addition, ADB has finan-

policies that need to focus on effective management of the water crisis; creation of a level-playing field for acceleration of the privatization process; continued expansion of the tax base; rationalization of recurrent expenditures, improvement in efficiency of public expenditures, and building capacity at the local level to support the ongoing devolution program. In addition, ADB would be working with the Government on improving and strengthening agriculture sector policies and strengthening the legal and judicial framework. The road ahead remains challenging, but success requires that the Government stay the course of reforms. In this endeavor, with stakeholder consultation, ADB continues to support Pakistan's multifaceted development initiatives.

Role of PRM

The Pakistan Resident Office, as it was then called, began its operations in mid 1989. On 25 June 1995, PRM moved into its current premises, located in the diplomatic enclave. Most government and donor offices are within a few minutes drive from PRM. From the telex machine of 1989 to the present electronic network, PRM has come a long way and is now only an e-mail away from HQ, and the rest of the world.

Over the years, PRM's role and functions have evolved. Today, it performs all of the functions of the Resident Mission Policy as approved by its Board of Directors in February 2000. Functionally, PRM is organized into two units. These are the Economic Policy Analysis (EPA) unit and the Portfolio Management (PM) unit. The EPA is responsible for the lead role in Economic and Sector Work relating to Pakistan including input in the processing and implementation of policy-based operations. The EPA also provides assistance in the programming of Pakistan operations and their approval by the various tiers of the Government. The PM unit is responsible for the entire range of project implementation for the delegated projects as well as providing

support for those projects, which are administered from ADB Headquarters in Manila. Currently, the ADB has 34 ongoing projects in Pakistan. Of these, 16 are directly implemented by PRM, while the remaining are administered by the Projects Departments in Manila.

PRM maintains regular dialogue with the Government and assists the executing agencies in complying with ADB procedures on procurement and disbursements. To assist government agencies with project implementation, PRM regularly holds projects management workshops at federal and provincial levels and undertakes portfolio review with the government twice a year at the federal level and quarterly at provincial levels. Other activities range from participating in HQ project processing missions to providing back-up operational support, donor coordination and information dissemination. Pakistan has the distinction of being among the first recipient of ADB assistance with the commencement of Bank operations in 1968. In CY 2000, ADB approved seven operations with a cumulative value of \$707 million. Disbursements, during the year totaled \$523 million.

The incumbent Resident Representative, M. Ali Shah, is a senior ADB development official with substantive experience in such countries as Nepal, Bangladesh, Laos, Philippines and the Pacific. Prior to assuming his present position he was the Programs Manager for Pakistan, Afghanistan, Maldives, Nepal and Sri Lanka.

NEWS and EVENTS **ADB's Libor-based Loan Product** **Now Available** **Lending Rates for Pool-Based** **Loans Announced**

ADB's new loan product a LIBOR (London interbank offered rate) based loan that offers borrowers more flexibility in the choice of currency and interest rate basis became available from 1 July. The new product will offer borrowers - in the public and private - sector - loans in euro, Japanese yen, or US dollars with a choice of floating or fixed

lending rate consisting of six-month LIBOR or the fixed rate equivalent of LIBOR, plus a spread fixed over the life of the loan. The new terms apply only to loans from ADB's Ordinary Capital Resources (OCR).

Based on current LIBOR rates for US dollars of around 2.8 percent per annum, the new ADB product will offer significantly lower interest rates than its current lending rate for pool-based US dollar loans. ADB will maintain the lending rate on its US dollar loan facility at 6.70 percent per annum for the period from 1 July to 31 December 2001. ADB will also reduce its rate on existing pool-based multi-currency loans from 5.50 percent to 5.21 percent per annum for the same period. The interest rates on the ADB's multi-currency and US dollar loans are adjusted on 1 January and 1 July each year. For each facility, the lending rate is determined by adding a spread (currently 0.60 percent per annum) to the preceding six months' average cost of the respective pools of outstanding ADB borrowings established to fund such loans.

From 1 July, ADB is no longer offering multicurrency loans. ADB will also withdraw its pool based US dollar loans from 1 July 2002.

Improving Corporate **Governance in Pakistan's** **Capital Market**

The ADB has approved a grant of US\$750,000 to build institutional capacity for adopting better corporate governance standards in the capital market.

The assistance aims to:

- Improve the efficiency of the capital market based on solid governance standards by undertaking a comprehensive review of the current system and recommending strategic changes;
- Enhance stakeholders' understanding of the dynamics of corporate governance through exposure to international best practices and knowledge sharing; and

Strengthen the capacity of the regulator to promote good corporate governance in the capital market.

While much has been achieved in developing Pakistan's capital market, there remains a large unfinished agenda and improving corporate governance should be at the heart of the next round of capital market reforms. The technical assistance will assist the Government to initiate the process for developing governance standards in the capital market based on best international practice.

ADB Signs Political Risk Guarantee for Trade Finance in Pakistan

The ADB on 10 September 2001 signed an agreement in Karachi with international banks and the Pakistan Government to guarantee political risks associated with trade finance for small and medium-size enterprises (SMEs) in Pakistan. The ADB facility guarantees obligations up to US\$150 million under open Letters of Credit (L/Cs) with maturity up to three years. It is of a revolving nature and will be available for up to six years. This is the first time ADB has used its recently revamped Political Risk Guarantee to support trade finance.

Specifically, ADB will guarantee payment to international banks confirming L/Cs issued by Pakistani banks if the issuing bank fails to pay under the L/C as a result of events such as foreign exchange inconvertibility, transfer blockage or other specified political events. It will lower the financing cost of much needed imports for export production, and help Pakistan, become more export competitive. It will also help to keep Pakistan country limits open for international banks that are confirming import L/Cs, and ensure continued access to finance at competitive terms by Pakistan SMEs during periods of high volatility for risk premia.

In a press release, the ADB stated: "Without this facility, offshore suppliers that sell much needed imports to Pakistan may during periods of perceived political uncertainty encounter difficulties in obtaining confirmation of certain L/Cs

issued by Pakistani banks, or will do so at a high cost, thus penalizing Pakistan companies versus their international competitors due to political factors beyond their control".

"An innovative aspect of this facility is that it would strip out country risk from the L/C and transfer it to ADB. Thus, ADB assumes the political risk while the banks carry the commercial risk associated with the L/C. This way, ADB and the banks use their comparative advantages".

Emergency Assistance To Fight Drought In Pakistan

ADB will help Pakistan fight drought with emergency assistance of US\$100 million, approved on 16 August 2001, primarily for improved water management and conservation, and a variety of small-scale rural and social development initiatives. This will complement efforts by the government, donor agencies and non-government organizations (NGOs) in the worst affected regions.

The Project will build small reservoirs and retention dams, improve community-managed irrigation and water supply systems, rehabilitate village roads, and support critical public services for agriculture and health care. All of the infrastructure work is labor intensive.

The three-year drought has severely disrupted agricultural systems and as it is not known how long the drought will last, the urgent need is to provide income opportunities for the most affected communities. At the same time, there is a need to set the stage for post-drought recovery in the affected regions.

Drought - and the El Nino phenomenon - have wrought havoc for millions of rural people during the last three years, especially in Balochistan and Sindh, which received only half their average rainfall last year. The government estimates the impacts on agriculture and hydropower generation will result in a balance of payments deficit of US\$927 million this year.

The total cost of the Project is estimated at US\$125 million. ADB will finance its 80 percent share from loan savings on ongoing projects, with the balance of the

cost to be borne by the government and participating communities. The assistance will be implemented over three years, scheduled for completion in August 2004. The Ministry of Finance will be the executing agency.

Orientation Program for DMC Officials (under RETA 5927)

An Orientation Program for Developing Member Country (DMC) Officials, the fifth in its series, was held at ADB Headquarters from 5-23 November 2001. All the previous Programs have been a resounding success and there has been a strong demand from the DMCs to continue with the Program, expanding its scope if possible, as a regular activity of ADB. Mr. Mohammed Bilal, Section Officer at EAD, attended the November program.

Program Objectives

- To familiarize the participants with ADB's policies, procedures and operations
- To strengthen the relationship between ADB and its DMC counterpart agencies
- To improve the participants' skills in planning and management of development activities
- To deepen the understanding of DMC Officials of the changing role of ADB

PRM's new Web Site,
<http://www.adb.org/prm>

for information on PRM's activities.

In October 2001, PRM launched its new web site. The site includes sections on:

- Poverty Reduction
- ADB's activities in Pakistan
- Publications

PRM will update the site regularly to reflect our work. The web site coordinator, Mr. Abid Hussain can be contacted on Email ahussain@adb.org on suggestions on how we can improve the site.