



Project Data Sheet

Project 50081-001

Project Name Update on Energy Sector Plan

Project Number 50081-001

Country / Economy Pakistan

Project Status Closed

Project Type / Modality of Assistance Technical Assistance

TA 9357-PAK: Update on Energy Sector Plan

Technical Assistance Special Fund US\$ 500,000.00

Source of Funding / Amount **TA 9357-PAK: Update on Energy Sector Plan (Supplementary)**

Technical Assistance Special Fund US\$ 300,000.00

TA 9357-PAK: Update on Energy Sector Plan (2nd Supplementary)

Technical Assistance Special Fund US\$ 250,000.00

Strategic Agendas Environmentally sustainable growth
Inclusive economic growth

Drivers of Change Governance and capacity development
Knowledge solutions
Private sector development

Sector / Subsector **Energy** / Energy efficiency and conservation

Gender No gender elements

Description The proposed knowledge and support technical assistance (TA) will assess the progress made during 2010 -2016 on the recommendations of the Integrated Energy Sector Recovery Report of the Friends of Democratic Pakistan (FODP), analyze the lessons learned from the changing global realities, and propose recommendations as inputs for a new energy policy for the medium term (2018 -2023). The findings will be designed to inform the Government of Pakistan on past progress and provide options for the future energy strategy of the country.
The Asian Development Bank (ADB) is the lead and anchor development partner of the Government of Pakistan in the energy sector with an ongoing portfolio of \$2.8 billion in investments in energy generation, transmission, distribution, energy efficiency, renewable energy development, and analytical and advisory assistance. The TA is consistent with ADB's country partnership strategy for Pakistan, 2015 -2019 and is included in ADB's current country operations business plan, 2018 -2020 for Pakistan.

A reliable and sustainable energy sector is essential to Pakistan's economic growth and sustainability. Economic growth improved between FY2010 and FY2016, but was still lower than in the preceding decade. A major hurdle in achieving further growth is the intense energy shortage. Although Pakistan has abundant renewable and sizable conventional energy resources, public and private investment in energy infrastructure has not been sufficient to meet demand. Electricity supply must be further improved by stepping up efficiency, and operation and maintenance of generation, transmission, and distribution networks. Although electricity outages have declined and become more predictable since 2010, the 5-gigawatt demand-supply gap combined with the stressed transmission and distribution system continues to result in significant load shedding-- 10 hours per day in rural areas and 5 hours in urban areas. The national electrification rate remains low at around 67%, and is even lower (57%) in rural areas. Some improvements in sector efficiency, low fuel prices since 2014, and introduction of surcharges have contributed to managing financial challenges in the sector. However, continued reliance on imported fuel-based generation and high consumer receivables, accentuated by insufficient tariffs, have resulted in a persistent circular debt.

The power subsector relies heavily on government support direct subsidies amounted to about 1.5% of gross domestic product in FY2016. Costs that cannot be recovered from consumers or the government accumulate on the books of the public electricity distribution companies. The distribution companies in turn fail to pay fully for goods and services they receive, especially electricity, thus spreading the shortfall throughout the supply chain. Commonly called the circular debt, these accumulated arrears amounted to about 4% of gross domestic product in FY2013.

Actions are required to remove two main distortions: (i) the long-standing gap between the cost of service and revenues gained either from tariffs or subsidies; and (ii) the unusually high cost of providing that service. At the same time, inequities caused by poorly targeted subsidies must be rectified to ensure that the sector develops in a socially and environmentally sustainable way.

In 2009, the FODP, recognizing the impact of persistent energy shortages on the economy and livelihoods, solicited the preparation of a sustainable and integrated energy plan for Pakistan. The government and ADB led the effort by creating the Pakistan Energy Sector Task Force to prepare an energy sector recovery report with a comprehensive road map for mobilizing international assistance and a recommended action plan to solve energy security problems. The governments of the United States, Japan, and Germany, among other development partners, formed the core team with the chairs and finalized the report in October 2010, which was presented to the ministerial meeting of the FODP comprising 24 countries and institutions. The recommendations of the report were subsequently fed into the Petroleum Exploration and Production Policy 2012 and the National Power Policy 2013. ADB has supported the reforms through three subprograms of the Sustainable Energy Sector Reform Program loan in concert with the International Monetary Fund-assisted Extended Fund Facility and cofinancing from the World Bank, the Japan International Cooperation Agency, and the French Development Agency.

Under the Petroleum Exploration and Production Policy 2012, the government enhanced the wellhead pricing terms for natural gas producers. The response has been positive: 50 offers were received in a recent bidding for 58 blocks with exploration and production rights. However, the response from foreign companies remained subdued, even after the gas price rose from \$4 to \$6 per million British thermal units for some zones. A Tight Gas Policy for exploration and production was announced in May 2011. The policy gives a 40% premium over the respective price for each zone under the 2009 policy. Under the 18th constitutional amendment, provinces were awarded greater authority in the approval process for oil and gas sector affairs, which has delayed exploration in some cases. In addition, the Petroleum Rules 2013 were modified to disburse the royalty share directly to the provinces instead of channeling these through the federal government, which had been a long-standing provincial grievance.

The National Power Policy 2013 encourages independent power producers to invest in new power plants or to convert existing ones to operate on less-expensive fuels. In the medium term, low-cost gas pipelines, coal, and hydropower projects will be implemented. In the long term, large infrastructure hydropower projects will be completed, and existing high-cost energy projects and contracts will be retired, to ensure more affordable electricity generation.

Pakistan is vulnerable to the negative impacts of climate change. Landslides and erosion have resulted in siltation of water reservoirs. Changes in rainfall patterns and glacial melt have also reduced hydropower generation output. Although Pakistan's greenhouse gas emissions are low by global standards, carbon emissions in Pakistan grew by 105% (from 152.79 million tons in 1990 to 313.48 million tons in 2010). The significant increase in greenhouse gas emissions, particularly carbon dioxide, is mainly attributed to the burning of fossil fuels for electricity, transport, and manufacturing.

The sector underpinned the manifesto of all political parties in previous elections in May 2013, and is again emerging as a key factor in the political landscape of Pakistan in the run-up to its national elections in May 2018. The government has requested ADB to update the 2010 FODP energy report and to revise its action plan by reflecting the progress made in the energy sector as per recommendations of the FODP report, and the frameworks of the power and petroleum policies, and to confirm residual issues and options for the next steps.

Project Rationale and Linkage to Country/Regional Strategy

Impact

An efficient and financially sustainable energy sector achieved (TA-defined).

Project Outcome

Description of Outcome	Findings of the report fed into Pakistan's new energy policy for the medium term (2018 -2023).
Progress Toward Outcome	Meetings with more than 200 stakeholders completed during 2018. Revised draft of Electricity Policy has been submitted to the Government in Q1 2019. After the general elections in July 2018, the new government assumed office in Pakistan. The Prime Minister established a Task Force on Energy to undertake diagnostics study of challenges facing the country's energy sector, prepare and finalize a reform agenda including investment needs, commercialization and privatization roadmap and restructuring of the sector for an integrated planning. The new Minister for Energy (Power Division) who will be guided by the Task Force has taken office on 10 September 2018. ADB, as the anchor development partner, has been requested to provide technical support to the Task Force in (i) finalization of the electricity policy and plan with modifications to earlier report submitted in May 2018, (ii) development of hydrocarbon sector roadmap through indigenous resource mobilization and (iii) identifying and implementing measures to improve financial sustainability, governance and infrastructure deficit in the sector. These tasks require additional person-months and new positions with specialized knowledge, expertise and analysis into certain aspects of the evolving energy sector. To this effect, services of additional consultants with skills-set different from the already recruited consultants under the KSTA, are required. The Electricity Policy and Electricity Plan will feed into the Integrated Energy Plan 2020-2047

Implementation Progress

Description of Project Outputs	Key energy sector analyses and recommendations for 2018 -2023 prepared. Stakeholder views on progress during 2013 -2017 collected
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Status of Implementation Progress (Outputs, Activities, and Issues)	<p>ADB initially engaged 5 individual consultants (2 internationals and 3 nationals) and their contracts were signed between 16 26 October 2017. Following the minor change in scope approved in March 2018, 2 additional international consultants were recruited during May and July 2018. However, contracts of 2 international and 2 national consultants, recruited initially, have now been closed. The KSTA is currently financing 2 internationals and 1 national consultant. The KSTA is tasked to assess the progress made during 2010 -2016 on the recommendations of the Integrated Energy Sector Recovery Report of the Friends of Democratic Pakistan (FODP); analyze lessons learnt from the changing global realities, propose recommendations as inputs for a new energy policy in the medium term (2018 -2023) and formulate an electricity policy and electricity plan. The KSTA findings are designed to inform the Government of Pakistan on past progress and provide options for the future energy strategy of the country. The KSTA inception report and a diagnostic report was presented on 15 December 2017 and 29 January 2018. The draft Electricity Policy and hydrocarbons development roadmap report was presented to the outgoing government in May 2018. As of 30 September 2018, \$360,749 and \$307,968.41 has been contracted and disbursed respectively.</p> <p>The request for minor change in scope, implementation arrangements and extension of completion date was approved on 13 December 2019. The change in scope which includes the formulation of the Renewable Energy Policy and the provision of analytical support for the Energy Sector Reforms and Financial Sustainability Program requires additional person-months and new positions with specialized knowledge and skills-set, expertise and analysis into various aspects of the evolving energy sector. In addition, the closing date of the KSTA was extended by 12 months from 31 December 2019 till 31 December 2020.</p> <p>As of 10 December 2019, of the total TA approved amount of \$1,050,000, \$632,679 and \$481,993 has been contracted and disbursed, respectively. The current uncommitted amount is \$417,321.</p>
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Geographical Location	Nation-wide
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Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design	Not Applicable as this an Policy and Advisory Technical Assistance Project
During Project Implementation	Multiple workshops are being scheduled to solicit input, feedback through a consultative process of dialogue.
Responsible ADB Officer	Aleem, Asad
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Energy Division, CWRD

Executing Agencies

Asian Development Bank
6 ADB Avenue,
Mandaluyong City 1550, Philippines
Economic Affairs Division (Old)
Pakistan Secretariat, (Old)
C Block, Islamabad
Pakistan

Timetable

Concept Clearance	30 Jun 2017
Fact Finding	15 May 2017 to 19 May 2017
MRM	-
Approval	21 Aug 2017
Last Review Mission	-
Last PDS Update	30 Sep 2020

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Milestones

Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
21 Aug 2017	12 Sep 2017	12 Sep 2017	15 May 2018	31 Dec 2020	16 Feb 2021

Financing Plan/TA Utilization							Cumulative Disbursements	
ADB	Cofinancing	Counterpart		Project Sponsor	Others	Total	Date	Amount
		Gov	Beneficiaries					
1,050,000.00	0.00	0.00	0.00	0.00	0.00	1,050,000.00	17 Jun 2022	718,484.40

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