



Country Partnership Strategy

August 2015

Pakistan
2015–2019

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 July 2015)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.0098
\$1.00	=	PRs101.8000

ABBREVIATIONS

ADB	–	Asian Development Bank
BISP	–	Benazir Income Support Program
CAPE	–	country assistance program evaluation
CPS	–	country partnership strategy
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MDG	–	Millennium Development Goal
OCR	–	ordinary capital resources
PPP	–	public–private partnership
PSE	–	public sector enterprise
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Pakistan ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2015 ends on 30 June 2015.
- (ii) In this report, “\$” refers to US dollars.

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COUNTRY AT A GLANCE

Economic	FY2010	FY2011	FY2012	FY2013	FY2014
GDP (\$ billion, current market prices)	177.4	213.8	224.7	231.4	243.7
GDP per capita (\$, current market prices)	1,022.5	1,207.0	1,243.7	1,255.0	1,296.3
GDP growth (% , in constant factor cost)	2.6	3.6	3.8	3.7	4.0
Agriculture	0.2	2.0	3.6	2.7	2.7
Industry	3.4	4.5	2.5	0.6	4.5
Services	3.2	3.9	4.4	5.1	4.4
Gross domestic investment (% of GDP)	15.8	14.1	15.1	15.0	15.0
Gross national saving (% of GDP)	13.6	14.2	13.0	13.9	13.7
Consumer price index (annual % change)	10.1	13.7	11.0	7.4	8.6
Liquidity (M2) (annual % change)	12.5	15.9	14.1	15.9	12.5
Overall fiscal surplus (deficit) (% of GDP)	(6.2)	(6.5)	(8.8)	(8.2)	(5.5)
Merchandise trade balance (% of GDP)	(6.5)	(4.9)	(7.0)	(6.6)	(6.8)
Current account balance (% of GDP)	(2.2)	0.1	(2.1)	(1.1)	(1.3)
External debt service (% of exports of goods and services)	16.7	11.3	14.5	19.0	22.4
External debt (% of GDP)	30.9	27.9	24.9	22.0	22.2

Poverty and Social	FY2000	FY2005	Latest Year	
Population (million)	139.4	152.5	188.0	[2014]
Population growth (annual % change)	2.3	1.9	2.0	[2014]
Maternal mortality ratio (per 100,000 live births)	280.0	230.0	170.0	[2013]
Infant mortality rate (below 1 year/per 1,000 live births)	88.0	80.0	69.0	[2013]
Life expectancy at birth (years)	64.0	65.0	66.0	[2012]
Adult literacy (%)	47.1	53.0	58.0	[2014]
Primary school gross enrollment (%)	72.0	[2002]	86.0	90.0 [2014]
Child malnutrition (% below 5 years old)	41.5	[2001]	...	31.5 [2012]
Population below poverty line (%)	34.5	[2001]	22.3	12.4 [2011]
Population with access to safe water (%)	89.0	[2012]
Population with access to sanitation (%)	...	54.0	72.0	[2012]

Environment	FY2005	Latest Year	
Carbon dioxide emissions (million tons)	...	161.4	[2010]
Carbon dioxide emissions per capita (tons)	0.8	[2003]	0.9 [2010]
Forest area (million hectares)	...	4.3	[2012]
Urban population (% of total population)	34.9	37.9	[2012]

ADB Portfolio (active sovereign loans, as of 31 December 2014)	OCR	ADF	Total
Total number of loans	20	15	35
Net loan amount (\$ million, cumulative)	4,053.8	1,460.7	5,514.5
Disbursements (\$ million, 2014)	333.8	523.1	856.9
Total funds available for withdrawal (\$ million)	2,794.3	814.7	3,609.0
Disbursed amount (\$ million, cumulative)	1,431.4	675.8	2,107.2
Percentage disbursed (disbursed amount/total available)	51.2	82.9	58.4

Note: External Debt includes external liabilities.

... = not available; () = negative; [] = latest year for which data are available; ADB = Asian Development Bank; ADF = Asian Development Fund; FY = fiscal year from 1 July to 30 June; GDP = gross domestic product; M2 = broad money; OCR = ordinary capital resources.

Sources: State Bank of Pakistan. Economic Data. <http://sbp.org.pk/ecodata/index2.asp> (accessed 30 June 2015); Government of Pakistan Ministry of Finance. 2008. *Pakistan Economic Survey 2007–08*. Islamabad; Government of Pakistan Ministry of Finance. 2014. *Pakistan Economic Survey 2013–14*. Islamabad; Pakistan Bureau of Statistics. 2007. *Pakistan Social and Living Standards Measurements Survey 2005–06*. Islamabad; Pakistan Bureau of Statistics. 2008. *Pakistan Social and Living Standards Measurements Survey 2006–07*. Islamabad; Pakistan Bureau of Statistics. 2009. *Pakistan Social and Living Standards Measurements Survey 2007–08*. Islamabad; Pakistan Bureau of Statistics. 2013. *Pakistan Social and Living Standards Measurements Survey 2011–12*. Islamabad; World Bank. World Development Indicators Online. <http://data.worldbank.org/products/wdi> (accessed 22 December 2014); and United Nations Development Programme. 2013. *Human Development Report 2013*. New York.

I. DEVELOPMENT TRENDS AND ISSUES

A. Country Background

1. Pakistan is a lower middle-income, and the world's sixth most populous, country. It is strategically located—bordering Afghanistan, the People's Republic of China, India, and Iran—with about 1,000 kilometers of coastline along the Gulf of Oman and the Arabian Sea. It also has substantial natural resources, fertile land in a variety of climatic zones, rich biodiversity, and a young population, underscoring the potential for rapid development.

2. Development has, however, been uneven and below potential. Periods of high growth have been short, partly reflecting external economic shocks, incomplete implementation of economic reforms, natural hazard-related disasters, political uncertainty, and domestic security challenges. The national elections in 2013 resulted in the first transfer of power in the country's history between civilian governments. The elections led to a single-party majority in the National Assembly while maintaining pluralism at the provincial level and in the Senate.

3. Economic transformation from agriculture to higher-productivity industry and services has not occurred.¹ From 1990 to 2014, the share of both agriculture and industry in output declined, with a corresponding increase in services. The shift in employment from agriculture toward industry and services was slow. In fiscal year (FY) 2014, agriculture accounted for 21% of gross domestic product (GDP), more than half of which consisted of livestock. Manufacturing was 13.4% of GDP, comprising mainly textiles, followed by agro-processing, cement, and chemicals. The services sector was 58.4% of GDP. The informal economy is large.² Exports are concentrated in textiles and primary agricultural products. With oil comprising more than one-third of total imports, the economy is exposed to oil price spikes in the medium term. Workers' remittances, of 6.4% of GDP in FY2014, are a key source of foreign exchange earnings.

4. The proportion of population earning less than \$1.25 per day (2005 purchasing power parity basis) declined from 35.9% in 2002 to 12.7% in 2011.³ The proportion earning less than \$2.0 per day fell from 73.9% to 50.7% during the same period. Thus, half of the population still lives either in absolute poverty or is vulnerable to it.⁴ Substantial regional disparity exists in poverty between rural and urban areas and among provinces. Estimates of inequality do not vary much over time. The Gini coefficient was low at 0.30 in FY2011, suggesting that growth has been inclusive.

5. The country is on track for, or achieved early, the Millennium Development Goals (MDGs) in reducing income poverty, treating children with diarrhea, detecting and curing tuberculosis, increasing the proportion of land classified as protected areas, and providing access to improved water sources.⁵ Progress toward other MDGs is lagging the targets.⁶ In spite of some progress, gender inequities are still large, with the country ranking 146th out of 187 countries in the 2014 gender inequality index.⁷

¹ Economic Analysis (accessible from the list of linked documents in Appendix 2).

² Estimates of the informal economy size in Pakistan range from 35% to 90% of the formal economy in the 2000s.

³ Poverty Analysis; Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).

⁴ Based on the national poverty line, the poverty rate declined from 34.5% in FY2002 to 12.4% in FY2011.

⁵ Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).

⁶ Pakistan ranked 146th (out of 187 countries) in the 2013 Human Development Index, with a score of 0.515, below the average of 0.558 for South Asia. United Nations Development Programme. 2013. *Human Development Report 2013*. New York.

⁷ Gender Analysis (accessible from the list of linked documents in Appendix 2).

B. Economic Assessment and Outlook

6. With the initiation of economic reforms, supported by an International Monetary Fund (IMF) Extended Fund Facility since September 2013, the economy has shown signs of improvement.⁸ Economic growth rose in FY2014 to 4.0%, the fastest rate since FY2009. However, the average annual growth rate during FY2010–FY2014 was 3.5% compared with 5.1% in FY2005–FY2009.⁹ The lower average rate of growth in FY2010–FY2014 reflected more intense energy shortages, declining external inflows, higher food and oil prices in 2011, floods in 2010 and 2011, the residual impact of the 2008 global financial crisis, and domestic security challenges. Macroeconomic imbalances increased in the 5 years to FY2013 with larger fiscal deficits, higher average inflation, and lower foreign exchange reserves, before improving since FY2013.¹⁰ The Asian Development Bank (ADB) forecast for GDP growth in FY2016 is 4.5%.

7. The gross domestic savings rate, of 7.5% of GDP in FY2014, is low relative to that in regional peers.¹¹ The gross national savings rate was 13.7% of GDP in FY2014, fueled partly by the increase in workers' remittances. Gross fixed investment declined from 14.2% in FY2010 to 13.4% in FY2014.¹² Private fixed investment fell from 10.5% of GDP in FY2010 to 10.0% in FY2014. Employment as a share of the working-age population was stagnant at about 50% during FY2006–FY2013. Almost 60% of the employed consist of own-account workers or contributing family workers, indicating a high degree of informality in the economy and, thus, vulnerability to poverty.

8. The main challenge in Pakistan to reduce poverty and raise living standards is to attain high, sustained, and inclusive economic growth of at least 7% annually to provide productive jobs to the young and growing labor force.¹³ The government is attempting to address the main constraints to achieve such growth: macroeconomic instability; inadequate infrastructure and connectivity; deficient governance and institutions; inadequate skills of the labor force and poor health services; limited access to finance, especially for small and medium-sized enterprises (SMEs); and security challenges. Alleviating these constraints would improve the business climate, increase domestic savings and investment, raise competitiveness, diversify the economy and exports, improve public service delivery, and reduce the vulnerability of the population to poverty and deprivation.

9. **Macroeconomic stability.** High fiscal deficits in the past have undermined macroeconomic stability. Large fiscal deficits contribute to a low domestic savings rate and have led to borrowing from the central bank, the State Bank of Pakistan, and/or commercial banks—contributing to the risk of inflation, potential crowding out of the private sector, increased total public debt, and a higher country risk premium. Tax revenues are low, and the spending structure—with significant interest payments, untargeted subsidies, and defense spending—leaves little space for development spending on infrastructure and social services.

10. **Infrastructure and connectivity.** Constrained domestic public resources and governance challenges mean that public and private investment in infrastructure falls short of

⁸ Economic Analysis (Summary) (accessible from the list of linked documents in Appendix 2).

⁹ Provisional official data suggest a further increase in economic growth to 4.2% in FY2015.

¹⁰ Preliminary estimates suggest that inflation moderated to 4.5%, foreign exchange reserves rose to \$13.1 billion, and the fiscal deficit declined to 5% of GDP in FY2015.

¹¹ In FY2013, the gross domestic savings rate was 8% of GDP, compared with more than 20% in Bangladesh, India, and Sri Lanka. ADB. 2014. *Key Indicators for Asia and the Pacific 2014*. Manila.

¹² Gross domestic investment, which includes changes in inventories, is higher by 1.6% of GDP over FY2010–FY2014.

¹³ Constraints to high, sustained, and inclusive growth are described in more detail in Economic Analysis (Summary) (accessible from the list of linked documents in Appendix 2).

requirements, resulting in high transmission and distribution losses in energy supply and energy shortages, a deficient road network, lack of passenger and freight train services and mass rapid transit in urban areas, low irrigation efficiency, and inadequate safe water and basic sanitation services. This weakens connectivity, increases operational costs for businesses, dampens productivity, and reduces access to key public services—particularly affecting poorer segments of society as they have less recourse to alternatives.

11. **Governance.** Challenges of governance cut across sectors and impede private sector development and effective public service delivery. Fiscal decentralization has raised the prospect of better public service delivery but also challenges in terms of coordination among federal and provincial entities, capacity at local levels, and mitigating fiscal risks by matching devolution of functions with revenues. The preferential access to credits and inputs of public sector enterprises (PSEs) disadvantages private firms where they coexist.¹⁴ Trade policy has an anti-export bias. Pakistan compares well with many of the countries in South Asia in the overall ease of doing business, but it fares worse in some key components such as starting a business, registering property, getting electricity, paying taxes, and enforcing contracts.¹⁵

12. **Financial system.** Access to finance is limited. About 10% of adults and only 3% of women in Pakistan have an account at a formal financial institution—less than one-third of the regional average for South Asia. The private sector credit to GDP ratio and the share of broad money (M2) in GDP are low.¹⁶ Credit to SMEs comprised just over 6% of total loans at the end of 2013. The lack of depth reflects the dominance of banks in the financial system, the large borrowing requirements of the public sector, the preference of banks to hold relatively risk-free government securities, and risk perceptions of lending to SMEs.

C. Highlights of the Previous ADB Country Strategy

13. ADB's country partnership strategy (CPS), 2009–2013 for Pakistan aimed to support the country's pursuit of prosperity and poverty alleviation by focusing on (i) investment and reforms in energy and infrastructure, (ii) reforms to strengthen governance and promote structural transformation, (iii) development of urban services, and (iv) effective implementation of projects and programs and capacity building.¹⁷ The CPS was formulated following a period of rapid economic growth during FY2003–FY2008, and taking into account the increasingly visible adverse effects of the global financial crisis and higher food and fuel prices. Several other internal and external shocks subsequently affected the economy during the CPS period (para. 6). The government's agreement with the IMF, under a standby arrangement that came into effect in November 2008, went off track in May 2010 until its expiration in September 2011. This triggered the suspension of ADB's policy-based operations starting in 2010. ADB's project pipeline was also adjusted because (i) the 2010 floods required a reorientation of ADB's assistance to help rehabilitation and reconstruction; and (ii) the 18th amendment to the Constitution in 2010 led to some uncertainty as the provinces and districts adjusted to their new mandates, and led some provinces to reconsider their preferences for borrowing.

14. ADB continued to streamline its portfolio during the CPS period to achieve greater efficiency and effectiveness. The active portfolio comprised 35 loans for 25 projects (\$5.5 billion) at the end of 2014 compared with 62 loans for 43 projects (\$5.1 billion) at the end of 2008. A

¹⁴ Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2).

¹⁵ Private Sector Assessment (Summary) (accessible from the list of linked documents in Appendix 2).

¹⁶ Sector Assessment (Summary): Finance (accessible from the list of linked documents in Appendix 2).

¹⁷ ADB. 2009. *Country Partnership Strategy: Pakistan, 2009–2013*. Manila; and *Country Partnership Strategy, 2009–2013 Final Review* (accessible from the list of linked documents in Appendix 2).

number of implementation challenges remain, including delays in approval of PC 1,¹⁸ procurement delays, inadequate performance of contractors, and slow compliance with land acquisition and resettlement safeguard measures.

15. ADB's Independent Evaluation Department conducted a country assistance program evaluation (CAPE) of ADB's Pakistan program during 2002–2012 and assessed it as *less than successful* overall.¹⁹ The CAPE findings rely substantially on operations during 2002–2008, as most of the operations initiated since 2009 were still being implemented. Its recommendations for this CPS are to (i) focus on structural reforms with a sector-specific programmatic approach; (ii) assess ADB's energy strategy and focus on the sector's financial sustainability; (iii) consider expanding work in urban and municipal services and social protection; (iv) help strengthen Pakistan's disaster response capability, and include investments that have visible development impact on the poor and reduce vulnerability to natural disasters; and (v) ensure that any restructuring and rationalization of the portfolio does not inadvertently lead to premature closure of loans. This CPS takes into account the CAPE's recommendations.²⁰

II. THE COUNTRY STRATEGY

A. Government National Strategy

16. The government's priorities are reflected in its “four Es” agenda—economy, energy, education, and elimination of extremism. Its vision is to create, by 2025, a globally competitive and prosperous country providing a high quality of life for all its citizens. Its medium-term goal is to raise the pace of economic growth to at least 7% annually by enhancing investment for productive employment opportunities while ensuring that everyone benefits from growth. Its strategy has seven priorities: (i) development of human and social capital; (ii) indigenous and inclusive growth; (iii) governance, institutional reforms, and modernization of the public sector; (iv) energy, water, and food security; (v) private sector-led growth; (vi) developing a competitive knowledge economy; and (vii) modernization of transport infrastructure and greater regional connectivity.²¹ Provincial strategies also emphasize faster economic growth, improved social outcomes, and better public service delivery.²²

17. Many of the government's priorities to achieve inclusive and sustained growth are also ADB priorities, as reflected in its Midterm Review of Strategy 2020.²³ These include poverty reduction and inclusive growth, infrastructure development, private sector development, environment and climate change, and regional cooperation and integration. Along with ADB, a number of other development partners are supporting the government's development agenda.²⁴ About \$3.6 billion of official development assistance was disbursed annually on average during 2010–2012, equivalent to 1.8% of GDP.²⁵

¹⁸ PC 1 refers to Planning Commission proforma 1 for development projects, which requires information on the concept, justification, and implementation arrangements, among others, before approval.

¹⁹ ADB. 2013. *Country Assistance Program Evaluation: Pakistan, 2002–2012—Continuing Development Challenges*. Manila.

²⁰ Country Partnership Strategy Formulation (accessible from the list of linked documents in Appendix 2).

²¹ Government of Pakistan, Planning Commission. *Pakistan 2025: One Nation, One Vision*. Islamabad.

²² The provincial priorities and alignment of ADB's support was reaffirmed during CPS country consultations.

²³ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

²⁴ The development coordination matrix is in Table 5 of the Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).

²⁵ AidFlows. www.aidflows.org. More than a third of the assistance was for humanitarian aid, followed by the social sectors (18.2%), education (14.2%), health and population (10.5%), and economic infrastructure and services (10.5%).

B. ADB Country Strategy

18. In line with ADB's Midterm Review of Strategy 2020, ADB will support the government's objective of higher, inclusive, and sustained growth to create productive employment opportunities and reduce poverty. The thrust of ADB's CPS, 2015–2019 will be to improve connectivity, productivity, and access to markets and public services. ADB's strategy will focus on (i) infrastructure development to improve connectivity, boost productivity, help attract private investment, create jobs, and provide access to markets and basic public services; and (ii) institutional reforms (including policy, regulatory, and administrative systems as well as financial management) to help mobilize resources, facilitate effective private sector participation, and improve public service delivery.²⁶

19. **Sector selectivity.** Assistance will focus on selected areas within six sectors: energy; transport; agriculture, natural resources, and rural development; water and other urban infrastructure and services; public sector management; and finance sector, with the bulk of the assistance in the infrastructure sectors. This selection is based on (i) identification of main constraints to inclusive growth, (ii) the government's priorities for ADB support, (iii) ADB's comparative advantage, (iv) complementarity with assistance provided to Pakistan by other development partners, and (v) ADB's limited available resources. Beyond the core areas, ADB will also selectively consider government requests for technical assistance (TA) and grants, subject to resource availability, where limited ADB support can yield high impact, in particular in leveraging private sector investment and promoting sound governance. ADB will further promote inclusive growth with flexibility to engage in social sectors, subject to government preference and resource availability, with innovative initiatives that could have systemic positive effects on the acquisition and use of knowledge and ability to compete globally. ADB, through its private sector operations, is supporting e-learning services. This could have systemic implications for the provision of education countrywide where mobile technology is available. ADB currently has initiatives to strengthen health insurance and vocational skills in its support to the Benazir Income Support Program (BISP). ADB will attempt to include skills development programs within its projects in the core sectors.

20. **Infrastructure development.** ADB will promote (i) a reliable and affordable energy system by rationalizing tariffs, confining subsidies to those for low-income population, reducing transmission and distribution losses, and increasing the supply of, and access to, energy; (ii) better domestic and regional connectivity to lower trade and transport costs with the development of economic corridors, railways rehabilitation, and border services; (iii) provincial roads and urban public transport systems to provide wider access to markets, jobs, and public services; (iv) stronger water resource management and irrigation to improve agricultural productivity, increase farm incomes, strengthen food security, and buttress the natural resource base; and (v) better health and environment for urban residents by increasing their access to safe water and improved sanitation.²⁷

21. **Institutional reforms.** To complement its financial assistance and support for reforms in the infrastructure sectors, ADB will assist the government to (i) improve the legal and regulatory setup, develop financing mechanisms, and build the capacity of institutions for public–private partnerships (PPPs); (ii) develop long-term financing sources, including conventional and Islamic financing structures, for infrastructure projects; (iii) increase access to finance of

²⁶ An illustration of how ADB will support the government's priorities is provided in Figure 1 of Country Partnership Strategy Frameworks (accessible from the list of linked documents in Appendix 2).

²⁷ Sector Assessments for Agriculture, Natural Resources and Rural Development; Energy; Transport; and Water and Other Urban Infrastructure and Services (accessible from the list of linked documents in Appendix 2).

underserved segments; and (iv) reform PSEs to improve their performance and service delivery, reduce the fiscal burden imposed by them, and create a level playing field between public and private companies in key subsectors where PSEs are dominant.²⁸

22. **Inclusive growth.** ADB's support will help relieve some of the main constraints to inclusive growth such as energy shortages, impediments to connectivity, limited private sector development, and inadequate resources for investment.²⁹ ADB will promote more inclusive access to jobs and economic opportunities by supporting (i) reforms and investments in water resource management and irrigation in rural areas where poverty rates tend to be high; (ii) urban services to help achieve the MDGs; (iii) provincial roads, railway rehabilitation, and urban transport to provide better access to the less well-off rural and urban population; (iv) financial services to segments whose access to finance is limited; (v) inclusive business; and (vi) gender equity. Support to Pakistan's largest social safety net program, the BISP; disaster risk management, including rural flood policy; and mainstreaming of environmental and climate change considerations, which generally have the largest impact on the poor, will help protect the most vulnerable segments of society.

23. **Synergies.** ADB's nonsovereign operations will complement its sovereign operations and continue to focus on energy security through selective investments to increase the supply of electricity based on domestic sources (hydro, gas, wind, and solar). They will also continue to facilitate trade finance and seek opportunities to provide demonstrative projects in mining, logistics, agro-value chains, and alternative financing options for agriculture, micro, and small and medium-sized enterprises. Where feasible, ADB will generate synergies in its public sector assistance, for example by focusing on PPPs for infrastructure and PSE reforms in the energy and transport sectors, and developing complementarities among water supply and urban flood mitigation, and hydropower and water resource management projects.

24. **Geographic and provincial distribution.** ADB will distribute its support among geographic regions and between the federal and provincial governments to ensure inclusiveness of investments, subject to project readiness, absorptive capacity, and provincial willingness to borrow.

25. **Gender equity.** ADB's support to BISP has a direct impact on women's empowerment and well-being. ADB's assistance will increase BISP's outreach to an additional 2.4 million women beneficiaries with national identity cards and bank accounts; 50% of the beneficiaries of the skill development program will be women and women will be the primary health insurance card holders. Assistance provided in the finance sector will increase women's access to financial services. ADB's support to other sectors is more focused on infrastructure, yet ensures increased employment opportunities for women, safe and female-friendly transport systems, improved access to water and livelihood opportunities, and improved voice and participation in project design and implementation.

26. **Regional integration.** ADB will help strengthen regional connectivity in transport and energy, such as with support (i) to the extension of Central Asia Regional Economic Cooperation corridors to the ports of Gwadar and Karachi, (ii) to the Turkmenistan–Afghanistan–Pakistan–India natural gas pipeline project, and (iii) for transport and trade

²⁸ Sector Assessments for Finance and Public Sector Management; and Public–Private Partnerships in Pakistan (accessible from the list of linked documents in Appendix 2).

²⁹ ADB's support to inclusive growth is illustrated in Figure 2 of Country Partnership Strategy Frameworks (accessible from the list of linked documents in Appendix 2).

facilitation. The emphasis will be on development of economic corridors to expand economic opportunities for communities in surrounding areas.

27. **Disaster risk management.** ADB is supporting the establishment of a government-owned disaster risk fund to mitigate ex-ante risks, provide ex-post responses, and enhance resilience to future natural hazard-related disasters.³⁰ Other opportunities will be explored to strengthen government capacity to forecast and mitigate the impact of natural hazards through existing programs. Complementing ADB's support for a flood policy and flood-resistant infrastructure in rural areas, the focus of these activities will be on densely populated urban areas as part of urban sector projects. ADB will also explore disaster risk financing.

28. **Environment and climate change.** Assistance will entail reforms, capacity development, and/or investments in (i) reduction of losses in the transmission and distribution of electricity, generation of renewable energy, and demand-side energy efficiency and conservation; (ii) pollution abatement through mass transit systems in urban areas and multimodal transport, including railways; (iii) sustainable management of watersheds and mangrove forests, as well as irrigation facilities, and cropping and farming systems that can adapt to increasing climate variability; (iv) better management of solid waste, control of sewerage, and provision of safe water in cities and towns; and (v) integration of environment and climate change considerations in sector planning.³¹

29. **Knowledge solutions.** ADB projects will aim to include demonstrational effects or technologies that can be scaled up in Pakistan. Some examples include smart metering for electricity distribution, adoption of integrated water resources management practices, corporate utility models for the provision of urban services, and risk sharing in PPPs. New knowledge solutions will be explored while providing support for sector policy and planning, and governments' policies in specific areas, such as the development of economic corridors.³²

30. **Partnerships and cofinancing.** Partnerships with official development agencies will involve close dialogue at the country level through ADB's Pakistan Resident Mission. This entails hosting regular meetings of heads of agencies, as well as active participation in IMF review missions and in sector working groups to share information and seek ways to collaborate in relevant areas of assistance. Efforts to generate cofinancing for ADB operations from official partners will be promoted and strengthened through such dialogue, with a view to jointly support programs such as for connectivity or infrastructure financing. ADB will seek innovative ways to leverage its official assistance with cofinancing from commercial sources, using both conventional and Islamic finance structures as appropriate.³³ ADB will also explore stronger partnerships with civil society organizations to leverage additional resources, share knowledge and expertise, and provide opportunities for a more active role in ADB operations.

31. **Portfolio implementation.** ADB will continue to (i) closely monitor implementation progress; (ii) agree on time-bound actions to resolve impediments to implementation during

³⁰ Emergency Assistance and Disaster Risk Management in Pakistan (accessible from the list of linked documents in Appendix 2).

³¹ Environment Assessment (Summary) (accessible from the list of linked documents in Appendix 2).

³² A country knowledge plan will be developed in 2015 to guide ADB's knowledge activities during the CPS period.

³³ A memorandum of understanding between ADB and the Department for International Development of the United Kingdom on £262 million in cofinancing for ADB's support to economic corridors, including for project investments and analytical and capacity development, has been signed. ADB has also initiated discussions with several private sector intermediaries and investors to cofinance ADB's public sector projects with innovative *sukuk* financing. *Sukuk* is an Islamic financial certificate or instrument, similar to a conventional bond, which complies with Islamic law.

quarterly portfolio performance reviews; (iii) implement project readiness criteria to reduce start-up delays, limit commitment charges on ADB loans, and help achieve sector outcomes in a timely manner; and (iv) provide TA to counterparts to buttress their capacity for project implementation, including procurement and compliance with land acquisition and resettlement safeguard measures.

32. The broad thrusts of this strategy are similar to those in the previous CPS, reflecting the long-standing development constraints, the governments' priorities to relieve them, and ADB's accumulated experience. This CPS places greater emphasis on (i) partnerships and cofinancing, particularly from commercial sources; (ii) disaster risk management; and (iii) a more systematic approach to knowledge solutions.

III. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

33. Indicative resources available during 2016–2018 for ADB's sovereign operations amount to \$3,654 million in loans, comprising \$2,444 million in market-based ordinary capital resources (OCR) and \$1,210 million in concessional resources from the Asian Development Fund or concessional OCR.³⁴ The final country allocations of concessional OCR for 2017 and 2018 will be subject to available concessional OCR and the outcome of the country performance assessments.³⁵ These will be supplemented with ADB's nonsovereign operations, subject to headroom constraints, as well as official and commercial cofinancing.³⁶

34. The cost-sharing and financing parameters during 2015–2019 envisage a ceiling of 85% for the loan portfolio and 90% for the TA portfolio, similar to the current limits.³⁷ Actual shares for specific ADB projects will be determined by project-specific considerations and available cofinancing. Staff mix and deployment in ADB's resident mission may be adjusted as necessary to support CPS implementation.

B. Program Overview

35. ADB's program to underpin the strategy will consist of a mix of policy-based lending, multitranches financing facilities, stand-alone projects, TA loans, TA grants, project design facilities, knowledge products and services, and policy dialogue. ADB will also consider alternative financing structures such as Shari'ah-compliant commercial cofinancing to leverage its assistance, especially in transport and energy. The policy-based lending will target specific areas of priority reforms, within a programmatic framework in collaboration with development partners, supplemented with TA for the design and implementation of these reforms.

³⁴ This reflects the approved combination of Asian Development Fund lending resources with the OCR balance sheet that will become effective on 1 January 2017.

³⁵ Country Performance Assessment Ratings (accessible from the list of linked documents in Appendix 2).

³⁶ ADB's private sector portfolio in Pakistan is close to the maximum resources available based on its country risk rating. Commercial cofinancing will be raised on more favorable terms than those available with alternative market-based funding. It is likely that the consequent increase in public borrowing will be sustainable, considering the expected high economic returns from the projects and assuming continued fiscal consolidation under the government's reform program. Based on the reform program agreed with the government, the IMF assesses Pakistan's public and external debt to be sustainable and projects public debt to decline from a high of 64.3% of GDP in FY2013 to 59.4% in FY2019. IMF. 2015. *Pakistan: Sixth Review under the Extended Arrangement*. Washington, DC, p. 37.

³⁷ Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters (accessible from the list of linked documents in Appendix 2).

Multitranche financing facilities contain significant components for analytical and capacity development assistance. TA grants will finance these for stand-alone investment projects.

36. **Energy.** In line with the government's 2013 National Power Policy, ADB will support (i) tariff reforms for a self-sustaining regime and better targeting of subsidies to low-income consumers; (ii) loss reduction and larger tariff collections by electricity distribution companies; (iii) stronger demand-side efficiency and energy conservation measures; (iv) instituting performance-based contracts and increasing public access to information on generation, consumption, tariffs, and subsidies through web-based disclosure; and (v) commercializing and privatizing electricity distribution companies. The reforms will be supplemented by investments to rehabilitate transmission and distribution systems, and to increase the supply of renewable energy. ADB is also engaged in transaction advisory services for the Turkmenistan–Afghanistan–Pakistan–India natural gas pipeline.

37. **Transport.** ADB will continue to assist development of the National Trade Corridor through the construction and rehabilitation of selected national highways and provincial roads. Enforcement of international engineering standards, safety audits, and provision of training will promote road safety. ADB's investments will be complemented by its support for more efficient border services at three key border crossing points—at Chaman and Torkham (bordering Afghanistan) and at Wagah (bordering India). ADB will also support the government's reform agenda to revitalize Pakistan Railways.

38. ADB's investments in urban transport will include bus rapid transit systems in Karachi, Peshawar, and Punjab with an emphasis on (i) system integration and inter-modality to favor universal access; (ii) traffic engineering and management systems; and (iii) traffic demand management, including parking policy. A modal shift from private vehicles to public transport, walkability and nonmotorized transport, and integration of risk-sensitive land use and environmental planning into the transport system will form key aspects of ADB's support.

39. **Agriculture, natural resources, and rural development.** ADB assistance will include (i) better water resources infrastructure and management in arid and semiarid areas of Balochistan, Khyber Pakhtunkhwa, and Punjab; (ii) rehabilitating and upgrading the Indus Basin Irrigation System and associated infrastructure; (iii) establishing new non-perennial irrigation systems, with the development of command areas in selected rain-fed regions and corresponding agriculture support services; (iv) irrigation and water resources reform initiatives; and (v) strengthening government and local community capacity for water management.

40. **Water and other urban infrastructure and services.** ADB will support the government's priorities for urban renewal with improved infrastructure and institutions for water supply and sanitation, sewerage, and solid waste management in cities in Sindh, Punjab, and Khyber Pakhtunkhwa. Interventions will include support for institutional reforms for sustained service delivery at the local level; and to promote green, competitive, and inclusive cities.

41. **Public sector management.** ADB will assist the government to (i) implement reforms in PSEs, particularly in core infrastructure sectors; (ii) privatize selected PSEs; and (iii) establish robust regulatory structures in sectors where PSEs have dominant market positions. ADB will (i) help strengthen the legal and regulatory environment for PPPs; (ii) build the capacity of relevant agencies; and (iii) establish mechanisms for project development facility, project financing support with credit-enhancement products, and viability gap funding in Sindh and Punjab. ADB will also continue its support to the government in its efforts to provide effective social protection mechanisms for the poorest of the poor, currently through assistance to BISP.

42. **Finance.** ADB will provide support to (i) increase the availability of conventional and Shari’ah-compliant cofinancing for infrastructure projects; (ii) improve public debt management; (iii) increase SME access to trade credit, export credit insurance, and related products; (iv) help women and other underserved segments to access a wider range of financial services; and (v) develop market-based insurance and other tools to mitigate the impact of natural disasters. ADB might also provide local and hard currency guarantees, loans, and equity to financial institutions to provide support to underserved segments in the agriculture sector and SMEs.

IV. RESULTS MANAGEMENT

A. Monitoring

43. ADB and the government will monitor the CPS results framework annually to track progress, and as input in defining future country programs to ensure they remain aligned with government priorities (Appendix 1). Implementation—contract awards and disbursements, and progress toward outputs and outcomes—will be monitored through ADB project and TA review missions and annual portfolio reviews.

B. Risks

44. **Reform momentum.** The implementation of the strategy is vulnerable to the risk that the reforms stall during the CPS period, which could lead the IMF program to go off track, stop the policy-based budget support from ADB, render the balance of payments and the fiscal position unsustainable, deter investment, and hinder the achievement of development outcomes. The urgency of reforms and the government’s resolve to implement them mitigates this risk. ADB will collaborate closely with development partners to support the government’s reform agenda with sequencing and attention to capacity development. ADB’s diverse project pipeline will also allow for adjustments as appropriate.

45. **Governance.** Inadequate public financial management systems, vulnerability to corruption, and lack of capacity in government entities—particularly with decentralization—could pose a risk to CPS implementation.³⁸ ADB’s policy-based operations and TA loans will directly address some of these risks by supporting reforms and capacity development to improve the financial soundness and performance of the energy sector and PSEs. ADB is providing TA to improve the government’s procedures and systems on procurement and safeguards. Measures will be designed and incorporated in ADB projects to address sector-specific risks and help improve integrity and accountability.

46. **Natural hazard-related disasters.** Occurrence of large-scale natural hazard-related disasters could delay the government’s reforms and divert scarce fiscal resources from planned projects. ADB, in collaboration with development partners, will assist the government with climate change adaptation and disaster risk management, including disaster risk finance. In the event of disasters, ADB will be responsive to the government’s requests for assistance.

47. **Security, law, and order.** Pakistan has been directly impacted by the “war on terror.” Security, law, and order are further complicated by ethnic and sectarian differences among various segments of society. The government is addressing this by facilitating a consensus and taking steps to enhance security. At the operational level, ADB will continue to be sensitive to the security environment, including in the selection of project areas and provision of adequate measures to ensure safety of persons and assets.

³⁸ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Goals			
1. GDP growth accelerates to at least 7% by 2019 2. Investment rate rises to 20% of GDP by 2019 3. The employment–population ratio increases to at least 55% by 2019 4. Proportion of people living on less than \$2 per day (2005 purchasing power parity) falls to, at most, 40% by 2019			
Sectors Selected for ADB Support			
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities
1. Energy (Core Area 1: Infrastructure; Core Area 2: Environment)			
Energy security through greater availability, affordability, efficiency, and competition in the energy sector	Reliable and affordable energy services through the development of domestic energy resources (hydropower, renewable energy, coal, and gas) and the strengthening of transmission and distribution networks Indicator 1: Access to energy increased 2011 baseline: 68.6% of the population 2018 target: 75% Indicator 2: Load shedding reduced 2013 baseline: 5,000 MW 2018 target: 0	Hydropower and other power generation Energy efficiency and strengthening of transmission and distribution Enhanced enabling environment for private sector investment into energy sector with reforms of policy and regulations	\$2.0 billion in 2015–2018, 40% of 2015–2018 resource envelope, of which: ESG: 40% GEM: 0% PSD: 38% RCI: 10%
2. Transport (Core Area 1: Infrastructure; Core Area 3: Regional integration)			
Modernization of infrastructure and better transport connectivity to support a vibrant and growing economy	Increase in movement of people and goods within Pakistan in a more efficient, safe, and sustainable manner Indicator 1: Share of households in Karachi with access to safe, reliable, and efficient mass-transit system increased 2014 baseline: 0% 2018 target: 10% Indicator 2: Passenger traffic by road increased 2011 baseline: 322.7 billion passenger-kilometers Target: 2%–3% per annum over 2012–2018	Roads, road safety, and asset management Border services improvement Urban transport Railway rehabilitation	\$1.2 billion in 2015–2018, 25% of 2015–2018 resource envelope, of which: ESG: 16% GEM: 34% PSD: 50% RCI: 66%
3. Agriculture, natural resources, and rural development (Core Area 1: Infrastructure; Core Area 2: Environment)			
Transformation of agriculture and rural economy and adoption of best water management practices to ensure food and water security	Increase in agriculture production for consumption and trade Indicator 1: Annual cropping intensity of at least 140% maintained Indicator 2: Average annual production of main crops increased by 10% each by 2019 2013 baseline: Wheat = 3 ton/ha, rice = 1.9 ton/ha, sugarcane = 50 ton/ha, cotton = 1.5 ton/ha, fodder = 21 ton/ha	New construction and improvement of irrigation canals and appurtenant structures Irrigation reforms and capacity building	\$578 million in 2015–2018, 11% of 2015–2018 resource envelope, of which: ESG: 100% GEM: 65% PSD: 0% RCI: 0%

Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities
4. Water and other urban infrastructure and services (Core Area 1: Infrastructure; Core Area 2: Environment)			
Upgrading of urban infrastructure in an integrated manner for higher economic growth and improved living standards	<p>Higher quality of life of urban residents</p> <p>Indicator 1: Proportion of urban population with sustainable access to an improved drinking water source increased 2013 baseline: 89% 2019 target: 92%</p> <p>Indicator 2: Proportion of urban population with access to improved sanitation facility increased 2013 baseline: 72% 2019 target: 80%</p>	<p>Urban planning, policies, and reforms</p> <p>Institutional reforms</p> <p>Water and sanitation infrastructure</p> <p>Increased private sector participation</p>	<p>\$310 million in 2015–2018, 6% of 2015–2018 resource envelope, of which:</p> <p>ESG: 100%</p> <p>GEM: 100%</p> <p>PSD: 100%</p> <p>RCI: 0%</p>
5. Public sector management (other areas of operations)			
Strengthening of governance through reforms in public, financial, and economic institutions, including increased transparency and accountability in public sector enterprises for a level playing field with private enterprises	<p>Increased fiscal and debt sustainability</p> <p>Increased resilience of female BISP beneficiaries and their families</p> <p>Indicator 2: Public debt to GDP ratio reduced 2014 baseline: 64.3% 2018 target: 59%</p> <p>Indicator 2: Average per capita consumption expenditure of BISP beneficiaries increased by 5% in 2018 2012 baseline: PRs1,575</p>	<p>Reforms of public sector enterprises</p> <p>Support to public–private partnerships</p> <p>Support to BISP</p>	<p>\$650 million in 2015–2018, 13% of 2015–2018 resource envelope, of which:</p> <p>ESG: 0%</p> <p>GEM: 0%</p> <p>PSD: 100%</p> <p>RCI: 0%</p>
6. Finance (Core Area 4: Finance sector development)			
Mobilization of internal resources and private sector-led growth	<p>Increased and more effective financial access for agriculture-based and SME borrowers, with a focus on women and other underserved segments</p> <p>Increased private sector participation in infrastructure investment</p> <p>Indicator 1: Lending to private sector increased 2013 baseline: 15% of GDP 2018 target: 23% of GDP</p> <p>Indicator 2: Share of loans to SMEs increased 2013 baseline: 6% of total bank sector loans 2018 target: 8% of total bank sector loans</p>	<p>Money and capital markets, infrastructure finance; SME finance, inclusive finance, capacity building and institutional strengthening</p>	<p>\$290 million in 2015–2018, 6% of 2015–2018 resource envelope, of which:</p> <p>ESG: 0%</p> <p>GEM: 28%</p> <p>PSD: 100%</p> <p>RCI: 0%</p>

ADB = Asian Development Bank, BISP = Benazir Income Support Program; ESG = environmentally sustainable growth, GDP = gross domestic product, GEM = gender equity and mainstreaming, ha = hectare, MW = megawatt, PSD = private sector development, RCI = regional integration, SMEs = small and medium-sized enterprises.

Note: Core areas are based on ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila; and ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/CPS/?id=PAK-2015>

1. Economic Analysis (Summary)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
7. Sector Assessment (Summary): Energy
8. Sector Assessment (Summary): Finance
9. Sector Assessment (Summary): Public Sector Management
10. Sector Assessment (Summary): Transport
11. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
12. Risk Assessment and Risk Management Plan (Summary)
13. Country and Portfolio Indicators
14. Country Performance Assessment Ratings
15. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters, 2015–2019
16. Country Partnership Strategy Formulation
17. Country Partnership Strategy, 2009–2013 Final Review
18. Country Operations Business Plan
19. Country Assistance Program Evaluation

Supplementary Documents

20. Country Partnership Strategy Frameworks
21. Regional Cooperation and Integration Assessment (Summary)
22. Governance Risk Assessment and Management Plan – Federal and Provincial
23. Sector Procurement Risk Assessments (Summary)
24. Emergency Assistance and Disaster Risk Management in Pakistan
25. Public–Private Partnership in Pakistan