

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The Asian Development Bank (ADB) and the World Bank are the main development partners providing policy-based lending for the federal and provincial governments in Pakistan to implement critical structural reforms and improve their management of public resources. United Nations agencies also provide support for policy and programs covering economic growth, social sectors, and disaster resilience.

2. **ADB.** In response to the Government of Pakistan's request for assistance, ADB has prepared the Building Resilience with Active Countercyclical Expenditures Program. The proposed program will support the government's efforts to address the immediate impacts of cumulative exogenous shocks to the economy, that is, surging international commodity prices and the Russian Federation's invasion of Ukraine, while, in conjunction with other development partners aligned to the government's reform program with the International Monetary Fund (IMF), accelerate the ongoing implementation of structural reforms to improve Pakistan's medium- to long-term macroeconomic prospects. In providing this support to the government for the current crisis, ADB builds on its experience of effective partnership with the government through several program loans and crisis response operations, including the special policy-based loan for the Economic Stabilization Program in 2019 and the COVID-19 Active Response and Expenditure Support Program in 2020. This has enabled a strong policy dialogue for development of countercyclical expenditure measures, as well as support for robust monitoring and evaluation, in addition to the ongoing structural reforms.

3. **World Bank.** The World Bank continues to provide broad-based assistance for public sector reforms through policy-based guarantees and policy credit loans focusing on improving the business environment and fiscal management. Building on these reforms, the World Bank is in the process of implementing a reform program, Pakistan Resilient Institutions for Sustainable Economy Development Policy Financing. The objectives of the program are to improve fiscal management and sustainability and to support growth and competitiveness. The program will have two pillars. The first pillar on fiscal management and sustainability seeks to strengthen the institutional basis for fiscal management through improved coordination of fiscal policies in the Government of Pakistan, enhanced debt management, broadening of the tax base, and a reduction of the fiscal losses of the energy sector and state-owned enterprises more generally. The second pillar seeks to support competitiveness and boost growth at a time when the macroeconomic adjustment is likely to have a negative short-term impact on growth. It will work to improve the business and regulatory environment, deepen the finance sector and enhance its transparency, create an enabling environment for housing finance, and reduce the anti-export bias in the economy. A more transparent and deeper finance sector will increase the volume of financing available for productive investments, supported by a stronger regulatory environment for the housing industry.

4. **International Monetary Fund.** In June 2019, the IMF approved a \$6.0 billion 39-month assistance program for Pakistan under its Extended Fund Facility (EFF) aimed at macroeconomic stabilization. Since then, there have been eight reviews of the EFF with the combined seventh and eighth reviews approved by the IMF board on 29 August 2022. The IMF board approval allowed disbursement of \$1.1 billion, bringing total disbursement under the EFF to \$3.9 billion, in addition to extension of the EFF to June 2023 and an increase in access amount to \$6.5 billion. To regain macro-fiscal stability and debt sustainability, the IMF and the government have agreed on fiscal consolidation measures that target an underlying primary budget surplus of 0.4% of gross

domestic product, including a provincial surplus equal to about 1.0% of gross domestic product. Prior actions for the review include (i) approval of the fiscal year (FY) 2023 national budget, (ii) reversal of the energy price relief package (achieved), (iii) signing of memoranda of understanding with provincial governments for the delivery of required surpluses (achieved), and (iv) implementation of overdue annual electricity tariff rebasing (achieved). The program also calls for a more aggressive tightening of monetary policy to manage the record high inflation, while expanding and strengthening social safety nets to protect the poor.

5. **Other development partners.** The United Kingdom's Foreign, Commonwealth & Development Office (FCDO) development assistance to Pakistan has focused on improving public sector management mostly through partners, including ongoing cofinancing for ADB's efforts to boost connectivity and trade and for the World Bank's efforts to reform public finance. FCDO-supported trust funds are supporting reforms under the World Bank's two policy loans, which focus on the business environment, access to financial services, provincial taxation, the electricity subsector, privatization and the investment climate, tax and trade, and debt management. The United States Agency for International Development is also providing technical assistance for tax and tariff reforms, institutional strengthening to boost export competitiveness, and public financial management reforms. The development partners' assistance is itemized in the following table.

Major Development Partners for Policy-Based Lending in Pakistan

Development Partner	Project Name	Duration	Amount (\$ million)
ADB	Trade and Competitiveness Program (Subprogram 1)	2019	500
	Economic Stabilization Program	2019	1,000
	Energy Sector Reform Program (Subprogram 1)	2019	300
	Third Capital Market Development Program (Subprogram 1)	2020	300
	Trade and Competitiveness Program (Subprogram 2)	2020	300
	COVID-19 Active Response and Expenditure Support Program	2020	500
	Energy Sector Reform Program (Subprogram 2)	2021	300
	Third Capital Market Development Program (Subprogram 2)	2022	300
	Integrated Social Protection Development Program	2022	603
	Building Resilience with Active Countercyclical Expenditures Program	2022	1,500
	Promoting Sustainable Public-Private Partnerships (Subprogram 1)	2023	175
	Domestic Resource Mobilization (Subprogram 1)	2023	150
	Energy Sector Reform Program (Subprogram 3)	2023	400
	Women Inclusive Finance Program (Subprogram 1)	2023	75
IMF	Extended Fund Facility	2019–2023	6,500
	Rapid Financing Instrument	2020	1,400
World Bank	Pakistan Raises Revenue	2018–2019	400
	Assisting Governance and Access in Higher Education for Quality Enhancement Program	2018–2019	400
	Pakistan Resilient Institutions for Sustainable Economy Development Policy Financing (RISE – I)	2019–2020	500
	Securing Human Investments to Foster Transformation Development Policy Financing Program (SHIFT – I)	2019–2020	500

Development Partner	Project Name	Duration	Amount (\$ million)
	Pakistan Crisis-Resilient Social Protection	2020–2021	600
	Second Securing Human Investments to Foster Transformation (SHIFT – II)	2020–2021	400
	Programme for Affordable Energy (PACE – I)	2020-2021	400
	Pakistan Resilient Institutions for Sustainable Economy Development Policy Financing (RISE – II)	2022-2023	450
	Programme for Affordable Energy (PACE – II)	2022-2023	500

ADB = Asian Development Bank, COVID-19 = coronavirus disease, IMF = International Monetary Fund.

Sources: Inputs from ADB and other development partners.

B. Institutional Arrangements and Processes for Development Coordination

6. ADB maintains close coordination and partnerships with other development agencies at the country level. ADB's Pakistan Resident Mission joins regular meetings with heads of agencies and in various sector working groups (energy, public sector management, disaster resilience) to share knowledge and discuss possible collaborations in mutual areas of assistance. ADB also regularly participates in IMF program review missions. The five largest development partners—the ADB, the FCDO, the IMF, the United States Agency for International Development, and the World Bank—hold regular consultations and programming-related meetings with the government, as do other bilateral agencies such as the Japan International Cooperation Agency. These collaborations with development partners produce knowledge work as well as continuous deliberations on macroeconomic policy and development issues.

C. Achievements and Issues

7. The proposed program is critical in facilitating fast and smooth implementation of the government's countercyclical expenditure measures by channeling increased funding to three main areas: (i) social protection through the Benazir Income Support Programme; (ii) food security through the Pakistan Agricultural Storage & Services Corporation and the Utility Stores Corporation; and (iii) enhanced business and employment through various entrepreneurship and employment schemes for youth, women-led businesses, and support for export-oriented sectors.. Support for medium- to long-term structural reforms that will help make the economy more competitive and resilient to future shocks will continue through the alignment of development partner structural reform technical assistance and program lending to the EFF.

D. Summary and Recommendations

8. ADB will continue its close coordination with key development partners such as the IMF and the World Bank on key policy and institutional reforms to address long-standing structural weaknesses. ADB will share lessons learned and good practices and will incorporate these into the scope and design of future program loans. In addition, ADB will explore opportunities such as cofinancing and joint technical missions to help it stay aligned with the IMF and World Bank, and to promote improved aid effectiveness.