ADB

Completion Report

Project Number: 53247-001
Loan Number: 3882
June 2021

Pakistan: Economic Stabilization Program

Asian Development Bank

CURRENCY EQUIVALENTS

Currency unit – Pakistan rupee(s) (PRe/PRs)

		At Appraisal (25 July 2019)	At Program Completion (31 October 2019)
PRe1.00	=	$0.0063	$0.0064
$1.00	=	PRs159.6700	PRs155.8500

ABBREVIATIONS

ADB	–	Asian Development Bank
BISP	–	Benazir Income Support Programme
COVID-19	–	coronavirus disease
EFF	–	Extended Fund Facility
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MOE	–	Ministry of Energy
MOF	–	Ministry of Finance
SBP	–	State Bank of Pakistan
SOE	–	state-owned enterprise
SPBL	–	special policy-based loan
TA	–	technical assistance

NOTES

(i) The fiscal year (FY) of the Government of the Islamic Republic of Pakistan ends on 30 June. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2018 ends on 30 June 2018.

(ii) In this report, "$" refers to United States dollars.

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CONTENTS

BASIC DATA

A. Loan Identification

1.	Country	Pakistan
2.	Loan number and financing source	Loan 3882 (ordinary capital resources)
3.	Project title	Economic Stabilization Program
4.	Borrower	Islamic Republic of Pakistan
5.	Executing agency	Ministry of Finance
6.	Amount of loan	$1,000,000,000
7.	Financing modality	Special policy-based lending

B. Loan Data

1.	Appraisal	
	– Date started	22 July 2019
	– Date completed	25 July 2019
2.	Loan negotiations	
	– Date started	15 Oct 2019
	– Date completed	15 Oct 2019
3.	Date of Board approval	6 Dec 2019
4.	Date of loan agreement	9 Dec 2019
5.	Date of loan effectiveness	
	– In loan agreement	9 Mar 2020
	– Actual	9 Dec 2019
	– Number of extensions	0
6.	Project completion date	
	– Appraisal	15 Oct 2019
	– Actual	30 Jun 2020
7.	Loan closing date	
	– In loan agreement	30 Jun 2020
	– Actual	30 Jun 2020
	– Number of extensions	0
8.	Financial closing date	
	– Actual	30 Jun 2020
9.	Terms of loan	
	– Interest rate	6M LIBOR + 2.00%
	– Maturity (number of years)	8
	– Grace period (number of years)	3

10. Disbursements

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
9 Dec 2019	9 Dec 2019	0 months
Effective Date	**Actual Closing Date**	**Time Interval**
9 Dec 2019	30 Jun 2020	6.7 months

b. Amount ($ million)

Category	Original Allocation (1)	Increased during Implementation (2)	Canceled during Implementation (3)	Last Revised Allocation (4=1+2–3)	Amount Disbursed (5)	Undisbursed Balance (6 = 4–5)
Loan 3882	1,000			1,000	1,000	

C. Project Data

1. Project cost ($ million)

Cost	Appraisal Estimate	Actual
Foreign exchange cost	1,000	1,000
Local currency cost		
Total	**1,000**	**1,000**

2. Financing plan ($ million)

Cost	Appraisal Estimate	Actual
Implementation cost		
Borrower financed		
ADB financed	1,000	1,000
Other external financing		
Total implementation cost	**1,000**	**1,000**

3. Cost breakdown by project component – not applicable

4. Project schedule – not applicable

5. Project performance report ratings – not applicable

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Fact-finding	22–25 July 2019	4	16	Principal public management specialist, senior planning and policy economist, principal counsel, senior economics officer

I. PROGRAM DESCRIPTION

1. On 6 December 2019, the Asian Development Bank (ADB) approved a special policy-based loan (SPBL) to the Islamic Republic of Pakistan for the Economic Stabilization Program comprising a single tranche totaling $1 billion.[1]

2. The overarching development objectives of the country are macroeconomic management strengthened and more sustained and inclusive growth. The effect of the SPBL-related reforms was sustainable fiscal position with reduced external imbalances achieved. The reform areas under the SPBL were (i) exchange rate management strengthened, (ii) public resource management improved, and (iii) social protection enhanced.

3. Part of a comprehensive multidonor economic reform program led by the International Monetary Fund (IMF), the SPBL aimed to help the Government of Pakistan mitigate the significant negative economic and social impacts of an extraordinary macroeconomic crisis.[2] The IMF's ongoing economic reform program aims to (i) introduce important fiscal consolidation measures, led by revenue mobilization measures, to ensure sustainable public debt; (ii) implement a tight monetary policy and a flexible market-determined exchange rate to reduce the current account deficit and moderate inflation; (iii) facilitate structural reforms in the energy sector, institutions, and governance to ensure high and inclusive growth; and (iv) augment social sector spending to minimize the effect of the reforms on the poor.

4. Pakistan's economic crises were caused by a rapidly expanding fiscal deficit and public debt, a large balance of payments gap, and critically low foreign exchange reserves. The depleting reserves and accompanying trade imbalance not only compromised economic prosperity but also led to macroeconomic instability. A high inflation rate resulted in falling real incomes, thereby eroding the economic well-being particularly of the poor and vulnerable segments of the society. While macroeconomic fundamentals had been weak for a sustained period, several unanticipated shocks have been critical for the economy. Pakistan's external account had been hit by a sharp drop in foreign direct investment, which declined (as a percentage of gross domestic product) from 0.92% in 2016 to 0.82% in 2017 and 0.55% in 2018. An uncertain political and global economic environment caused the decline.

5. These developments pushed public debt to 86.2% of gross domestic product (GDP) during FY2019.[3] An unforeseen rise in international oil prices during 2018 aggravated the situation by pushing up imports and expanding the trade deficit. Rising public debt, coupled with depreciation of the Pakistan rupee, also caused a sharp rise in debt servicing payments—further eroding the fiscal space needed to address the crisis. In FY2019, the government's total debt servicing costs reached 5.2% of GDP, up from 4.3% of GDP in FY2018. The government's gross financing needs reached 34.0% of GDP in FY2018, up from 29.4% in FY2017 and crowding out fiscal space for countercyclical investment and social protection programs.

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1 ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Proposed Special Policy-Based Loan to the Islamic Republic of Pakistan for the Economic Stabilization Program.* Manila.

2 IMF. 2019. Pakistan: Request for an Extended Arrangement under the Extended Fund Facility–Press Release; Staff Report; and Statement by the Executive Director for Pakistan. *IMF Country Report*. No. 19/212. Washington, DC.

3 State Bank of Pakistan. www.sbp.org.

II. DESIGN AND IMPLEMENTATION

A. Program Design and Formulation

6. The SPBL supported the IMF Extended Fund Facility (EFF) in accordance with the eligibility criteria specified in ADB's Review of Program Lending Policies. These define a crisis as a situation in which a developing member country is facing unanticipated difficulties in meeting its payment obligations, external and internal, and where a large IMF-led international rescue package is being mounted to help restore stability.[4] This financial support was also important in ensuring that the government would accumulate sufficient foreign exchange reserves to meet its external account requirements and to prevent disruptive cuts in development expenditures, especially those targeted at job creation and social protection.[5] The SPBL formed part of a larger assistance framework under the IMF's economic reform program. The government played an active role in ensuring strong development partner coordination throughout preparation of the IMF EFF program. ADB also coordinated directly with the IMF and other major development partners during preparation of the SPBL. As a result of this strong coordination, the IMF EFF program aims to catalyze total financing of about $38.6 billion over 3 years from Pakistan's international partners. The first 12 months was financed with support expected from multilateral development banks and bilateral creditors as follows: the People's Republic of China, $5.2 billion; Saudi Arabia, $6.2 billion; United Arab Emirates, $1.0 billion; the World Bank, $1.7 billion; ADB $2.5 billion (policy-based loans), and the Islamic Development Bank, $1.1 billion.[6]

7. ADB has provided both direct and indirect support to preparation of the IMF EFF program, leveraging its deep policy engagement and long experience in designing and implementing structural reforms through a series of programmatic approaches covering public financial management, energy and state-owned enterprise (SOE) reform, capital market reform, and trade and competitiveness. This has included technical assistance (TA) and policy dialogue to support the implementation of reforms to improve trade competitiveness (including tariff rationalization and strengthening of institutions to facilitate trade) and to strengthen tax administration. ADB has also provided targeted TA to support implementation of capital market reforms and support implementation of energy sector reforms, including improvements in governance and technical efficiency and financial sector development as well as formulation of the circular debt reduction plan. TA support was also provided in drafting SOE legislation and policy. In addition to leveraging its long-standing sector technical engagement, ADB supported preparation of the IMF EFF

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[4] According to the guidelines for evaluation of public sector operations (April 2016), SPBLs are not planned in advance. As per OM Section D4 (January 2021), an SPBL is designed to address external and internal payments crises by providing large-scale support as part of an international rescue effort led by the IMF and supported by other international financial institutions, including the World Bank. An SPBL should be provided as part of a wider financial burden sharing across international financial institutions providing large-scale support to developing member countries during a crisis. A crisis is defined as a situation in which a developing member country faces unanticipated difficulties meeting its external and internal payment obligations. In practice, approval of an IMF rescue program is used to verify the existence of balance of payments difficulty, and the SPBL is not expected to be used for domestic payment difficulties alone. To justify use of an SPBL, the crisis should have significant structural dimensions and be likely to have significant negative social impact. Overloading reforms in a program could undermine support for actions that are essential for addressing a crisis. Measures that have a broad and immediate impact or that signal the government's commitment to reform should form the basis for the initial phase of crisis management assistance under an SPBL.

[5] To offset the worsening impacts of the crisis, the FY2020 budget, which incorporated financing from both the IMF and ADB, increased expenditure on social protection from PRs127 billion in FY2019 to PRs193 billion in FY2020).

[6] IMF. 2019. Pakistan: First Review Under the Extended Arrangement under the Extended Fund Facility and Request for Modification of Performance Criteria—Press Release; Staff Report; and Statement by the Executive Director for Pakistan. *IMF Country Report.* No. 19/380. Washington, DC.

program by (i) closely participating with other development partners, especially the IMF and the World Bank, to finalize a unified reform package with the government; and (ii) supporting ongoing implementation of the IMF's economic reform program by facilitating the identification of key reforms and international good practices in several areas of economic management where ADB has ongoing policy dialogue.[7]

B. Program Outputs

8. The program's design and monitoring framework (Appendix 1) stipulated delivery of three reform areas: (i) exchange rate management strengthened, (ii) public resource management improved, and (iii) social protection enhanced. The program achieved all performance indicators.

9. **Reform area 1: Exchange rate management strengthened.** The program implemented all policy actions for this reform area, which resulted in the adoption of a flexible, market-determined exchange rate by the State Bank of Pakistan (SBP) to correct imbalances and support the buildup of reserves. As part of this policy reform, the SBP noted that intervention may be necessary in certain situations to prevent disorderly market conditions. At the same time, market intervention should not suppress underlying trends and should be conducted in a manner consistent with rebuilding reserves. Coupled with a tightening of monetary policy in 2019, this reform helped to reduce accumulated external imbalances, provide a buffer against shocks, and support the rebuilding of international reserves. To reduce pressure on exchange reserves, the SBP agreed to limit its short swap and forward foreign exchange position.

10. **Reform area 2: Public resource management improved.** The program implemented all policy actions for this reform area, thus resulting in the creation of fiscal space to boost social and development spending by focusing on reducing fiscal and quasi-fiscal deficits with the support of stronger revenue growth. Approval of the FY2020 budget in June 2019 supported these objectives, with the primary fiscal adjustment of 3% of GDP underpinned by high-quality permanent revenue measures of 1.6% of GDP. On the expenditure side, the budget also incorporated implicit subsidies in the energy sector that were not budgeted in the past and contributed to the buildup of circular debt. The Ministry of Energy (MOE) prepared a comprehensive circular debt reduction plan to eliminate energy sector losses and submitted it to the Ministry of Finance (MOF). The circular debt reduction plan was approved by the Economic Coordination Committee of the Cabinet and later ratified by the Cabinet in November 2019. The government issued notification of an automatic quarterly adjustment in electricity tariff by at least 10% that became effective on 1 July 2019.[8] It should generate PRs150 billion in additional revenue from state-owned energy enterprises.

11. Adoption of the Public Financial Management Act in 2019 improved allocative efficiency of public resources by strengthening management of public finances through (i) improving definition and implementation of fiscal policy for better macroeconomic management, (ii) clarifying institutional responsibilities related to financial management, (iii) strengthening budgetary

[7] ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Islamic Republic of Pakistan for the Trade and Competitiveness Program*. Manila; and ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Islamic Republic of Pakistan for the Energy Sector Reforms and Financial Sustainability Program*. Manila.

[8] Under the existing mechanism, the National Electric Power Regulatory Authority (NEPRA) determines the automatic quarterly adjustments in electricity tariff and Ministry of Energy provides the notification. In the proposed NEPRA Act amendments to be approved in 2021, NEPRA will determine and notify the automatic quarterly adjustments in electricity tariff.

management, and (iv) increasing fiscal discipline by requiring parliamentary approval of supplementary budget authorizations. Legal amendments limited the use of Statutory Regulatory Orders to emergencies, thus preventing their frequent use for creating tax concessions by waiving sales tax obligations. Provinces agreed to contribute to the fiscal consolidation efforts by delivering surpluses of about 1% of GDP in FY2020, gradually rising to 2.7% by the end of the program (i.e., end of FY2020). To support these efforts, provinces aimed to increase property and sales tax collections and to assume more spending responsibility.

12. **Reform area 3: Social protection enhanced.** The program implemented all policy actions for this reform area, which supported the government's major initiatives to make growth equitable and inclusive. The government introduced the *Ehsaas* program in March 2019 to address poverty and inequality comprehensively. That program was conceptualized to reduce poverty and inequality, support economic empowerment of women, and promote income-earning opportunities in areas where poverty is greatest. This program was delivered in part through an expanded Benazir Income Support Programme (BISP), working with international partners, including ADB, which is responsible for implementation of social assistance programs through their conditional and unconditional cash transfer programs, reaching around 5 million households headed by women.[9] Under the SPBL, the government strengthened transparency and efficiency of the *Ehsaas* program by finalizing the BISP's banking contracts to make the disbursement of stipends more efficient. As of December 2020, 4.5 million beneficiaries had established Limited Mandate Accounts (LMAs) through which the cash transfers are received. In parallel, under the SPBL, the government approved a financial inclusion strategy that included launch of a "one woman one account" initiative to ensure financial and digital inclusion of women.

13. Complementing initiatives under the ADB-supported component of the BISP program, the government undertook several other short- to medium-term initiatives to protect the most vulnerable. These included providing a one-off disbursement of PRs1,000 to existing BISP beneficiaries, boosting girls' educational enrollment by augmenting the BISP-provided *Waseelae-Taleem* conditional cash transfer program with a girl bonus of PRs250 provided on a quarterly basis for a maximum duration of 7 years, and updating the National Socio-Economic Registry at the end of June 2020 to better reflect Pakistan's poverty structure and allow for the enrollment of new beneficiaries. As of December 2020, 1.36 million girls were provided with the bonus. That represented 73% of the total 1.86 million girls enrolled in primary schools. The bonus to girls was provided on the condition of completing at least 70% attendance in schools on a quarterly basis.

C. Program Costs and Financing

14. A program loan (Number 3882) of $1 billion was allocated at approval and disbursed to cover program costs (Appendixes 2 and 3).

D. Disbursements

15. The SPBL was disbursed as per the schedule on 9 December 2019 in accordance with relevant ADB procedures.[10] In the program, the government demonstrated a strong willingness

[9] ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Islamic Republic of Pakistan for the Social Protection Development Project*. Manila (Pakistan: Social Protection Development Project); and ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Additional Financing to the Islamic Republic of Pakistan for the Social Protection Development Project*. Manila.

[10] ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

to receive budget support as early as possible. As a result, there were no delays in the program's implementation. (Appendixes 4 and 5)

E. Program Schedule

16. The program was approved on 6 December 2019 and the loan agreement was signed on 9 December 2019. It became effective on 9 December 2019, well ahead of the originally scheduled date of 9 March 2020. The program closed as scheduled on 30 June 2020. A chronology of main events is in Appendix 6.

F. Implementation Arrangements

17. Implementation arrangements were satisfactory and adequate. MOF was the executing agency and assumed overall responsibility for the program, including to coordinate the agencies responsible for implementing policy actions. The implementing agencies were the Federal Board of Revenue, MOE, MOF, and SBP. The SPBL was disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). The program was implemented over 6 months (1 May–31 October 2019).

G. Gender Equity

18. The program was categorized as *some gender elements.* The government introduced the *Ehsaas* program in March 2019 to address poverty and inequality comprehensively. The *Ehsaas* program was conceptualized to reduce poverty and inequality, support economic empowerment of women, and promote income-earning opportunities in areas where poverty is highest. The *Ehsaas* program is helping to overcome the critical issue of delay in remittance of funds to beneficiaries. This is being achieved through signing of new banking contracts that ensure timely remittance to beneficiaries across Pakistan. Since October 2019, two banks have been contracted as payment agents for the social assistance transfers. The signing of banking contracts has also resulted in improved transparency in cash transfers to eligible beneficiaries by mitigating fraud. Payments are being made through branchless banking platforms of two commercial banks (in retail settings and specially established payment campsites) and their 1,800 biometrically enabled automated teller machines. The available cash out points were more than 11,500, across the country. Money is deposited in limited mandate accounts and individuals draw the money after biometric authentication in real time. Furthermore, verification is made using several databases. An individual's spouse data is checked for validity. The Sanitization and Profiling data repository is used to filter fraudulent individuals identified over time in the social protection ecosystem. In parallel, under the SPBL, the government approved the national financial inclusion strategy 2019–2023 in November 2018. It included a key element to support financial and digital inclusion of women. The strategy was developed by the SBP in consultation with all stakeholders, including regulators, federal and provincial government departments, as well as commercial banks. Actions under the strategy include operationalization of a mobile account scheme to improve access of digital transaction accounts and drive usage through opening channels of cellular mobile operators for all banks and mandatory interoperability among all types of accounts (conventional as well as branchless banking). This should enhance access and usage of wallets with the objective of achieving 20 million active transactional accounts owned by women in 2023. The Prime Minister's Office is directly monitoring these actions to ensure effective coordination among various stakeholders and implementation of the proposed actions.

H. Monitoring and Reporting

19. The program encountered no problems with monitoring and reporting. No amendments were made to any of the loan and grant agreements. The borrower complied with all covenants in the agreements (Appendixes 7 and 8). Monitoring and reporting arrangements for the program were satisfactory and there were no delays in receiving required reports. Adequate monitoring information was available for effective program supervision because of continuous interaction between ADB and the government throughout implementation.

III. EVALUATION OF PERFORMANCE

A. Relevance

20. The program is rated *highly relevant*. Its overall thrust—achieving a sustainable fiscal position with reduced external imbalances—was relevant at appraisal and remained so at completion. The reform areas under the SPBL were relevant to achieving both the reforms themselves and the country's overarching development objective at project appraisal and completion. The program supported economic sustainability and laid the foundations for balanced growth through reforms that (i) improved exchange rate management in the context of limited foreign exchange reserves, (ii) strengthened public financial management to mobilize more revenue and restore the allocative efficiency of scarce public resources while addressing energy sector pricing issues, and (iii) reduced social impacts of the crisis through improved targeting and transparency of existing social protection programs.

21. The chosen modality and design of the program were appropriate and justified inasmuch as the SPBL was used for a crisis that had significant structural dimensions and significant negative social impacts. The SPBL design made it possible to support the IMF EFF in accordance with the eligibility criteria specified in ADB's Review of Program Lending Policies, which defines a crisis as a situation in which a developing member country is facing unanticipated difficulties in meeting its payment obligations, external and internal, and where a large IMF-led international rescue package is being mounted to help restore stability. The support provided by ADB through the SPBL was sequenced as part of a broader package of financial assistance necessary to restore external stability under the IMF EFF program. To support implementation of the agreed IMF EFF milestones, the government agreed with ADB on a subset of policy actions that were completed by 31 October 2019. This subset included 11 policy actions that contributed to attaining the IMF's three program reform areas: (i) exchange rate management strengthened, (ii) public resource management improved, and (iii) social protection enhanced. Measures that had a broad and immediate impact and that signaled the government's commitment to reform formed the basis for the initial phase of crisis management assistance under the SPBL. The SPBL financial support was also important in ensuring that the government accumulated sufficient foreign exchange reserves to meet its external account requirements and to prevent disruptive cuts in development expenditure, especially cuts that could undermine job creation and social protection. To offset worsening impacts of the crisis, the FY2020 budget, which incorporated financing from both the IMF and ADB, increased expenditure on social protection from PRs127 billion in FY2019 to PRs193 billion in FY2020 (a 52% increase).

B. Effectiveness

22. The program is rated *effective* based on the assessment of outcome and outputs achieved. The program fully achieved all targeted outcome indicators in the design and monitoring framework. Specifically, a current account surplus of $1.1 billion was achieved during the first 6 months of FY2021, PRs150 billion was generated by the energy sector SOEs through quarterly tariff adjustments, 98% of BISP program beneficiaries received cash transferred through biometric verification, and the primary balance (surplus) reached 0.5% of GDP by the end of FY2020. The government fully achieved all the policy actions (and therefore all targeted output indicators) by 31 October 2019, that is more than 1 month prior to the SPBL's approval in December 2019. The program had no adverse impacts on the poor or other vulnerable groups during implementation. The policy actions were appropriately sequenced to achieve the outcome. The shock absorption displayed by implementation of the market-based exchange rate in June 2019 enabled the SBP to proceed with a large easing of monetary policy and a sizeable expansion of export refinancing facilities that allowed gradual improvement in exports despite the global recession caused by the pandemic. The Public Financial Management Act was promulgated in June 2019. Under that Act the government laid a Mid-year Budget Review Report in the National Assembly and published a budget manual, a budget strategy paper, and statements of contingent liabilities and fiscal risks that have been made part of the Annual Budget Statement. Treasury Single Account rules and procedures have also been finalized.[11] The social sector reforms in the program strengthened the cash distribution system to female beneficiaries. During the first wave of the coronavirus disease (COVID-19) in the first half of 2020, the government distributed PRs177 billion to more than 14.6 million beneficiaries,[12] most of whom were female. This was made possible through the banking contract signed between BISP and new bankers under the SPBL. Under the financial inclusion strategy for women (to ensure financial and digital inclusion of the target group of women), the BISP shifted to cashless banking for 7 million *Ehsaas* beneficiaries (footnote 11).

C. Efficiency

23. The program is rated *efficient*. Efficiency was assessed in terms of (i) time taken to process the SPBL and implement the actions agreed in the policy matrix, and (ii) promptness of the timing of disbursements. Despite the complexity of the SPBL, program processing time was brief. The fact-finding mission was held at the end of July 2019 and Board approval of the SPBL was obtained 4 months later on 6 December 2019. The disbursement period was likewise brief. The SPBL was disbursed on 9 December 2019, just 3 days after Board approval. There were no significant delays in implementing policy actions. The attained efficiency was a result of (i) thorough program preparation, including an appropriate design that supported the IMF EFF and its being fully aligned with the government's and ADB's priorities; (ii) effective policy dialogue with the government; and (iii) the government's strong political commitment.

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[11] Budget Speech FY 2020-2021.

[12] Benazir Income Support Programme. https://bisp.gov.pk/Detail/ZTM1M2FiMGQtZDI2OS00YmMxLWEzZGEtYTFhOTkyNzM2Yjg4

D. Sustainability

24. The program is rated *likely sustainable*. Despite the COVID-19 pandemic's striking in early 2020 at a critical juncture in Pakistan's macroeconomic recovery program, the fiscal deficit was reduced from 9.1% during FY2019 to 8.1% during FY2020 even as the country successfully implemented a countercyclical development expenditure program of about $7.23 billion to strengthen the health infrastructure and social safety net while providing countercyclical fiscal stimulus.[13] The IMF, on 16 April 2020, approved emergency financing of $1.386 billion for Pakistan under its Rapid Financing Instrument to support the government's emergency economic and social program for mitigating impacts of the COVID-19 crisis. ADB's COVID-19 Active Response and Expenditure Support (CARES) Program also provided budget support to help finance the government's countercyclical development expenditures and mitigate the pandemic's significant negative health, social, and economic impacts.[14] Through strong fiscal commitment, the government managed to overcome the economic challenges in 2020 created by the pandemic and also successfully reached an agreement in February 2021 on a package of measures to complete the second to fifth reviews of the government's reform program supported by the IMF EFF.[15] This agreement evidences that the government remains committed to policy actions and structural reforms to strengthen economic resilience, and advance sustainable growth. The government's fiscal strategy remains anchored on the sustainable primary deficit of the FY2021 budget and allows for higher than expected COVID-19-related and social spending to minimize the short-term impact on growth and the most vulnerable. The targets are supported by careful spending management and revenue measures, including reforms to make corporate taxation fairer and more transparent. The power sector's strategy aims at financial viability through management improvements, cost reductions, and adjustments in tariffs and subsidies calibrated to attenuate social and sectoral impacts. The SBP's monetary and exchange rate policies have served Pakistan well and were critical in helping to navigate the COVID-19 shock. The strengthened international reserves position since the beginning of FY2020 (with gross reserves almost doubling to $13 billion until January 2021 and net international reserves increasing by over $9 billion until December 2020) and the shock absorption displayed by the market-based exchange rate allowed the SBP to proceed preemptively to a large easing of monetary policy and a sizeable expansion of refinancing facilities. International reserves are set to improve further that reflects current account developments.

25. In addition to benefits of the IMF EFF program, sustainability of the SPBL is ensured through ADB's direct and indirect support, leveraging its deep policy engagement and long experience in designing and implementing structural reforms through a series of programmatic approaches covering public financial management, energy and SOE reform, capital market reform, and trade and competitiveness. This includes TA and policy dialogue to support the implementation of reforms to improve trade competitiveness (including tariff rationalization and strengthening of institutions to facilitate trade) and strengthen tax administration. ADB has also provided targeted TA to support implementation of capital market reforms and energy sector

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[13] Government of Pakistan, Finance Division, Economic Adviser's Wing. 2020, *Monthly Economic Update & Outlook*. Islamabad (August).

[14] ADB. 2020. *Report and Recommendation of the President to the Board of Directors: Proposed Countercyclical Support Facility Loan to the Islamic Republic of Pakistan for the COVID-19 Active Response and Expenditure Support Program.* Manila.

[15] The IMF and the government reached an agreement in February 2021 on a package of measures to complete the second to fifth reviews. The package strikes an appropriate balance between supporting the economy, ensuring debt sustainability, and advancing structural reform. The Executive Board approved the four pending reviews on 24 March 2021 for a total of around $500 million. The government's policies and its allowing higher than expected COVID-related social spending have been critical in supporting the economy and saving lives and households.

reforms, including improvements in governance and technical efficiency and financial sector development.

E. Development Impact

26. The program's rating is *satisfactory* from a development impact perspective. It contributed significantly to the country's overarching development objective of strengthening macroeconomic management and supporting more sustained and inclusive growth through achieving a sustainable fiscal position with reduced external imbalances as evidenced by (i) converting the current account deficit in FY2020 into a current account surplus of $1.1 billion during the first 6 months of FY2021, (ii) generating PRs150 billion by the energy sector SOEs through quarterly tariff adjustments, (iii) having 98% of BISP program beneficiaries receiving cash transfer through biometric verification, (iv) improving exports for the month of December 2020 by 18% as compared to the corresponding period of 2019, and (v) reaching a primary balance (surplus) equal to 0.5% of GDP by the end of FY2020. During the first 9 months of FY2020, a primary surplus of 0.4% was achieved for the first time since 2010.

F. Performance of the Borrower and the Executing Agency

27. The performance of the government and MOF as borrower and executing agency is rated *highly satisfactory*. Very good progress was made in implementing a complex set of reforms under the program. Signing of the loan agreement, meeting of the loan effectiveness requirements, and disbursement were all completed within 3 days after Board approval of the SPBL. The government demonstrated strong ownership and was actively involved in achieving the program's successful outcome. The government ensured full compliance with all loan covenants.

G. Performance of the Asian Development Bank

28. ADB's performance was *highly satisfactory*. The program scope was developed in a timely and systematic manner through close consultations with the government and development partners. These consultations identified emerging government priorities that contributed significantly to good program outcomes. ADB provided timely guidance and inputs and played an important role in ensuring significant achievements in macroeconomic reform to improve Pakistan's economy.

H. Overall Assessment

29. Overall, the program is rated *successful.*[16] It was *highly relevant* to the government's efforts to improve fiscal management, generate fiscal space, address energy sector inefficiencies, and sustain development financing. It was *effective* in achieving the targeted outcome and all outputs. The program was *efficient* in completing the policy actions on schedule. The program is *likely sustainable* because of the government's commitment to continue public sector reforms and continued implementation of the comprehensive multi-donor economic reform program led by the IMF. ADB's overall performance in the program is rated *highly satisfactory* and the performance of the borrower also was *highly satisfactory*.

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16 Overall assessment is in accordance with the definition and guidelines of ADB's Independent Evaluation Department http://www.adb.org/documents/guidelines-preparing-performance-evaluation-reports-public-sector-operations

Overall Ratings

Criteria	Rating
Relevance	Highly relevant
Effectiveness	Effective
Efficiency	Efficient
Sustainability	Likely sustainable
Overall Assessment	**Successful**
Development impact	Satisfactory
Borrower and executing agency	Highly satisfactory
Performance of Asian Development Bank	Highly satisfactory

Source: Asian Development Bank.

IV. ISSUES, LESSONS, AND RECOMMENDATIONS

A. Issues and Lessons

30. **A holistic approach to program design and formulation.** The SPBL was developed in close consultation with the government and development partners, including the IMF and the World Bank, and it was designed through a holistic approach. The SPBL demonstrated that a comprehensive and holistic consultation process can ensure effective diagnosis of the issues, leading to a strong, relevant policy matrix that prioritizes reform measures and sets realistic timelines in collaboration with the development partners.

31. **Implementation of reform agenda.** Many public resource management reforms related to taxes or concessions, as in the SPBL, have political and economic implications and are often difficult to undertake without strong ownership. The SPBL implementation success resided in (i) a good understanding of the vested interests, (ii) the institutional capacity of government agencies, (iii) effective partnership and coordination between ADB and the government, and (iv) a strong sense of appreciation for the overall benefits of the program.

B. Recommendations

32. **Covenants.** The covenants were relevant and in line with the program requirements. The covenants in the loan and program agreements should therefore be maintained in their existing form.

33. **Further action or follow-up**. Sustainability of the SPBL’s outcomes hinges on overall success of the comprehensive multi-donor economic reform program led by the IMF that will (i) introduce important fiscal consolidation measures, led by revenue mobilization measures, to ensure sustainable public debt; (ii) implement a tight monetary policy and a flexible market-determined exchange rate to reduce the current account deficit and moderate inflation; (iii) facilitate structural reforms in the energy sector, institutions, and governance to ensure high and inclusive growth; and (iv) augment social sector spending to minimize the effect of the reforms on the poor. ADB’s continued direct and indirect support to the IMF economic reform program will be critical, leveraging its deep policy engagement and long experience in designing and implementing structural reforms through a series of programmatic approaches covering public financial management, energy and SOE reform, capital market reform, and trade and competitiveness.

34. **Timing of the project performance evaluation report**. In accordance with the timeline associated with fulfilling all the performance indicators and targets in the program’s framework, it is recommended that a program performance evaluation report be prepared in 2022. Preparation

of the report in 2022 would likely result in a better, more comprehensive assessment of the impact and sustainability of reforms to offset any adverse economic implications arising from the pandemic that struck in early 2020.

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective
Macroeconomic management strengthened and more sustained and inclusive growth supported (Pakistan's Vision 2025)[a]

Design Summary	Performance Indicators and Targets	Program Achievements
Effect of the Reform Sustainable fiscal position with reduced external imbalances achieved	By FY2020: a. Current account deficit, as a percentage of GDP, reduced by at least 2 percentage points (FY2019 baseline: 4.8%) b. Primary balance, as a percentage of GDP, is equal to or above –0.4% (FY2019 baseline: –3.5%) c. Energy SOEs generate at least an additional PRs150 billion in revenue (FY2019 baseline: PRs1,358 billion) d. At least 90% of BISP beneficiaries received cash transfers through the biometric verification system (2018 baseline: 61%)	a. Current Account recorded a surplus of $ 1.1 billion during the period July–Dec 2020 (Source: Finance Division) b. Primary balance (Surplus**)**, as a percentage of GDP remained at 0.5% of GDP (Source: Finance Division) c. Energy SOE's generated PRs150 billion in revenue through tariff adjustments (Source: MOE notification of tariff) d. 98% of beneficiaries received cash transfer through the biometric verification. (Source: BISP data base)
Reform Areas 1. Exchange rate management strengthened	**Key Policy Actions** By 2019: 1.1 SBP moved to a flexible market-determined exchange rate, with interventions in the foreign exchange market limited to smoothing excessive volatility (2018 baseline: Fixed exchange rate)	Fully Achieved - SBP moved to a market-determined exchange rate regime in May 2019. This was publicly announced by Governor SBP in a press conference held on June 17, 2019, and mentioned in several public statements of the SBP, including Monetary Policy Statements of July 2019 and September 2019.
2. Public resource management improved	2.1 Formal agreement (MOUs) reached between all federal and provincial governments on the fiscal targets consistent with the IMF's macroeconomic framework (2018 baseline: Agreement was not in place) 2.2 Parliament approved FY2020 budget consistent with IMF program targets (2018 baseline: Not in place) 2.3 Automatic quarterly adjustment in electricity tariff achieved by at least 10% effective from 1 July 2019 (2018 baseline: Not in place) 2.4 Comprehensive circular debt reduction plan for SOEs drafted (2018 baseline: Not drafted) 2.5 Parliament approved the Public Financial Management Law for improved allocative efficiency of public	Fully Achieved – MOUs were signed between the federal and provincial governments during June 2019. Fully Achieved – Parliament approved the FY2020 budget during June 2020 which was consistent with IMF program targets. Fully Achieved – Ministry of Energy issued notification on the automatic quarterly adjustments on 3 July 2019. Fully Achieved **-** ECC approved the circular debt management plan in November 2019. Fully Achieved - GOP promulgated the Public Financial Management Act, 2019 on 30 June 2019

Design Summary	Performance Indicators and Targets	Program Achievements
	resources (2018 baseline: Not approved) 2.6 Law to eliminate legal authorization for executives to grant sales tax exemptions and concessions through SROs amended (2018 baseline: Executives had power to award tax exemptions/concessions through SROs)	 Fully Achieved – Through Finance Act, 2019 GOP amended Sales Tax Act, 1990 to eliminate the legal authorization for the executives to grant tax exemptions.
3. Social protection enhanced	3.1 BISP's banking contracts finalized (2018 baseline: Not in place) 3.2 Financial inclusion strategy for women launched (2018 baseline: Not in place)	Fully Achieved. The new banking contracts were signed by BISP on 19 October 2019. Fully Achieved. The new financial inclusion strategy was approved by BISP Board on 10 October 2019 in its 34th Board meeting.

BISP = Benazir Income Support Programme; ECC = Economic Coordination Committee; FY = fiscal year; GDP = gross domestic product; IMF = International Monetary Fund; GOP = Government of Pakistan; MOE = Ministry of Energy, MOU = memorandum of understanding, SBP = State Bank of Pakistan; SOE = state-owned enterprise; SRO = Statutory Regulatory Order

[a] Government of Pakistan, Ministry of Planning, Development and Reform. 2014. *Pakistan 2025: One Nation – One Vision*. Islamabad.

Source: Asian Development Bank.

PROGRAM COST AT APPRAISAL AND ACTUAL
($ million)

Item	Appraisal Estimate			Actual		
	Foreign Exchange	Local Currency	Total Cost	Foreign Exchange	Local Currency	Total Cost
Loan 3882	1,000		1,000	1,000		1,000

Source: Asian Development Bank estimates.

PROGRAM COST BY FINANCIER

Table A3.1: Program Cost at Appraisal by Financier
($ million)

Item	Asian Development Bank Amount (A)	Asian Development Bank % of Cost Category (A/B)	Total Cost Amount (B)	Total Cost Taxes and Duties (C)
Loan 3882	1,000	100.00%	1,000	0

Source: Asian Development Bank.

Table A3.2: Program Cost at Completion by Financier
($ million)

Item	Asian Development Bank Amount (A)	Asian Development Bank % of Cost Category (A/B)	Total Cost Amount (B)	Total Cost Taxes and Duties (C)
Loan 3882	1,000	100.00%	1,000	0

Source: Asian Development Bank.

ANNUAL AND CUMULATIVE DISBURSEMENT OF ADB LOAN PROCEEDS
($ million)

Year	Annual Disbursement Amount ($ million)	Annual Disbursement % of Total	Cumulative Disbursement Amount ($ million)	Cumulative Disbursement % of Total
2019	1,000	100	1,000	100

ADB = Asian Development Bank.
Source: Asian Development Bank.

ANNUAL AND CUMULATIVE CONTRACT AWARDS OF ADB LOAN PROCEEDS
($ million)

	Annual Contract Awards		Cumulative Contract Awards	
Year	**Amount** ($ million)	**% of Total**	**Amount** ($ million)	**% of Total**
2019	1,000	100	1,000	100

ADB = Asian Development Bank.
Source: Asian Development Bank.

CHRONOLOGY OF MAIN EVENTS

Date	Event
13 May 2019	The Government of Pakistan sent a letter to ADB requesting an SPBL of $1 billion
22–25 Jul 2019	Fact-finding Mission
12 Sep 2019	Informal Board Seminar
9 Oct 2019	Management Review Meeting
15 Oct 2019	Loan Negotiations
6 Dec 2019	Board Approval
9 Dec 2019	Signing of Loan Agreement, Loan Effectiveness, and Disbursement

Source: Asian Development Bank.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
	Subprogram 1	
In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.	Art. IV, Section 4.01	Complied With
As part of the information and reports referred to in Sections 7.01 and 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter, until a Program completion report satisfactory to ADB is submitted to ADB in accordance with paragraph 6 of Schedule 4 to this Loan Agreement.	Art. IV, Section 4.02	Complied With
Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB, and audited financial statements shall be furnished to ADB.	Schedule 3, Withdrawal of Loan Proceeds, para. 3 (b)	Complied With
The Borrower, through the Program Executing Agency, will monitor budget execution and flow of funds for the Program.	Schedule 4, Implementation Arrangements, para. 1	Complied With
The Borrower shall ensure that all policy actions adopted under the Program, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Program and thereafter.	Schedule 4, Policy Actions and Dialogue, para. 2	Complied With
The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take into account ADB's views before finalizing and implementing any such proposal.	Schedule 4, Policy Actions and Dialogue, para. 3	Complied With
The Borrower shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program.	Schedule 4, Use of Counterpart Funds, para. 4	Complied With
The Borrower and the Program Executing Agency, shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.	Schedule 4, Governance and Anticorruption, para. 5	Complied With

Covenant	Reference in Loan Agreement	Status of Compliance
The Borrower shall ensure that within 6 months of the Loan Closing Date, a Program completion report is submitted to ADB.	Schedule 4, Monitoring and Review, para. 6	Complied With

ADB = Asian Development Bank.

STATUS OF COMPLIANCE WITH POLICY ACTIONS

Policy Action	Status of Compliance and Source Documents
Reform Area 1: Exchange Rate Mechanism Strengthened	
1. The State Bank of Pakistan moved to a flexible market-determined exchange rate to improve external imbalances.	Complied With (SBP Letter dated 4 October 2019)
Reform area 2: Public resource management improved	
2. Parliament approved the Public Financial Management Law to improve the allocative efficiency of public resources.	Complied With (Finance Act 2(19)/2019-Legis dated 30 June 2019)
3.The government reached a formal agreement (memorandum of understanding) between the federal and provincial governments on fiscal targets to sustain comprehensive fiscal consolidation efforts.	Complied With (MOUs signed during June 2019)
4. Parliament approved the FY2020 budget consistent with the International Monetary Fund program targets.	Complied With (Federal Budget for FY 2019–2020 at www.finance.gov.pk)
5. The government approved reform measures to strengthen the financial performance of state-owned enterprises including (i) the implementation of a quarterly automatic tariff adjustment in the electricity sector by at least 10% to generate PRs150 billion in additional revenue, and (ii) notification by the government of the gas tariff adjustment proposed by the regulator (effective on 1 July 2019).	Complied With (MOE notification dated 3 July 2019 & OGRA notification dated 29 June 2019)
6. The Ministry of Energy prepared a draft comprehensive circular debt reduction plan to eliminate energy sector losses and submitted it to the Ministry of Finance.	Complied With (MOE submission letter to Finance Division)
7. The government amended the law to eliminate the legal authorization for the executive to grant sales tax exemptions and concessions through statutory regulatory orders.	Complied With (Finance Act 2019)
8. The Federal Board of Revenue issued licenses for the implementation of the track-and-trace system for excise on cigarettes to improve revenue mobilization.	Complied With (FBR letter dated 15 October 2019)
9. The Ministry of Energy issued a revised electricity tariff schedule for FY2020 as determined by the Regulator.	Complied With (MOE notification dated 30 September 2019)
Reform area 3: Social protection enhanced	
10. The government finalized the Benazir Income Support Program's banking contracts to ensure that cash transfers are more efficient and transparent.	Complied With (BISP letter dated 14 October 2019 and the copy of banking contracts)
11. The government approved a financial inclusion strategy for women to ensure the financial and digital inclusion of the target group of women.	Complied With (BISP letter dated 14 October 2019 and the copy of approved financial inclusion strategy)

BISP = Benazir Income Support Programme; FBR = Federal Board of Revenue; FY = fiscal year; MOE = Ministry of Energy; MOU = memorandum of understanding; OGRA = Oil and Gas Regulatory Authority; SBP = State Bank of Pakistan