



# Country Partnership Strategy

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December 2020

## Pakistan, 2021–2025 —Lifting Growth, Building Resilience, Increasing Competitiveness

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Asian Development Bank



## CURRENCY EQUIVALENTS

(as of 7 December 2020)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.0062
\$1.00	=	PRs160.0

## ABBREVIATIONS

ADB	–	Asian Development Bank
BISP	–	Benazir Income Support Program
CAREC	–	Central Asia Regional Economic Cooperation
COVID-19	–	coronavirus disease
CPS	–	country partnership strategy
GDP	–	gross domestic product
IMF	–	International Monetary Fund
OCR	–	ordinary capital resources
PPP	–	public–private partnership
PSE	–	public sector enterprise
SDG	–	Sustainable Development Goal
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

## NOTES

- (i) The fiscal year (FY) of the Government of Pakistan and its agencies ends on 30 June. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2021 ends on 30 June 2021.
- (ii) In this report, "\$" refers to United States dollars.

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<sup>a</sup> Outposted to the Pakistan Resident Mission.

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## COUNTRY AT A GLANCE

<b>Economic</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
GDP (\$ billion, current)	279	305	315	283	...
GDP per capita (\$, current)	1,441	1,546	1,567	1,383	...
GNI per capita (\$, atlas method)	1,420	1,500	1,590	...	...
GDP growth (% , in constant prices)	4.6	5.2	5.5	1.9	(0.4)
Agriculture	0.2	2.2	4.0	0.6	2.7
Industry	5.7	4.6	4.9	(2.3)	(2.9)
Services	5.7	6.5	6.3	3.8	(0.6)
Gross domestic investment (% of GDP)	14.1	14.6	15.1	13.8	14.2
Gross domestic saving (% of GDP)	7.8	6.5	5.1	4.3	...
Consumer price index (annual % change) <sup>a</sup>	2.9	4.8	4.7	6.8	10.7
Liquidity (M2) (annual % change)	13.7	13.7	9.7	11.3	15.9
Overall fiscal surplus (deficit) (% of GDP)	(4.6)	(5.8)	(6.5)	(8.9)	(9.1)
Merchandise trade balance (% of GDP)	(6.9)	(8.8)	(9.8)	(9.9)	(7.5)
Current account balance (% of GDP)	(1.7)	(4.1)	(6.1)	(4.8)	(1.1)
External debt service (% of exports of goods and services)	19.4	29.6	24.5	38.3	37.4
External debt (% of GDP)	26.5	27.4	30.2	38.1	41.6
<b>Poverty and Social</b>	<b>2015</b>		<b>2019</b>		
Population (million)	191.7		211.2		
Population growth (annual % change)	2.1		2.1		
Maternal mortality ratio (per 100,000 live births)	154.0		170.0		
Infant mortality rate (below 1 year/per 1,000 live births)	64.6		59.5		
Life expectancy at birth (years)	66.6		67.1	[2018]	
Adult literacy (%)	58.0		60.0		
Primary school gross enrollment (%)	85.0		87.0		
Child malnutrition (% below 5 years old)	...		...		
Population below poverty line (%)	24.3		...		
Population with access to safe water (%)	35.6		35.3	[2017]	
Population with access to sanitation (%)	58.2		55.9	[2017]	
<b>Environment</b>	<b>2015</b>		<b>2019</b>		
Carbon dioxide emissions (tons)	166,298,450	[2014]			
Carbon dioxide emissions per capita (tons)	0.9	[2014]			
Forest area (million hectares)	4.5		4.5		
Urban population (% of total population)	39.2		43.2		
<b>ADB Portfolio (active loans)<sup>b</sup></b>				<b>As of 31 December 2019</b>	
Total number of loans					
Sovereign					42
Nonsovereign					8
Total loan amount (\$ million) <sup>c</sup>					
Sovereign					7,865.0
Nonsovereign					307.7
Disbursements sovereign					
Disbursed amount, total (\$ million, 2019)					2,358.0
Disbursed amount, excluding PBL (\$ million, 2019)					558.0
Disbursement ratio, excluding PBL (%)					13.2

... = not available, ( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, GNI = gross national income, M2 = broad money, OCR = ordinary capital resources, PBL = policy-based lending.

<sup>a</sup> From FY2017 onward, inflation figures are calculated using a new base year (FY2016), while inflation figures in FY2016 are calculated using the previous base year (FY2008).

<sup>b</sup> Covers ADF and OCR financing for projects and programs, including PBL, unless otherwise stated.

<sup>c</sup> Net of droppages and cancellation.

Sources: Pakistan Bureau of Statistics. 2019. *National Accounts New Table, Table 3*. Islamabad; State Bank of Pakistan. 2019. *Annual Report 2018–2019 (State of the Economy), Statistical Supplement*. Islamabad; State Bank of Pakistan. 2020. *Summary Balance of Payments as per BPM6–December 2019*. Islamabad; and World Bank. 2020. *World Development Indicators*. Washington, DC.



## I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Development challenges.** Pakistan's economy exhibits an episodic pattern of growth characterized by boom-and-bust periods. A narrow production and export base makes the economy less resilient to adverse economic shocks, which results in a binding balance-of-payment constraint to growth. A large fiscal deficit, a weak external position, and eroded macroeconomic buffers reflect structural weaknesses in economic management. The coronavirus disease (COVID-19) pandemic, which led to a sharp contraction in growth, has heightened the vulnerability and compounded the economic difficulties. Pakistan's limited fiscal space holds it back from tackling its infrastructure and social sector deficits, critical to building the resilience of the population. The high cost of doing business for the private sector restricts its international competitiveness. Governance bottlenecks and institutional capacity challenges persist.

2. Low levels of human capital development result in stagnating labor productivity. Social protection systems are evolving but still do not provide adequate cover for all vulnerable population segments. Women in Pakistan are less economically active and underrepresented in skilled jobs. A combination of strained growth, inadequate human capital and social protection, and the underexploited potential of women exacerbates poverty pressures and intensifies income inequality. On top of this, a stressed water situation, environmental degradation, natural disasters, and climate change-associated risks threaten sustainability, and point to the need to institute urgent adaptation and mitigation measures.

3. **Strategic thrusts.** The country partnership strategy (CPS), 2021–2025 of the Asian Development Bank (ADB) for Pakistan responds to the economic and social challenges thrown up by the pandemic and supports the country in addressing its persistent structural challenges. It fully aligns with the Government of Pakistan's development strategy, ADB's Strategy 2030, and the Sustainable Development Goals (SDGs). ADB's assistance over the next 5 years prioritizes support for three interlinked pillars: (i) improving economic management to restore stability and growth, (ii) building resilience through human capital development and social protection to enhance productivity and people's well-being, and (iii) boosting competitiveness and private sector development to create jobs and expand economic opportunities. Considerations of gender equality, climate change and disaster resilience, governance, and regional cooperation and integration will cut across these pillars. Selectivity and focus of the CPS will be ensured through carefully chosen high-priority projects within the given resource envelope, in line with ADB's comparative advantages and the division of labor between development partners.

4. **ADB's value addition.** This CPS introduces new and unique features to deal with Pakistan's structural problems aggravated by the COVID-19 impact. First, the CPS places a greater focus on the synergy between targeted institutional reforms and infrastructure development. It seeks to combine reforms with physical and social investments for greater sustainability and development impact. Second, it introduces a new pillar to spotlight the need to build greater resilience of the population in the aftermath of the pandemic, to reduce their economic and social vulnerabilities. Third, it seeks to adopt a truly One ADB approach under which competent staff, drawn from all over ADB, will provide high-quality advice, transfer technology, and introduce global best practices for a successful implementation of the CPS. ADB will use a judicious mix of targeted sovereign support, innovative nonsovereign assistance and cofinancing, pioneering public–private partnership (PPP) models, and value-adding knowledge products and services. Through the Central Asia Regional Economic Cooperation (CAREC) Program, ADB will contribute to improving connectivity, enhancing trade, and promoting regional integration and cooperation.

## II. COUNTRY DEVELOPMENT CONTEXT

5. Pakistan, the world's fifth-most populous country, is a lower middle-income country with a gross national income per capita of \$1,383 in 2019. A growing young population underscores the potential for rapid economic growth to reap a rich demographic dividend. Located strategically, Pakistan borders Afghanistan, the People's Republic of China, India, and Iran, and has about 1,000 kilometers of coastline along the Gulf of Oman and the Arabian Sea.

6. **Economic misalignment.** Largely because of the COVID-19 pandemic, gross domestic product (GDP) contracted by 0.38% in fiscal year (FY) 2020. The pandemic is likely to force more people into poverty. Women and girls are likely to be affected disproportionately. Leaving the pandemic aside, Pakistan's growth has in any case been highly cyclical because of unresolved structural challenges, including insufficient export capacity, weak domestic revenue mobilization, failing public sector enterprises (PSEs), and an under-reformed energy sector that requires massive public subsidies to stay afloat. As the economy starts to recover in the post-COVID-19 era, macroeconomic stabilization and reform measures supported by international development partners should help it regain stability and restore a higher growth trajectory.

7. **Improved external account but low exports.** Pakistan's external account has improved, partly because of the introduction of a market-driven exchange rate policy in 2019. Import contraction amid the COVID-19 impact also helped, with the result that the current account deficit was trimmed from 4.8% of GDP in FY2019 to 1.1% of GDP in FY2020. International reserves reached \$12.1 billion at the end of FY2020, and import coverage increased to 2.9 months. However, Pakistan's exports reversed the rising trend seen at the beginning of FY2020 to decline by 7.2% in the fiscal year. The major export goods, concentrated on textiles and food items, are not sophisticated, and their value addition remains low.

8. **Need for fiscal reform.** Robust reform is needed on the fiscal front to reduce the fiscal deficit and to generate fiscal space for productivity-enhancing capital spending. Some significant steps are being taken already under an ongoing International Monetary Fund (IMF) program, such as eliminating new exemptions and preferential tax treatment, bringing large retailers into the tax net, and establishing a tax policy unit in the Ministry of Finance. Pakistan still needs to improve its tax policy and administration, ensure broader tax compliance, and rationalize fiscal transfers to loss-making PSEs. Its ratio of tax to GDP remains low (11.4% in FY2020), and far below its estimated potential.<sup>1</sup>

9. **Debt sustainability needs monitoring.** Pakistan's public debt, including guarantees, is high, estimated at 87.2% of GDP in FY2020.<sup>2</sup> However, the large part (i.e., 55.8% of GDP) of public debt is domestic debt. Efforts are being made to improve debt sustainability, including possible refinancing of external loans from major bilateral creditors. A careful prioritization of government expenditures and the curtailment of losses by PSEs, together with efforts to raise higher revenues, are needed for a sustainable improvement in the country's debt profile.

10. **Significant poverty and vulnerability.** A quarter of Pakistan's population still lives below the poverty line. While the poverty headcount had declined from 64.3% in FY2001 to 24.3% in FY2015, progress across different regions of Pakistan remained uneven.<sup>3</sup> In particular, the rural

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<sup>1</sup> Government of Pakistan, Ministry of Finance. 2019. *Pakistan Fiscal Operation, July to June 2018–19*. Islamabad; and IMF. 2016. *Unlocking Pakistan's Revenue Potential*. Washington, DC.

<sup>2</sup> State Bank of Pakistan. <http://www.sbp.org.pk> (accessed 8 October 2020).

<sup>3</sup> Government of Pakistan, Ministry of Planning, Development and Reforms. 2018. *National Poverty Report Card 2015–16*. Islamabad.

poverty headcount ratio of 30.7% is more than twice the urban at 12.5%, with rural areas still accounting for four out of five poor individuals. Additionally, about 20 million people are near-poor and highly vulnerable to shocks that can pull them below the poverty line. The COVID-19 crisis may have pushed more people into poverty, vulnerability, and unemployment.<sup>4</sup>

11. **Low human capital development.** Pakistan is ranked 152nd out of 189 economies on the Human Development Index<sup>5</sup> and 134th out of 157 on the Human Capital Index.<sup>6</sup> It has the second-highest number of out-of-school children in the world.<sup>7</sup> The lack of access to education for girls in the areas of science, technology, engineering, and mathematics is acute.<sup>8</sup> Health outcomes remain unequal among the population, with rural–urban differences in the rates of infant mortality and wide differences in immunization ratios for children in the poorest quintile and the richest one.<sup>9</sup> A consequence of such low human capital is that Pakistan’s labor productivity lags that of peer economies in South Asia.

12. **Large gender gaps.** The gender inequities are profound. Pakistan is ranked third from last in the 2020 Global Gender Gap Index.<sup>10</sup> Sociocultural constraints on girls’ and women’s access to health, education, training, jobs, and mobility persist. The overall literacy rate for women in Pakistan is estimated to be only 52%, compared with an already low 73% for men. The rate is even lower in rural areas—41% for women and 66% for men.<sup>11</sup> Likewise, female labor force participation is only 23%, compared with 81% for males (ages 15 and above).<sup>12</sup> Employment for women is mostly in the informal economy, estimated to cover about 71% of women’s total employment in the country. Analysis indicates that, if Pakistan can close the gender gaps, its GDP may increase by as much as 30%.<sup>13</sup>

13. **Weak institutions and governance.** Pakistan’s weak institutions and governance continue to constrain investment, limit the structural transformation of the economy, and restrict access to quality public services. This is evident in Pakistan’s poor performance on the Worldwide Governance Indicators, where the country’s score is lower than the South Asian average.<sup>14</sup> Pakistan is ranked low on political stability, control of corruption, the rule of law, voice and accountability, and government effectiveness.

14. **Weak enabling environment for private sector development.** Shallow capital markets stemming from low national savings (i.e., 5.4% of GDP in FY2019) remain a major constraint to private sector development.<sup>15</sup> Private credit as a share of GDP, which was 29.8% in FY1986, had plummeted to 18.0% by FY2019.<sup>16</sup> In particular, access to finance remains limited for traditionally underserved segments such as small and medium-sized enterprises (SMEs) and for women

<sup>4</sup> Poverty rates are in para. 11 of Inclusive and Sustainable Growth Assessment (accessible from the list of linked documents in Appendix 3).

<sup>5</sup> United Nations Development Programme. 2019. *Human Development Report 2019*. New York.

<sup>6</sup> World Bank. 2018. *Human Capital Index*. <https://datacatalog.worldbank.org/dataset/human-capital-index> (accessed 29 February 2020).

<sup>7</sup> United Nations Children’s Fund. 2019. *Annual Report Pakistan 2018*. Islamabad.

<sup>8</sup> S. Hollows, M. Rab, and C. Schulze. *Understanding Female Participation in STEM Subjects in Pakistan*. [https://www.britishcouncil.pk/sites/default/files/stem\\_final\\_with\\_foreword\\_1\\_1.pdf](https://www.britishcouncil.pk/sites/default/files/stem_final_with_foreword_1_1.pdf) (accessed 1 March 2020).

<sup>9</sup> Government of Pakistan, Pakistan Bureau of Statistics. 2020. *Pakistan Social and Living Standards Measurement Survey 2018–2019*. Islamabad.

<sup>10</sup> World Economic Forum. 2020. *The Global Gender Gap Report 2020*. Geneva.

<sup>11</sup> Government of Pakistan. 2019. *Economic Survey of Pakistan 2018–19*. Islamabad.

<sup>12</sup> Government of Pakistan, Pakistan Bureau of Statistics. 2018. *Employment Trends 2018*. Islamabad.

<sup>13</sup> IMF. 2018. *Pursuing Women Economic Empowerment*. Washington, DC.

<sup>14</sup> <https://info.worldbank.org/governance/wgi/> (accessed 6 September 2020).

<sup>15</sup> <https://databank.worldbank.org/source/world-development-indicators> (accessed 4 September 2020).

<sup>16</sup> <https://data.worldbank.org/indicator/FD.AST.PRVT.GD.ZS?locations=PK-IN-BD> (accessed 9 September 2020).

entrepreneurs. Only 11% of women in Pakistan have bank accounts, compared with 21% of men.<sup>17</sup> Moreover, the labor market is undermined by rigidities in wage determination and low participation of women. On top of this, the perceived high cost and unreliable access to electricity is a big constraint for private sector activities.<sup>18</sup>

15. **Energy sector constraints.** The energy sector's high-cost structure, accentuated by supply chain inefficiencies, inflicts substantial costs on the economy. The sector continues to suffer from incomplete reforms and lack of integrated planning, insufficient tariffs, inefficient subsidies, unsustainable losses, and critical infrastructure bottlenecks. These inefficiencies are manifest in the so-called circular debt problem—total cash shortfall and arrears standing at a massive PRs2,210 billion (or about 4% of GDP) in June 2020.

16. **Poor urban services and planning.** Urban centers in Pakistan, large and small, are deficient in clean water, sanitation, and solid waste management. Lack of drainage exacerbates the impact of perennial flooding—as shown by the 2020 monsoon floods that submerged major parts of Karachi and other areas. Green spaces and parks are largely absent. Cities are plagued by traffic congestion and air pollution because urban transport systems are poorly developed. Compliance with quality standards is poor, and too little is invested in the operation and maintenance of existing transport and other urban infrastructure.

17. **Food security constraints.** Pakistan has one of the lowest crop yields in the region, its agricultural marketing system is underdeveloped, and the sector remains vulnerable to climate risk and pest attacks. Demand and supply disruptions from COVID-19 have caused significant food price volatility. Enhancing food security requires adopting modern agriculture technology, modernizing the delivery of irrigation water services, improving agricultural productivity, and increasing access to affordable credit and marketing services.

18. **Exposure to hazards and climate change impacts.** Pakistan is highly exposed to natural hazards, including floods, droughts, cyclones, and earthquakes, as well as infectious disease outbreaks. From 1999 to 2018, more than 84,000 Pakistanis lost their lives to natural disasters (predominantly floods and earthquakes), and the total reported damage exceeds \$26 billion.<sup>19</sup> Extreme weather events will increase in frequency and severity, with harmful associated effects on agricultural productivity, water availability, and infrastructure reliability.<sup>20</sup> Pakistan estimated its climate adaptation investment needs at \$7 billion–\$14 billion per year,<sup>21</sup> but its ability to adapt and to manage disaster and climate risks remains insufficient.

19. **Inadequate and unreliable transport infrastructure.** Pakistan's transport sector is challenged by rapid urbanization, which is increasing demand for urban transport services. Rural connectivity remains low. The underdeveloped local logistics industry fails to provide cost-effective and modern services. The railway network is underutilized and inefficient. Aviation is constrained by unsafe and poor-quality infrastructure and services. Weak hinterland connectivity limits the potential of Pakistan's ports. Road safety conditions are poor.

20. **Regional cooperation impeded by weak connectivity and trade links.** Pakistan has the potential to become a regional hub for trade and economic activity if it improves connectivity;

<sup>17</sup> World Bank. 2018. *State of Financial Inclusion of Women in Pakistan*. Washington, DC.

<sup>18</sup> <https://datacatalog.worldbank.org/dataset/pakistan-enterprise-survey-2013-0> (accessed 4 September 2020).

<sup>19</sup> D. Eckstein et al. 2019. *Global Climate Risk Index 2020*. Berlin.

<sup>20</sup> ADB. 2017. *Climate Change Profile of Pakistan*. Manila.

<sup>21</sup> Government of Pakistan. 2016. *Pakistan's Intended Nationally Determined Contribution (PAK-INDC)*. Islamabad.

develops multimodal transport systems; and strengthens trade facilitation by improving customs procedures, clearance, and logistical frameworks. A continued focus on investments and reforms is required to boost the country's regional cooperation prospects and for it to derive the full benefits from its membership in the CAREC program and other regional platforms.

### III. COUNTRY STRATEGY FRAMEWORK

#### A. Lessons from Previous Strategy

21. ADB's CPS 2015–2019 for Pakistan focused on (i) infrastructure development to improve economic connectivity and better access to basic public services; and (ii) institutional reforms to improve policy and regulatory systems and public financial management. The final review of the CPS 2015–2019 suggests that ADB's country program should continue to reflect its comparative advantage and be aligned with the people-centered priorities of the government. It also recommends broadening the sector focus and strengthening ADB's support for the social sectors to back the government's inclusive growth priority. The review concludes that ADB needs to step up efforts to improve project readiness and reduce start-up delays.

22. The validation report of ADB's Independent Evaluation Department recommends that ADB (i) combine support for infrastructure development and institutional reforms more explicitly to help Pakistan break the recurring cycle of financial crises; (ii) set out clear institutional reform objectives and targets in the CPS and its results framework, and ensure room for flexibility and course corrections during implementation; (iii) aim for greater synergy across sovereign and nonsovereign operations; (iv) focus attention on the social sectors, given Pakistan's ongoing experience in managing the COVID-19 pandemic; and (v) carefully monitor the country program with respect to policy actions taken under policy-based loans.<sup>22</sup>

#### B. National Development Strategy

23. **Government priorities.** Under Vision 2025, Pakistan aspires to achieve upper middle-income status and provide quality jobs to its growing labor force while making the economy more competitive.<sup>23</sup> Vision 2025 also articulates increasing the domestic savings rate and the tax–GDP ratio by mobilizing domestic resources. The 12th five-year plan, currently being discussed, is to focus on (i) balanced and equitable regional development; (ii) sustainable, inclusive, and export-led growth; (iii) improved governance; (iv) human resource development, social protection, and poverty alleviation; (v) food, energy, and water security; (vi) local, regional, and global connectivity; and (vii) a green and knowledge-based economy. Poverty reduction remains the main priority of the government, but it is also preparing a growth framework that proposes deregulation and the creation of an enabling environment for private sector development.

24. The government also prioritizes the SDGs, in particular the goals related to poverty, stunting and malnutrition, water sanitation, and climate change. Its 2019 voluntary national review of SDGs stressed the importance of partnerships and collaboration with the private sector, civil society, media, and development partners.<sup>24</sup> In 2018, the Ecosystem Restoration Initiative was launched to facilitate the mainstreaming of climate change adaptation and mitigation measures

<sup>22</sup> Independent Evaluation Department. 2020. [Validation Report: Country Partnership Strategy Final Review: Pakistan, 2015–2019](#). Manila.

<sup>23</sup> Government of Pakistan. 2014. *Pakistan 2025: One Nation – One Vision*. Islamabad. <https://www.pc.gov.pk/uploads/vision2025/Pakistan-Vision-2025.pdf> (last accessed 16 November 2020).

<sup>24</sup> Government of Pakistan. 2019. *Pakistan's Implementation of the 2030 Agenda for Sustainable Development Voluntary National Review*. Islamabad.

through ecologically targeted interventions. These include afforestation, conservation of biodiversity, improvement of the policy environment consistent with the objectives of Pakistan's Nationally Determined Contribution. Under the Paris Agreement of the United Nations Framework Convention on Climate Change, Pakistan has committed to mitigating climate vulnerability and reducing its annual greenhouse gas emissions in 2030 by 20% (footnote 21).

25. In 2019, the government launched *Ehsaas*, a comprehensive social protection and poverty alleviation program, which also continues the ongoing social safety net program Benazir Income Support Program (BISP). *Ehsaas* plays a central role in protecting the poor and vulnerable women and men from the detrimental impacts of the COVID-19 pandemic. The government is strengthening the integrity and coverage of safety nets and expanding conditional cash transfers for primary education. Since its inception in 2008, BISP has disbursed \$3.6 billion in funds through unconditional cash transfers to more than 5.6 million beneficiary families. The program exclusively targets female beneficiaries, providing a financial cushion to increase household consumption, improve nutritional intake, and empower women. The Naya Pakistan Housing Program intends to facilitate the building of 5 million affordable homes.

### **C. Role of Development Partners**

26. The government leads the coordination of international assistance, and development partners coordinate closely with each other and the government. ADB has strong partnerships with development agencies through close dialogue and hosting of regular meetings of heads of agencies. Joint sector working groups comprising government and development partners have been formed under key line ministries to share information and promote effective collaboration. ADB will continue efforts to seek cofinancing from development partners and the private sector. The IMF has an ongoing program to support macroeconomic stabilization. ADB and the World Bank are the most significant multilateral donors providing financing and technical assistance (TA). The Asian Infrastructure Investment Bank and the Islamic Development Bank also offer funding and support. Pakistan's key bilateral development partners include France, Germany, Japan, the People's Republic of China, the United Kingdom, and the United States.

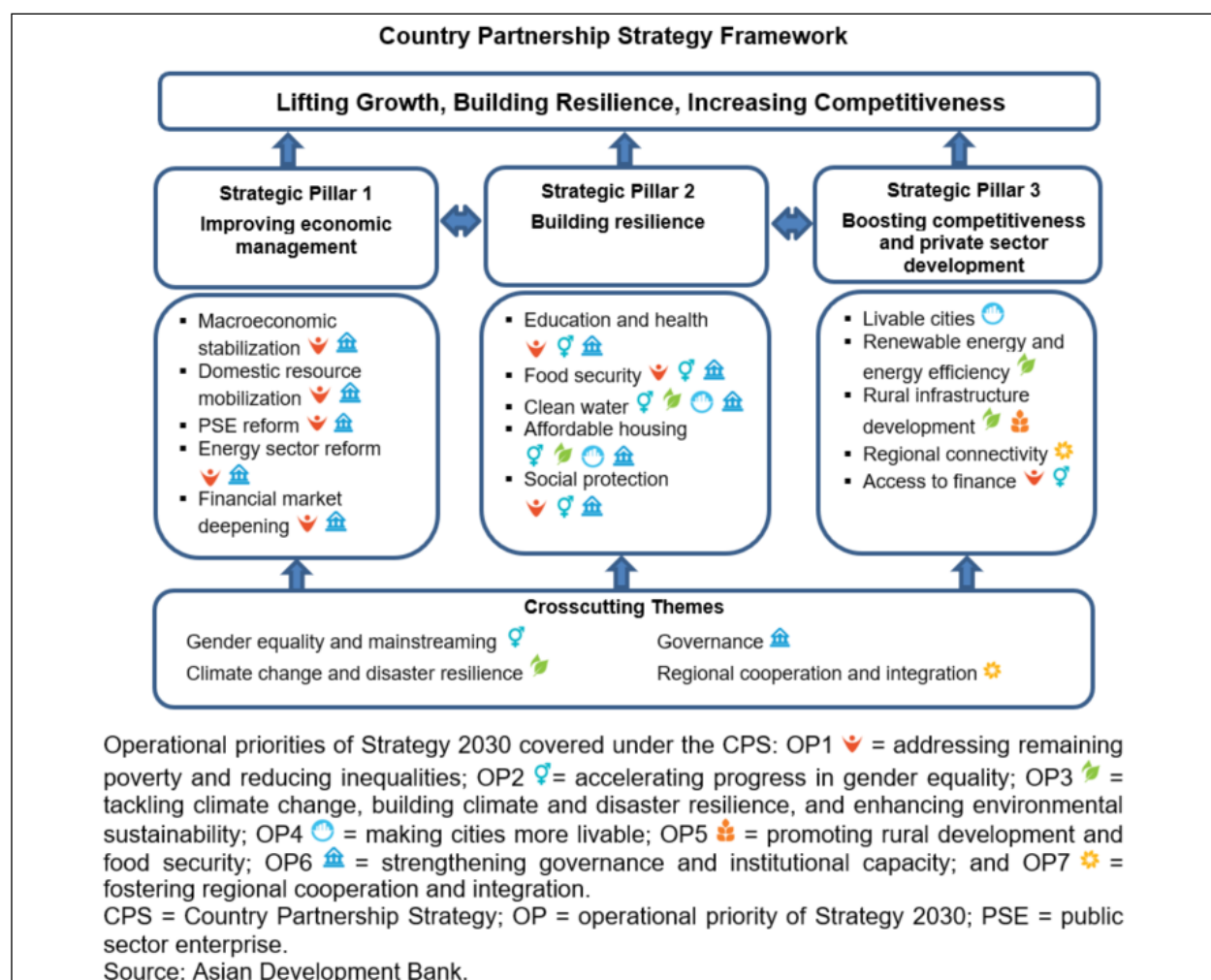
### **D. ADB's Strategic Objectives and Operational Priorities**

27. **Country partnership strategy objectives.** ADB's CPS supports Pakistan's efforts to lift growth, build resilience, and foster competitiveness. A focus in these areas will help the country mitigate the impact of the COVID-19 pandemic and tackle structural problems to reduce poverty and vulnerability and create jobs. These broad areas allow for exercising a certain amount of flexibility in determining operational sectors given Pakistan's position as a large borrower, and in view of the given COVID-19 pandemic-related uncertainty and the need to remain responsive to changing country needs and expectations. Sector flexibility is also important because an individual operation can relate to multiple sectors and themes. Within these parameters, however, ADB's assistance will remain selective and focused, built on a prudent choice of subsectors, and carefully prioritized specific projects and programs within ADB's finite resource envelope. Explicit recognition of ADB's comparative advantages and the division of labor between development partners will be key guiding principles.

28. The CPS will seek to combine an emphasis on institutional reforms with efforts to improve the quality of physical and social investments for greater development impact and sustainability. The focus on resilience will seek to empower citizens to overcome pandemics and other natural disasters and smoothen their income flows; it targets, in particular, vulnerable people for whom even a small external shock is catastrophic and which can plunge them into poverty. A One ADB



approach will bundle the expertise available in ADB's public sector operations, private sector operations, Office of PPP, and knowledge departments to provide the most effective operational and knowledge solutions to Pakistan's pressing development challenges.



29. **Strategic pillars.** Three interlinked strategic pillars will be prioritized for support under the CPS, as shown in the figure above—(i) improving economic management to restore stability and growth, (ii) building resilience by strengthening human capital and social protection to enhance productivity and people's well-being, and (iii) boosting competitiveness and private sector development to create jobs and expand economic opportunities. Crosscutting themes in the CPS are (i) gender equality and mainstreaming, (ii) climate change and disaster resilience, (iii) governance, and (iv) regional cooperation and integration.

30. **Alignment with ADB's Strategy 2030.** The strategic pillars and crosscutting priorities are all directly aligned with Strategy 2030's operational priorities. Between them, they cover all seven operational priorities, positioning this CPS firmly for an effective contribution to the goals of ADB's Strategy 2030.

31. **Strategic pillar 1: Improving economic management.** The COVID-19 pandemic compelled the government to loosen its fiscal and monetary policies to allow it to provide the

necessary stimulus to the economy. As the pandemic situation is brought under control, stabilizing the macroeconomic situation and igniting economic recovery becomes critical. The IMF-supported stabilization and structural reform program is expected to occupy center stage from FY2021 onward. In partnership with the IMF and the World Bank, ADB will frontload policy-based assistance to support macroeconomic stabilization and domestic resource mobilization, as well as aid critical structural reforms in energy, trade, and capital markets.

**32. Macroeconomic stabilization and domestic resource mobilization.** ADB is supporting Pakistan's macroeconomic stabilization, including through the \$1 billion Economic Stabilization Program approved in December 2019.<sup>25</sup> In this regard, ADB will help improve the efficiency and effectiveness of public finance management by operationalizing the Public Finance Management Act approved in June 2018. ADB will also help the government adopt a new law for PSEs, and support reforms in policy, regulatory, and administrative systems of PSEs, leading to better governance, stronger service delivery, and less fiscal burden on the state. In addition, ADB will assist domestic resource mobilization by working with other development partners to improve tax policy and administration, including through the operationalization of a tax policy unit in the Ministry of Finance.

**33. Strengthening Pakistan's trade competitiveness.** ADB will maintain its support for reforms to improve Pakistan's trade prospects through a well-sequenced programmatic approach adopted under the ongoing Trade and Competitiveness Program.<sup>26</sup> Subsequent phases of this program will help (i) streamline tax and tariff regimes to promote export competitiveness; and (ii) reinforce legal and institutional structures, e.g., by operationalizing the new EXIM Bank and establishing a Pakistan single window. ADB will mobilize guarantees and loans through partner banks under its Trade Finance Program to increase the opportunities for Pakistani traders and businesses to contribute to regional and global value chains. ADB will strengthen the capacity of the Pakistan National Accreditation Council to improve the certification process of the export items.

**34. Improving efficiency of the energy sector.** Despite efforts, Pakistan's energy sector continues to be plagued by inefficiencies, system losses, and an overbearing burden of circular debt that constrains new investment in the sector. ADB proposes to keep improving the sector with reforms and sovereign and nonsovereign investments that are coordinated closely with the IMF and the World Bank. For instance, policy actions built into the ADB-assisted Energy Sector Reforms and Financial Sustainability Program, approved in December 2019,<sup>27</sup> call for (i) bolstering financial sustainability through a more efficient tariff regime and timely release of budgeted subsidies; (ii) mitigating systemic inefficiencies in the generation, transmission, and distribution systems through renewable energy deployment and technological interventions; and (iii) strengthening institutional and regulatory governance to lift the overall sector performance.

**35. Deepening financial markets.** ADB will seek to continue deepening and diversifying Pakistan's financial markets to promote investment, growth, and private sector development. Through the Third Capital Market Development Program in 2020, it works to (i) increase the

<sup>25</sup> 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.

<sup>26</sup> 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.

<sup>27</sup> 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.

operational and financial efficiency of the Securities and Exchange Commission of Pakistan; (ii) boost market facilitation by expediting the adjudication of enforcement actions, as well as strengthening auditing standards; and (iii) promote a more liquid government bond market, enhance institutional investor demand, and encourage the participation of contractual savings institutions in capital markets. ADB will also provide TA to support the development of the insurance industry and SMEs. Close coordination with ADB's Private Sector Operations Department will help ensure that a stronger enabling environment results in a better deal flow for financial institutions.

**36. Strategic pillar 2: Building resilience by strengthening human capital and social protection.** The pandemic has shown the need to build stronger national resilience by upgrading health facilities, strengthening social protection systems, and developing new skills to protect jobs in line with the changing labor market. Women stand to benefit the most from investments in these areas. ADB will place a strong focus on improving education, health systems, clean water and sanitation, affordable housing, and social protection. Fiscal space generated through stronger economic management (pillar 1) and the mobilization of greater resources from the private sector will help bridge investment gaps in the social sectors. Wherever possible, ADB will promote innovative service delivery mechanisms, including the use of PPPs, vouchers, and information technology. To make housing more affordable, it will support policy reforms (e.g., land registration and taxation, and housing finance), institutional capacity building, and demonstration projects.

**37. Strengthening education and health.** ADB will accelerate system-wide reforms and investments in secondary education and technical and vocational education and training, while addressing the problem of out-of-school children with support for conditional cash transfers by BISP. In health, ADB will focus on the quality of health care by combining improvements in infrastructure, governance, and management for better overall outcomes. It will help manage public health issues, including the sector's recovery from COVID-19. Complementary investments in clean water supply and sanitation will contribute to better health outcomes.

**38. Improving social protection system.** ADB will maintain support for social protection and service delivery to build the resilience of vulnerable families and individuals. It already provided additional financing for the Social Protection Development Project to help expand cash transfers to the poor and bolster evidence-based policy formulation through a newly established policy research unit in BISP.<sup>28</sup> ADB also provided additional loans through the Emergency Assistance for Fighting the COVID-19 Pandemic Project<sup>29</sup> and the COVID-19 Active Response and Expenditure Support Program<sup>30</sup> to back up the *Ehsaas* Emergency Cash Transfer Program. ADB will maintain its focus on women with further assistance to *Ehsaas* aimed at (i) system strengthening and governance improvements, (ii) expansion of safety nets under BISP, (iii) human capital development, and (iv) provision of jobs and livelihoods.

**39. Strategic pillar 3: Boosting competitiveness and private sector development.** The pandemic has interrupted firms and businesses, exposed significant rigidities in the labor market, and increased risks for the banking system. A One ADB approach combining sovereign and

<sup>28</sup> 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.

<sup>29</sup> ADB. 2020. [Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant to the Islamic Republic of Pakistan for the Emergency Assistance for Fighting the COVID-19 Pandemic Project](#). Manila.

<sup>30</sup> 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.

nonsovereign operations is being deployed to support infrastructure, agribusiness, and finance sector investments, alongside reforms that will boost competitiveness and private sector development, create jobs, and drive market innovation. The focus is on engaging public and private sectors to build livable cities, promote renewable energy and energy efficiency, invest in rural infrastructure, strengthen agricultural value chains, improve connectivity, and increase access to finance. ADB will also assist the government's privatization agenda, and use various instruments (para. 54) to mobilize support from the public and private sectors.

40. **Building livable cities.** ADB will combine reforms and investments with assistance in building livable cities that are green, resilient, inclusive, and competitive. Such cities will enhance urban mobility, improve citizens' health, promote gender equity, and protect environmental sustainability. City governments will be encouraged to explore new sources of funding to meet infrastructure requirements and bring in sustainable planning processes by integrating climate resilience and disaster risk management considerations. ADB will invest in sovereign and nonsovereign projects to improve water supply and sanitation systems as well as urban transport infrastructure, including bus rapid transit and nonmotorized transport systems. Smart cities will be promoted through the application of technology, including digital access to services, digital payments, smart water meters, and charged parking.

41. **Reducing electricity cost and mitigating climate change.** Increasing access to indigenous fuel-based power projects run on domestic natural gas, renewable energy (primarily wind and solar), or hydropower, and improving energy efficiency through sovereign and nonsovereign initiatives will strengthen competitiveness, improve environmental sustainability, and enhance the reliability of and access to cheaper power. ADB will support both grid and off-grid power solutions for rural areas. It will also consider backing, on a selective basis, power generation from re-gasified liquefied natural gas. Innovations in energy storage and new models of commercially viable distributed generation systems provide excellent opportunities to engage with the private sector in spreading the benefits of alternative and renewable energy. Further assistance will focus on implementing net metering in distribution companies; modernizing the National Power Control Center, the operator of the electricity system; and making the Central Power Purchasing Agency, the market operator, more efficient.

42. **Investing in value chain rural infrastructure development.** Enhancing agricultural productivity and investing in value chains for agricultural products is critical for boosting Pakistan's economic competitiveness and revitalizing rural areas. ADB's investments and reforms through both sovereign and nonsovereign modalities will contribute to (i) increasing the capacity of agri-logistics centers and linking them with farmers and markets; (ii) constructing and upgrading all-weather rural roads, especially in those less developed areas, to enhance farm to market connectivity; (iii) improving climate-resilient water storage and regulatory capacity for surface, groundwater, and water harvesting; and for irrigation system upgrades; (iv) facilitating institutional transformation that leads to stronger water governance both in the public sector and by gender-inclusive, farmer-led water user associations; and (v) achieving sustainable maintenance and operational management of water resource systems.

43. **Strengthening connectivity.** ADB will continue to rehabilitate and upgrade selected national highways and provincial roads to improve connectivity, in tandem with institutional reform efforts to increase road safety, reinforce road asset management, and ensure sustainable road maintenance. In addition, ADB will support public and private sector investment in developing commercially viable and sustainable transport modalities extending to roads, rails, ports, airports, inland waterways, and national and regional logistics to promote connectivity, safety, climate resilience, environmental sustainability, and inclusiveness.

44. **Increasing access to finance.** ADB will provide capital and debt funding to eligible financial institutions—banks, nonbank financial entities, and other financial intermediaries—to increase access to finance. The government has already agreed to ADB's issuance of offshore Pakistan rupee-linked bonds in July 2020. ADB has raised 1.83 billion Pakistan rupees in a first issue of local currency *karakoram bonds* in November 2020. ADB will fully utilize this new instrument to expand financing for nonsovereign operations. It will also promote lending to microenterprises and SMEs, to women, and in new areas such as agribusiness, digitization, and tourism. SMEs will be provided with supply chain financing. Private insurance companies will be encouraged to increase the penetration of insurance products in Pakistan. ADB will continue its support for exporting industries by providing guarantees and loans through partner banks under its Trade Finance Program. It will provide TA to build the capacity of financial institutions for lending to microenterprises and SMEs; risk management; digital banking; and anti-money laundering measures. Finally, ADB will explore the feasibility of rolling out its Microfinance Risk Participation and Guarantee Program to promote local currency lending to microfinance institutions.

45. **Crosscutting priorities.** Consideration of gender equality and mainstreaming, climate change and disaster resilience, governance, and regional cooperation will be integrated in all three pillars of the CPS.

46. **Improving gender equality and mainstreaming.** ADB will support women's economic empowerment, provide quality opportunities for social advancement, and enhance their resilience to external shocks. It will do its best to increase women's access to financial services, raise their skills and education levels, particularly in science and mathematics, and bolster the social protection programs under BISP, where women are the primary beneficiaries. It will prioritize interventions to cut women's time poverty and drudgery by (i) improving their access to modern technology, particularly in the agriculture sector; (ii) connecting them to affordable and reliable energy; and (iii) contributing convenient water supply and sanitation solutions. ADB will also help ensure women's access to safe transport systems and urban spaces. And it will build the capacity of executing and implementing agencies for carrying out gender-inclusive projects and monitoring gender results. ADB's support for improving gender equality and mainstreaming will also be guided by CAREC Gender Strategy 2030<sup>31</sup> to ensure that women benefit equally from CAREC investments.

47. **Building climate and disaster resilience.** ADB will maintain its support for building the resilience of communities and infrastructure to climate change and for strengthening climate change adaptation and disaster risk management. This includes investing in the sustainable management of watersheds and mangrove forests; improving the management of water resources; strengthening flood risk management in vulnerable coastal districts; bolstering climate policy, financing, and planning frameworks; upgrading the management of solid waste; and providing safe water in cities and towns. ADB will continue backing the National Disaster Risk Management Fund, including through recapitalization, to help implement national plans to reduce disaster risks and enhance preparedness. It will step up efforts to boost climate change mitigation through technology-based interventions with a focus on low-carbon and renewable energy, energy efficiency and conservation, and mass transit systems in urban areas.

48. **Reforming governance.** Policy-based support and the investment project components of ADB assistance will help streamline national and subnational governance systems and improve

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<sup>31</sup> CAREC. 2020. [CAREC Gender Strategy 2030](#). Manila.

institutional capacities. More consideration will be given to political economy dynamics in formulating projects. Working on improving intergovernmental coordination and building the capacities of local governments will be a priority. ADB will also drive efforts to strengthen monitoring and evaluation systems, upgrade operation and maintenance systems in infrastructure and social sectors, and introduce evidence-based policy formulation and strategic planning for social protection and poverty reduction. It will provide procurement training and support accountability and anticorruption measures in government agencies.

49. **Promoting regional cooperation and integration.** Regional cooperation efforts supported by ADB will complement country-based interventions in boosting growth and trade competitiveness. Such support, under the CAREC program, will augment regional connectivity and trade with neighbors by developing regional transport and economic corridors and improving border crossings. It will facilitate cross-border trade and supply-chain efficiency by simplifying customs procedures and setting up a Pakistan single window. These efforts will also contribute to Pakistan's implementation of the World Trade Organization Trade Facilitation Agreement. Regional cooperation in the energy sector will help enhance Pakistan's energy security through flagship projects such as the Turkmenistan–Afghanistan–Pakistan–India Pipeline Project and the Turkmenistan–Uzbekistan–Tajikistan–Afghanistan–Pakistan Electricity Project. Sanitary and phytosanitary measures to promote agricultural trade will be improved and aligned with international standards. Pakistan will also benefit from interventions to support the development of regional and national tourism. Finally, CAREC will support regional cooperation in the areas of health and education, including regional approaches to fighting pandemics.

## **E. Priorities for Knowledge Support**

50. **Knowledge solutions.** ADB will scale up analytical and knowledge work, and better leverage knowledge with financing and partnerships to provide the highest value for money to Pakistan. ADB is uniquely placed to facilitate the transfer of knowledge and experiences from countries in Asia and the Pacific. It will continue providing demand-based and just-in-time knowledge products as well as policy advice to key government agencies, including the ministries of economic affairs and finance, and federal and provincial line ministries. It will integrate knowledge solutions in training and capacity development programs for implementing and executing agencies. Comprehensive sector assessments will inform the design and results frameworks of specific country operations. Pilot initiatives, such as the use of data analytics for innovative solutions in disaster risk assessment, will be applied. Knowledge products delivered under CAREC will further boost regional cooperation and integration efforts. The country director of ADB's Pakistan Resident Mission, as ADB's knowledge custodian, will ensure that all available expertise under a One ADB umbrella is deployed effectively to transfer the best possible advice and knowledge to Pakistan.

51. **Knowledge partnerships.** ADB will collaborate with the government, think tanks, civil society organizations, and development partners in designing knowledge products and delivering policy advice to augment the relevance and impact of delivered knowledge. To facilitate cross-country knowledge sharing that can better inform Pakistan's development policy priorities, ADB will sponsor a knowledge network of researchers on policy matters, comprising think tanks, the ADB Institute, the CAREC Institute, universities, and research centers. ADB will closely coordinate its advisory services with other multilateral institutions such as the IMF, the World Bank, and United Nations agencies, as well as bilateral donors active in supporting analytical and knowledge work in Pakistan.

## IV. STRATEGY IMPLEMENTATION

### A. Indicative Resource Parameters

52. Pakistan is classified as a group B developing member country with access to regular ordinary capital resources (OCR) lending and concessional OCR lending. The indicative resources available for commitment during the first 3 years of the CPS period (2021–2023) total \$5.4 billion, comprising \$3.6 billion for regular OCR lending and \$1.8 billion for concessional OCR lending. Additional grant resources have been allocated for a project in 2021 from the ADF-13 thematic pool worth \$5 million, to increase gender equity. The final allocation for the complete 5-year CPS period will depend on available resources, project readiness, and the outcome of the country performance assessments. Sovereign operations will be supplemented with ADB's nonsovereign operations, subject to headroom constraints, as well as official and commercial cofinancing. The existing cost-sharing and financing parameters will continue to be applied during 2021–2025, with ADB financing up to 85% of the loan project costs and 90% for the TA costs, on an overall portfolio-wide basis. Actual shares for specific ADB projects will be determined by project-specific considerations and available cofinancing.

### B. Implementation Priorities

53. **Strengthening project readiness and implementation.** ADB will place special emphasis on improving the quality of project readiness and implementation. To this end, ADB and the government will engage project management units early, and ADB will encourage the use of the project readiness facility and the small expenditure financing facility for the timely preparation of high-quality projects and the detailed engineering designs. Only procurement-ready projects will be taken to the ADB Board of Directors for consideration of approval. For policy-based loans, meaningful policy actions will be developed and agreed upon with the government, and will then be adequately monitored and expected to be fully complied with. Capacity building of government agencies will increase their understanding of financial management, procurement, social and environmental safeguard, and gender requirements; and will help expedite the implementation.

54. **Potential modalities.** The full range of ADB's lending and nonlending modalities will be deployed to advance Pakistan's development. Sovereign operations will utilize policy-based lending, sector development programs, results-based lending, the multitranche financing facility option, financial intermediation lending, investment projects, guarantees, and TA. Nonsovereign operations will be supported through debt (e.g., direct loan as well as B loan and/or risk participation), local currency financing, equity, as well as guarantees and other risk participation instruments. ADB will also promote PPP initiatives to get the private sector involved in public infrastructure. ADB will build on its existing projects in Sindh and Punjab to augment the government resources available for creating a pipeline of fiscally sustainable and viable PPP projects that maximize value for money.

55. **Synergies between sovereign and nonsovereign operations.** ADB's staff from sovereign and nonsovereign operations will work closely under the One ADB approach to implement the CPS, particularly in the prioritized areas of infrastructure, financial intermediation, trade finance, insurance market, agribusiness, housing, and tourism development. PPP projects also provide opportunities for sovereign and nonsovereign operations to come together by helping create an enabling environment for PPP and raise government capacity to prepare and transact PPP projects and explore blended financing solutions. Finally, ADB will work closely with the government in recommending and implementing policy reforms that help improve the business

environment for private sector investments. This could include assisting the government in reforms that will ensure equal treatment of private and state-owned companies.

56. **Strengthening field presence.** The composition of ADB's Pakistan Resident Mission staff will be adjusted continuously during the CPS to meet the operational and country development needs. Ensuring that the resident mission has sufficient capacity to aid private sector operations and deliver the expected knowledge work will be a key consideration when adjusting staff. Outposted staff and staff on short-term assignments will also help achieve this.

### C. Monitoring of Results

57. ADB will monitor the implementation of the CPS using the country results framework (Appendix 1), which will be updated annually during the country portfolio review and country programming missions. ADB will strengthen the monitoring capacity of executing agencies and place specific emphasis on systematically monitoring the gender equality results of projects.

### D. Risks

58. **Macroeconomic instability.** A slower-than-expected recovery from the COVID-19 pandemic and accompanying social pressures might delay the economic and structural reforms needed to strengthen macroeconomic stability. The government has committed to accelerating the momentum of structural reforms as the pandemic impact is mitigated. Economic uncertainty poses risks to both sovereign and nonsovereign operations. Private sector operations, in particular, are subject to country, market, and obligor risks. All private sector operations in Pakistan will require in-depth risk analysis and effective mitigation. ADB's policy-based and TA support for improving the business and investment environment, together with efforts to augment the resident mission's private sector operations capacity, will help mitigate risks to the private sector. Structural reforms to stabilize the macroeconomy should gain momentum after the COVID-19 pandemic is mitigated.

59. **Public financial management.** Public financial management risks include (i) poor budget planning practices; (ii) inefficient budget execution practices and weak systems for the preparation, appraisal, and monitoring of public investment projects; (iii) weak treasury management; (iv) poor accounting and reporting standards; and (v) inadequate corporate governance of PSEs. These risks will be mitigated by ADB's (i) proposed TA support to the implementation of the Public Finance Management Act and the PSE Law, (ii) policy-based assistance for financial management reforms and sector-specific institution-building, and (iii) capacity building programs to professionalize project auditing and accounting in project management offices and executing and implementing agencies.

60. **Procurement.** Key procurement risks include (i) the inability to make use of advance contracting because of complex government approval procedures; (ii) lack of awareness of the use of local procurement frameworks for ADB-funded projects; (iii) ineffective complaint mechanism; and (iv) fear of inspections by the National Accountability Bureau and audit objections by auditors. Since the establishment of federal and provincial public procurement regulators in Pakistan, efforts are being made to improve efficiency and transparency and reduce corrupt practices in public procurement. However, potential fiduciary risks remain. To mitigate these risks, ADB will (i) keep coordinating with the Pakistan Engineering Council and public procurement regulators on a system for regular updates of cost estimates, (ii) provide TA for capacity building, (iii) support the government's initiative for the establishment of a construction and infrastructure board to ensure an enabling environment for the construction industry, (iv)



support initiatives aimed at professionalizing procurement functions, (v) develop and use a country e-procurement system, (vi) develop a procurement performance monitoring system, and (vii) promote the effective use of advance contracting.

61. **Disasters.** Pakistan is prone to natural disasters triggered by natural hazards, such as flooding in Karachi in 2020. It is also highly vulnerable to epidemics and pandemics, such as COVID-19. If large-scale disasters and/or pandemics occur, they could delay the government's reforms and divert scarce fiscal resources from planned projects. In collaboration with development partners, ADB will assist the government in enhancing disaster resilience through instruments to finance disaster risk reduction and preparedness for health emergencies.

## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

<b>Country Development Impact Indicators with which the CPS is Aligned<sup>a</sup></b>				
<ol style="list-style-type: none"> <li>1. Ratio of domestic savings to GDP increases to 10.0% by 2025, from 5.4% in 2019</li> <li>2. Employment–population ratio increased to 55% by 2025, from 50.3% in 2020</li> <li>3. Proportion of population living below the poverty line (based on \$1.90 a day): 3.0% by 2025, from 7.6% in 2020 (with COVID-19-related declines in mean per capita consumption of –20%)</li> <li>4. Trade deficit as a share of GDP decreases to 6.0% in 2025, from 7.5% in 2020</li> </ol>				
CPS Strategic Objectives	Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
Improving economic management	Macroeconomic stabilization (OP1 and OP6)	Tax base widened, and tax revenue increased	Tax policy unit functional and providing guidance on tax policy matters (2020 baseline: NA)	<b>Ongoing portfolio:</b> As of 31 December 2019  Sovereign loan projects Number: 38 Amount: \$8.7 billion  Nonsovereign projects Number: 8 Amount: \$307.7 million  <b>Planned operations and contribution (3-year pipeline as per latest COBP):</b>  <b>Sovereign Lending</b> (\$5.6 billion of OCR and \$1.5 billion of COL for 2020–2022)  <b>Technical assistance</b> Nonlending (\$22 million for 2020–2022)
	Economic policy and structural reforms (OP1 and OP6)	Exports expanded and diversified	Total annual goods export value increases by 10% (FY2020 baseline: \$22.5 billion). Exim bank operationalized by 2025 (2020 baseline: NA)	
	PFM reform (OP1 and OP6)	More efficient and effective PFM	Primary balance, as a share of GDP, equal to or above 1.0% by 2025 (FY2019 baseline: –1.6%)	
	PSE reform (OP1 and OP6)	Better governance, improved service delivery by PSEs	PSE Law adopted by 2025 (2019 baseline: NA)	
	Energy sector reform (OP1 and OP6)	Efficiency of the energy sector improved	Circular debt flow reduced to less than PRs50 billion by 2025 (FY2019 baseline: PRs450 billion)	
Deepening of financial market (OP6)	Greater capacity for intermediation and expanded size of capital markets	Individual investor accounts increased to at least 500,000 by 2025 (2019 baseline: 250,000) Corporate bond issuance as a share of GDP increased to at least 5.0% by 2025 (2019 baseline: 2.2%)		
Building resilience by strengthening human capital and social protection	Enhancing education quality (OP1, OP2, and OP6)	Access to quality secondary education and technical and vocational education and training increased	Net enrollment rate in secondary education (9–12) increased to 40% (male: 40%, female: 40%) by 2025 (2018 baseline: 38.5% [male: 40.5%, female: 36.4%])	
	Improving health services (OP1, OP2, and OP6)	Access to quality health care services improved federally and in provinces	Health care expenditure as a share of GDP 3.0% in 2025 (2016 baseline: 2.8%)	
	Climate and disaster resilience (OP3)	Resilience to climate change and disasters strengthened	Vulnerable people who are more resilient to climate change and disasters increased by 3 million by 2025 (2019 baseline: NA)	
	Enhancing access to housing finance (OP1)	Access to affordable finance increased	Increase in mortgage–GDP ratio to 0.4% by 2025 (2019 baseline: 0.25%)	
	Strengthening social protection programs (OP1)	Social protection system improved	7 million eligible beneficiaries for unconditional cash transfer ( <i>Kifaaalat</i> program) are enrolled in Benazir Income Support Program and receive cash transfers regularly, with a transparent and	

CPS Strategic Objectives	Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
			dynamic beneficiary identification mechanism established by 2025 (2019 baseline: 4.3 million beneficiaries) Conditional cash transfer for primary education extended and implemented in 150 districts by 2025 (2019 baseline: 50 districts)	
Boosting competitiveness and private sector development	Building livable cities (OP4)	Coverage, quality, efficiency, and reliability of services in urban areas improved	Integrated urban development plan put in place by at least 2 provinces during 2021–2025 (2019 baseline: NA) Sustainable urban bus rapid transit systems built in at least 2 cities (2019 baseline: NA)	
	Increasing renewable energy and energy efficiency (OP3)	Renewable energy capacity increased	Renewable energy (solar and wind) capacity increased to 15% of total power supply capacity by 2025 (2018 baseline: 7.2%)	
	Enhancing rural infrastructure development (OP5)	Climate-resilient irrigation infrastructure enhanced	2 million hectares of land (including drainage and other types of infrastructure) improved through climate-resilient irrigation infrastructure by 2025 (2019 baseline: 0 hectares)	
		Rural development enhanced	Off-grid and rural electrification constituting power supply to about 30% of the population by 2025 (2019 baseline: 0%)	
	Strengthening regional connectivity (OP7)	Greater and better-quality connectivity between economies and markets	Improved border-crossing facilitation in 3 locations (Chaman, Torkham, and Wagha) during 2021–2025 (2019 baseline: NA)	
	Inclusive finance (OP1)	Financial opportunities for the vulnerable and women increased	21.0% of women have bank accounts by 2025 (2019 baseline: 11.0% of women have bank accounts)	
Access to affordable finance for microenterprises and SMEs enhanced		Share of private sector credit to SMEs increased to 16% by 2025 (2019 baseline: 7.7%)		

ADB = Asian Development Bank, COBP = country operations business plan, COL = concessional OCR lending, COVID-19 = coronavirus disease, CPS = country partnership strategy, GDP = gross domestic product, NA = not applicable, OCR = ordinary capital resources, OP = operational priority, PFM = public finance management, PSE = public sector enterprise, SMEs = small and medium-sized enterprises.

<sup>a</sup> Indicators are aligned with the expected results in Government of Pakistan. 2014. *Pakistan 2025: One Nation – One Vision*. Islamabad. See <https://www.pc.gov.pk/uploads/vision2025/Pakistan-Vision-2025.pdf> (last accessed on 18 November 2020).

Source: Asian Development Bank.

## COUNTRY KNOWLEDGE PLAN

### A. Knowledge Needs

1. Knowledge is a central tenet of the business model of the Asian Development Bank (ADB). ADB leverages and combines knowledge with financing and partnerships to deliver from its operations optimum value for money to member countries. As a knowledge bank, ADB endeavors to focus on practical value that fits local conditions, identify lessons, and replicate good practices.<sup>1</sup> This country knowledge plan for Pakistan describes the strategic thrust and implementation arrangement of selective high-quality knowledge products and services (KPS) that would be generated during the implementation of ADB's country partnership strategy (CPS), 2021–2025 for Pakistan. The plan will be guided by ADB's Knowledge Management Action Plan and the operational priority plans of its Strategy 2030.<sup>2</sup> ADB's country director for Pakistan will act as a knowledge custodian. This country knowledge plan discusses the generation and dissemination of demand-driven KPS as strategic assets, which are equally as important as ADB's sovereign and nonsovereign operations.

### B. Scope of ADB's Planned Knowledge Operations

2. ADB intends to scale up its knowledge work in Pakistan to help overcome the binding constraints on growth. It will offer KPS based on demand and purpose, and by using the most suitable modality for the country. This support will be provided through the tacit knowledge embedded in ADB projects and programs, and with explicit knowledge through various KPS. For specific knowledge and capacity needs that are closely aligned with the CPS and/or the Government of Pakistan's high-priority reforms, ADB will contribute in a timely manner selective KPS across strategic pillars and crosscutting themes.

3. **Strategic pillar 1: Improving economic management to expand economic opportunities.** The government requires strong analytical backing to restore macroeconomic stabilization, and evidence-based policy support to undertake critical structural reforms in energy, trade, and capital markets work.

4. **Macroeconomic stabilization.** Effective mobilization of domestic revenue is key to sustainable growth. ADB will provide policy support and capacity building to harmonize the general sales tax countrywide and eliminate the special treatment of agriculture income for the purposes of income taxation. These measures will increase revenues and reduce compliance costs and tax evasion. ADB will also assist the government's efforts to strengthen its debt management framework. The establishment of an integrated debt management office and of a macro-fiscal function in the government's Finance Division sets the institutional anchors for the medium-term macroeconomic framework. ADB will provide technical assistance (TA) to help formulate Pakistan's debt sustainability framework. Furthermore, ADB will support the government's reform efforts to reform existing public sector enterprises based on international best practices.

5. **Reforms to grow trade and expand exports.** ADB will introduce significant tariff- and tax-related policy reforms to bolster Pakistan's export industries and increase their global

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<sup>1</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

<sup>2</sup> ADB. Forthcoming. Knowledge Management Action Plan. Manila.

competitiveness, and to strengthen key trade-facilitating institutions such as accreditation bodies, the EXIM Bank of Pakistan, and the Pakistan single window.

6. **Reforms to improve the efficiency of the energy sector.** It is important to implement measures to reduce the cost of generating, transmitting, and distributing power. ADB will help Pakistan reduce its financial, technical, and governance deficits by strengthening governance; in particular, by formulating a road map for achieving a competitive market, implementing multiyear tariffs, and unbundling the gas subsector.

7. **Reforms to deepen financial markets.** ADB supports the decisive reforms implemented by the State Bank of Pakistan (SBP) to adopt a market-determined exchange rate and the government's decision to phase out borrowing from the SBP to finance the budget deficit. These reforms have improved investor confidence, and through KPS, ADB will support steps that will maintain the momentum of the implemented reforms. ADB will further back the amendment of the SBP Act to codify the independence of the SBP in running monetary policy and the work of the Securities and Exchange Commission of Pakistan (SECP) in reforming financial markets.

8. **Strategic pillar 2: Building resilience by strengthening human capital and social protection to enhance productivity and people's well-being.** The government has prioritized the reduction of poverty and inequality by approving an integrated social protection program called "Ehsaas." The government needs policy advice to learn from successful models of social safety nets used in other countries in Asia and the Pacific. It will also need advisory services on improving education and health outcomes for better labor market efficiency. In addition, much-needed access to innovative technology tools will expand the outreach of health and education systems.

9. **Improving social protection system.** Coronavirus disease (COVID-19) has triggered a sharp drop in household incomes. ADB estimated that Pakistan's headcount poverty ratio in 2020 was 1.6% without COVID-19; however, this ratio would rise by 5.5% under the worst-case scenario of a 20% reduction in aggregate demand (ADB 2020).<sup>3</sup> The poverty ratio under the worst-case scenario is closer to the poverty level in 2015. Many countries introduced conditional cash transfer programs to alleviate poverty (e.g., Program Keluarga Harapan in Indonesia and Pantawid Pamilyang Pilipino Program in the Philippines), especially in places with many workers in the informal sector. ADB will provide knowledge products and services to further strengthen Pakistan's social protection programs and improve their targeting and efficiency.

10. **Enhancing the quality of education and skills building.** Pakistan continues to grapple with the challenge of very high numbers of out-of-school children, low school participation rates, and low transition rates from primary to higher grades. ADB will assess the accessibility to education for all grades and identify the supply and demand sides to causes of low school participation rates, especially for girls. The poor performance of Pakistan's school system is aggravated in part by weaknesses in the teaching workforce. ADB will also assess the new and innovative financing modalities for schools as well as public-private partnerships.

11. **Promoting better health sector outcomes.** A widespread COVID-19 outbreak overwhelmed Pakistan's already limited health capacity. The outbreak also revealed a lack of hospital beds and limited access to handwashing facilities, drinking water, and sanitation. The shortage was further aggravated by reduced imports and international competition for medical

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<sup>3</sup> ADB (Economic Research and Regional Cooperation Department). 2020. Updated Poverty Estimates. Memorandum. 14 May (internal).

equipment, which underscored the vulnerabilities even more sharply. The National Action Plan on preparedness and response to COVID-19 was prepared as early as 12 February 2020 by the Ministry of National Health Services, Regulation and Coordination.<sup>4</sup> Subsequently, Pakistan's Preparedness and Response Plan for COVID-19 was prepared on 23 April 2020.<sup>5</sup> In consultation with core sectors and development partners, the Planning Commission started to develop the national strategy for Pakistan to guide and reorient future public sector development plans to accommodate the COVID-19 reality in the medium term. ADB will continue providing knowledge support and capacity building to the government to respond to COVID-19.

**12. Strategic pillar 3: Boosting competitiveness and private sector development to create jobs and expand economic opportunities.** The strategic thrust under pillar 3 will focus on urbanization, a viable energy sector, agribusiness, and the finance sector for competitiveness and job creation. ADB will provide knowledge products to identify innovation technology, improve labor productivity, and enhance business activities for improved national competitiveness.

**13. Building livable cities.** Urbanization is a key feature of modern development.<sup>6</sup> The typical development pattern in Asia is to transfer workers out of agriculture into activities that result in higher productivity and upgrades of the economic structure. Urbanization and gross domestic product per capita tend to move in sync as countries develop, thus creating a consuming class that drives demand. For Pakistan to attain upper middle-income country status, high-quality urban services and infrastructure are necessary. ADB will support upstream urban planning and provide urban policies to ensure that structural transformation is directly linked to urban-based development.

**14. Reducing circular debt.** The stock of and the recurrent inflows to circular debt have macroeconomic and sector effects. Circular debt undermines potential investments in the energy sector and the electricity subsector. As a result, energy prices tend to remain high, which push up input costs for economic production. In November 2019, the government adopted a comprehensive circular debt reduction plan for the energy sector. ADB will support the implementation of this plan with KPS to improve the financial sustainability of the sector. ADB will also share international good practices such as the experience of other countries in reforming their energy sectors.

**15. Investing in value-chain rural infrastructure development.** ADB will facilitate the rapid adoption of advanced technologies to improve the productivity and profitability of the agriculture sector in Pakistan. Through KPS, ADB will contribute to improving farmers' income, livelihoods in rural communities, and food security, and driving sustainable agriculture growth in the provinces. Pakistan experienced in 2020 the largest locust infestation in 25 years, which revealed significant technology and policy gaps in its federal, provincial, and district locust control capacities. Through KPS policy support, ADB will increase the government's preparedness for future locust attacks.

**16. Strengthening connectivity.** The Central Asia Regional Economic Cooperation (CAREC) Transport Strategy 2030,<sup>7</sup> endorsed in June 2019, aims to enhance connectivity and sustainability. KPS will support the five strategic pillars of roads and road asset management,

<sup>4</sup> Government of Pakistan, Ministry of National Health Services, Regulation and Coordination. 2020. *National Action Plan for Corona Virus Disease (COVID-19) Pakistan*. Islamabad.

<sup>5</sup> Government of Pakistan, Ministry of National Health Services, Regulation and Coordination. 2020. *Pakistan Preparedness & Response Plan COVID-19*. Islamabad (23 April).

<sup>6</sup> ADB. 2013. *Asia's Economic Transformation: Where to, How, and How Fast? The Key Indicators for Asia and the Pacific 2013*. 44th edition. Manila.

<sup>7</sup> CAREC. 2020. *CAREC Transport Strategy 2030*. Manila.

railways, cross-border transport and logistics, road safety, and aviation. In addition, ADB has been implementing TA projects dedicated to the development of economic corridors and special economic zones with the support of the Department for International Development of the United Kingdom. Various knowledge products also helped form the government's strategy for economic corridor development. Pakistan will continue to participate in high-level policy dialogues on regional connectivity and trade under the CAREC platform.

17. **Increasing access to finance.** Pakistan has taken steps toward achieving financial inclusion, i.e., to provide all citizens with affordable access to quality financial services, particularly the disadvantaged and low-income segments of society. ADB has various policy-based lending programs that focus on expanding access to finance, implementing a sound debt management strategy, and supporting private sector development. Through KPS, ADB will help policymakers find alternative ways of providing access to finance, draw up a solid debt management strategy by developing the government bond market, and facilitate private sector investment by mobilizing financial resources.

### **C. Areas of Collaboration with Partners**

18. In designing knowledge products, delivering policy advice, and facilitating cross-country knowledge sharing, ADB will sponsor a knowledge network of researchers on policy matters, comprising think tanks, universities, research centers, and civil society organizations to strengthen the relevance and impact of knowledge products. It will strive to foster the development of technical expertise among public institutions and independent development experts. Reflecting on the emerging demand for analytics, ADB will also engage other international institutions such as the CAREC Institute and the ADB Institute. In view of the vast demand for international experts and their expected influx through development partners, ADB will closely coordinate its advisory services with, among others, the International Monetary Fund, the World Bank, United Nations agencies, as well as bilateral donors such as the Foreign, Commonwealth & Development Office of the United Kingdom, Agence Française de Développement, the United States Agency for International Development, and the Japan International Cooperation Agency.

### **D. Resource Allocation**

19. The necessary resources for knowledge work under ADB's CPS for 2021–2025 will be sourced through country-specific TA and Regional TA. Development partner cofinancing and government cost-sharing will also be leveraged to support knowledge activities. Staff consultancy from ADB will be used to engage experts for the preparation and delivery of KPS.

### **E. Knowledge Competence or Expertise**

20. The CPS will draw on specialized skills and resources of ADB operations and support departments and the Department of Communications to deliver its knowledge solutions.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/CPS/?id=PAK-2021>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Indicative Country Operations Business Plan