

Chair's Summary for the 8 February 2019 Meeting

Sector Assistance Program Evaluation: ADB's Support to Pakistan Energy Sector (2005-2017)

1. The Development Effectiveness Committee (DEC) discussed the Independent Evaluation Department's (IED) report on Sector Assistance Program Evaluation (SAPE): ADB's Support to Pakistan's Energy Sector from 2005 to 2017 (evaluation period). The support amounted to \$7.76 billion (with \$6.17 billion committed and about \$3 billion disbursed) and covered 28 sovereign loans (\$5.43 billion), 12 non-sovereign operations or NSO (\$725 million), and 10 technical assistance (TA) projects (\$8.3 million).
2. **IED Findings and Recommendations.** Given the challenging conditions during the evaluation period, IED found the overall performance of ADB support to Pakistan Energy Sector as less than successful, and rated the support to its subsectors as follows: (a) Sector Reform (18% of support) – less than successful; (b) Generation from conventional sources (22%) – successful; (c) Transmission (22%) – successful; (d) Distribution (46%) – successful; and (e) Renewable Energy and Energy Efficiency (14%) – less than successful.
3. In terms of impact, IED found that ADB support (a) significantly contributed to reliability of power supply and to increase generation capacity; (b) modestly increased access to electricity and share of renewable energies; and (c) modestly increased the sector's financial sustainability with its circular debt issue.
4. IED recommended that ADB: (a) support improved governance in the power sector and interagency coordination; (b) assist Pakistan in addressing the accumulation of circular debt by targeting its underlying causes; (c) support long-term planning and improved management systems through TA and infrastructure investments; (d) strengthen support to clean energy and conservation through investment in renewable energies and energy efficiency, as well as by supporting enhanced policies and regulations; (e) support the development of a competitive electricity market and improved financial sustainability of the energy sector; (f) promote sovereign investments to lower the cost of base-load power generation, building on sound, integrated energy planning; (g) support implementation of an action plan for commercialization of distribution companies, including investments in efficient infrastructures, energy accounting, theft reduction, and market analysis; and (h) strengthen ADB's internal monitoring and reporting system to enable easy access and continuous ongoing management and reporting.
5. **Management Response.** Management appreciated IED's evaluation and accepted the SAPE's strategic and operational recommendations, particularly the recommendation to continue with sector-wide engagement underpinned by sector reforms, pointing that most of the recommendations are under implementation. Management will incorporate the SAPE's lessons, issues, and recommendations into the formulation of Pakistan's Country Business Operations Plan (COBP) for 2019-2021, and in the preparation of Pakistan's Country Partnership Strategy (CPS) for 2020-2024.
6. **DEC Discussion and Comments.** Recognizing the vital role of the energy sector to a country's development and that ADB support for Pakistan's energy sector is one of the ADB's largest investment in a single sector in a country at over \$7 billion, DEC welcomed the SAPE and thanked IED for the clear, balanced, and well-researched report, which also featured the successes and failures of ADB operations in Pakistan's energy sector. DEC pointed that the SAPE can be a valuable input to the IED's ongoing MFF evaluation, the new energy process, policy guidelines for

SOE assistance, and Pakistan CPS. DEC also welcomed Management's acceptance of the report's recommendations.

7. DEC suggested that IED incorporate or relate its analyses from past evaluations (e.g. on SOEs, agriculture, SMEs, etc.) to future evaluations to give DEC and other Board members a comprehensive view of the issues. Further, when concern over the length of the report was raised, IED pointed that the report, which contains a two-page evaluation brief and a nine-page executive summary, was prepared for various audiences, including those who might not read the report in its entirety.
8. **Comprehensive/integrated planning.** DEC pointed that ADB could have been more successful in its support if it had planned very large investments in the sector in a more integrated manner, which could be properly addressed in a comprehensive strategy linked to the next CPS. Further, DEC also noted the need for comprehensive planning in the location of private distribution and power plants as suggested in the report.
9. **Country Context.** DEC noted that the country context, political economy, country's fragility, security situation, as well as baseline data need to be considered in undertaking such evaluation and in understanding the evaluation's findings. IED pointed that while ADB operations was rated overall as less than successful in Pakistan's energy sector, no other development partner could have done better, adding that the factors underscored by DEC were well-considered and viewed as fundamental in undertaking the assessment.
10. **Positive outcomes.** DEC pointed that a key takeaway from the SAPE was that it presents how ADB projects are implemented in conflict areas, whose lessons could inform other member countries facing similar issues. Further, when asked about the lessons learned from the ADB's engagement in Pakistan's energy sector, IED explained that ADB needs to accept a higher rate of failure in difficult contexts, as well the need to be prepared for setbacks and the need to maintain continuity.
11. **Multi-tranche Financing Facility (MFFs).** Relative to the conclusion in the report that ADB support for renewable energy (Renewable Energy Development Sector Investment Program or REDSIP) and energy efficiency (Energy Efficiency Investment Program or EEIP) subsectors was less than successful due to failure of MFFs, a DEC member and Management presented an alternative explanation in that: (i) REDSIP was cancelled given the politically sensitive and security-challenged area in which it was implemented; and (ii) EEIP was cancelled due to the shift in government focus from energy efficiency to adding new generation capacity and expanding transmission/distribution.
12. With large volumes of MFF commitments undisbursed, the over-use or inappropriate use of MFFs was raised as a concern. When asked about plans for closure of unused MFFs, Management clarified that since some of the projects are still ongoing (e.g. distribution of and disposal mechanisms for compact fluorescent lamps or CFLs), it was unable to close the MFF or to undertake/initiate project completion reports.
13. DEC noted IED's upcoming review of the MFF modality which will underscore the need for good project/program design to be successful. To illustrate its point, IED clarified that MFF for the transmission subsector became successful due to the clarity of its design, while MFF for energy efficiency and renewable energy became unsuccessful as it lacked clarity in what or how the program will be implemented and by which government agencies.
14. **Coordination and Co-financing with other development partners.** DEC requested Management to discuss its efforts to coordinate and collaborate and co-finance with other development partners in undertaking energy sector reforms in Pakistan. Management explained

that ADB had been collaborating and coordinating with other development partners such as the World Bank, JICA and AFD in designing the reform program that started 2010, in which ADB provided TA support to establish a competitive electricity market, the World Bank helped in the restructuring of the gas sector, transmission and distribution gas companies; JICA was tasked to help in preparing the integrated plan for generation transmission integrate plan, long-term master plan, and AFD supported in preparing the rules for competitive bidding of hydro projects.

15. **Strategic Recommendation 2: Circular Debt.** DEC welcomed the report's detailed analysis and explanation of the circular debt problem, which was noted to have grown in complexity. Nevertheless, it was pointed that circular debt was peculiar to Pakistan's energy sector as most developing member countries experience reemergence of distortions and debt, which can be exacerbated by their macroeconomic conditions.
16. DEC asked Management to discuss the proposed policy-based loan (PBL) for Pakistan's energy sector (status of discussions with government on the policy actions, timing for board engagement, etc.) that will be presented for approval of the Board this year, which was noted to have been belatedly included in the COBP for 2019-2021 (that could be indicative of lack of strategic planning). Management informed DEC that it intends to address the circular debt issues through the programmatic approach under a PBL, which shall be underpinned by strong analytical work which incorporates lessons learnt from previous experience. In terms of PBL preparation, ADB will harmonize its approach and work closely with the World Bank and IMF, and once formulated, staff will brief Management and Board on the progress. Management clarified that the decision to include the PBL for the energy sector into the COBP arose from discussions with and request from government.
17. DEC further urged management that the next generation of policy reform interventions under the proposed PBL need to be well based on sector analysis that is current and well-consulted with the Board. Management explained that the NEPRA Act needs to go through the next phase of reforms to enable the government to address legacy issues and have the necessary tools to tackle the circular debt problem. TA support will be used towards revising the circular debt management plan to effectively address the problem through legislation and other implementation measures.
18. **Strategic Recommendation 3: Technical Assistance.** DEC raised concerns about adequacy of TA resources provided for knowledge-rated and capacity building work, which has serious implications on sustainability, and requested Management to comment on the continued underfunding of TA (in Pakistan's case, TA support disbursed was estimated at \$4.4 million or 0.15% of the \$2.9 billion sector investment over the evaluation period) and provide more information on the ongoing TA study. In response, Management views as important and regional departments take seriously the issue of allocating and prioritizing TA resources where they are critically needed. Management added that apart from hiring consultants, department staff with support from sector groups will provide government support (as in Papua New Guinea).
19. DEC noted that ADB's TA support was initially provided to establish a competitive electricity market in Pakistan (as part of programmatic approach with other development partners), and later was used to help the regulator to implement the NEPRA Act Amendment, as well as the Ministries of Finance, and Water and Power to undertake detailed analytical work on the circular debt problem and its causes. At government's request, TA support was extended to assist government in formulating energy policy, including renewable energy policy and an electricity plan for implementation in the next five years.
20. **Strategic Recommendation 4: Renewable Energy.** DEC noted the less than successful performance of projects in the renewable energy and energy efficiency subsectors, and asked Management how it would tackle these subsectors. For energy efficiency, Management has set up the national energy efficiency and conservation Authority (NEECA) mandated to coordinate all

energy conservation activities in Pakistan and asked for energy efficiency standards and labelling in key areas as policy action in the program loan. For renewable energy, Management pointed to a results-based loan (RBL) that calls for a revised renewable energy policy for Pakistan that will set specific renewable energy target in the country's energy mix.

21. When asked about details of renewable energy sources available in Pakistan and suggested remedies for renewable energy uptake, IED explained the renewable energy potential in Pakistan includes wind, solar, large hydropower, biogas, and biomass, which are difficult to be included in the energy mix due to the existing long-term power purchase agreements (PPAs) of government with independent power producers. IED underscored the need for more analytical work, better planning and more coordinated approach to formulate an overall plan of intervention for the renewable energy subsector in Pakistan.
22. **Operational Recommendation 1: Competitive Electricity Market.** When asked how a competitive electricity market could be created and if the requisites for such a market are in place in the country, IED pointed that the weakest subsector in the electricity market was distribution, and that state-owned distribution companies need to be commercialized but an essential first step was to create a competitive environment for distribution companies. IED also mentioned the need to establish an electricity market operator, the CPPA-G (Central power purchase agency), that is working on shifting from a single buyer model pursuant to long-term PPAs to a competitive model (one that is based on demand-supply balances).
23. **Operational Recommendation 4: Internal Monitoring and Reporting.** In reference to Table 2 in page 6 of the report, DEC members expressed disappointment that that no (or only two) project completion reports (PCRs) were prepared for the 12 years of ADB investment, despite seven projects having passed two years after their closing. DEC emphasized the importance of keeping the board updated on progress and status of projects, especially on risks as they evolve, and invited Management to explain, including how the rule for preparing PCRs was followed across ADB, if PCRs are prepared in time, and main reasons for delay.
24. Management confirmed that only two PCRs were completed and clarified that a loan account may be closed even if the project (or some component of the project) is still ongoing, which prevents PCR preparation from being triggered or initiated. Further, it pointed that some projects/programs were inter-related and that a consolidated PCR would provide better information. Management also clarified that a PCR is prepared at the end of each tranche of an MFF. Relative to ADB-wide practice on PCR preparation and completion, IED pointed that such data will be provided in the upcoming Annual Evaluation Report.
25. DEC noted the difficulty faced by the evaluation team in accessing and collecting basic project documents such as back-to-office reports and aide memoires and urged Management to address this issue to avoid these situations in the future.
26. Noting the huge gap in information about the progress of work in the sector and that discussions of the sector's performance would not have been possible if not for the evaluation requested by Board members, DEC urged Management to consider: (i) how it could keep the Board informed of the status of significant portfolios; (ii) reviewing the triggers for PCR completion to prevent procedural issues from denying transparency on important parts of the program for years, and (iii) earlier notice and engagement with the Board on new PBLs.
27. With very limited PCRs being validated for the evaluation and a large part of the portfolio still under implementation, a view was raised that the evaluation might be premature. IED pointed that the evaluation assessed ADB's performance (not the country's), noting the total disbursement for the evaluation period and duration of MFF completion.

28. **DEC Attendance, Discussants.** All DEC members were present: Executive Directors Syurkani Ishak Kasim (Chair), Shahid Mahmood, Anuar bin Ariffin, and Philip Rose, and Alternate Executive Directors Masahi Tanabe and Scott Dawson. Discussants include IED Director General Marvin Taylor-Dormond, IESP Principal Evaluation Specialist Kapil Thukral, IESP Evaluation Specialist Alfredo Bano Leal, CWRD Officer-in-Charge Takeo Konishi, IESP Director Nathan Subramaniam, CWEN Director Ashok Bhargava, CWEN Principal Energy Specialist Asad Aleem, SDCC Chief of Energy Sector Group Yongping Zhai, and Special Senior Advisor to the President Xianbin Yao.