Assessment of the Performance of the

Ministry of Water and Power Third Year of the Federal Government

June 5, 2015 – June 4, 2016

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Pakistan Institute of Legislative Development And Transparency

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Abbreviations and Acronyms

DISCO	Distribution Company
FY	Financial Year
IFI	International Finance Institution
IMF	International Monetary Fund
IPO	Initial Public Offering
MOW&P	Ministry of Water and Power
NEPRA	National Electric Power Regulatory Authority
NTDC	National Transmission and Despatch Company
PM	Prime Minister
PSE	Public Sector Enterprise(s)

PREFACE

Under our overall focus on Assessment the Quality of Governance in Pakistan, PILDAT assesses the performance of individual Ministries from time to time in order to provide the citizens with information on their role and working. The **Assessment of the Performance of the Ministry of Water and Power: June 2015 – June 2016** is the third report of its kind by PILDAT. This paper was preceded by an assessment of the Ministry of Federal Education and Professional training in the first year of the Government (2013-2014) and by an assessment of the Ministry of Inter-Provincial Coordination in the second year of the Government (2014-2015).

Authored by Ms. Nargis Sethi, Former Federal Secretary, Ministry of Water and Power, and based on an assessment framework prepared by PLDAT, the paper looks at the role and functions of the Ministry, its budgetary allocation set against targets, and comments on its performance during the third year of the Federal Government, i.e. 2015-2016.

PILDAT's initiative to assess the performance of the Ministries is designed as an effort to highlight areas of strengths and potential areas requiring improvement in the performance of Ministries based on the set goals and targets. The objective of this exercise is to facilitate citizens in making an informed judgement about the performance of public institutions and engage with them on required reform.

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Disclaimer
The author and PILDAT have made every effort to ensure the accuracy of data and assessment in this paper. Any error or omission therefore is not deliberate. The views expressed in the paper are those of the author and do not necessarily reflect the views of PILDAT.

Islamabad
February 2017

About the Author

Ms. Nargis Sethi has served at various key positions in the Federal Government throughout her 34 years of service in the Civil Services. She has served in the Ministry of Water and Power, the Cabinet Division, the Ministry of Defence, Ministry of National Health Services, Regulation and Coordination and the Economic Affairs Division. Ms. Sethi has also had the distinction of serving as the Principal Secretary to the Prime Minister of Pakistan from 2009 to 2011 and also served in the Ministry of Defence (Aviation) from 1994 to 2001 as Deputy Secretary and Joint Secretary Aviation.

As a practitioner of public policy, Ms. Sethi strongly feels that public officials have the ability to impact and enrich the lives of millions of people. She is now pursuing her passion for public service through writing and speaking on different aspects of public policy and its implementation.

Executive Summary

This paper aims at assessing the performance of the Ministry of Water & Power (MOW&P) during the Financial Year (FY) ending June 2016. The assessment is based on the commitments made by the Government to overcome the energy crisis in the short run.

After assuming office in June 2013, the PML-N Government introduced the National Power Policy, 2013. In the short term, the Policy aims to build an affordable, reliable, sustainable, and secure energy sector that would relieve citizens of daily blackouts; in the medium to long term, the Policy's goal is to support the country's economic growth. The Ministry of Water and Power (MOW&P) is the major player in implementing this Policy, while the Cabinet Committee on Energy (CCE) Chaired by the Prime Minister oversees and monitors the Ministry's progress.

The author has identified in the report the following major challenges that the Federal Government faces with regards to electricity production and generation:

1. The Deterioration in Energy Mix which is causing:
   a. Increase in Electricity Generation cost
   b. Shortage of Electricity due to insufficient available generation to meet the demand
2. Inefficiencies and high cost of electricity generation
3. Inefficiencies in Transmission and Distribution of electricity in terms of higher losses
4. Regulatory deficiencies in full recovery of the cost of service
5. Mounting 'circular' debt
6. Heavy reliance on subsidies and shortage of funds for subsidies

The issues indicated are primarily structural in nature, while two overlap with governance. The ADB Board in October 2015 approved the Sub-program 2 of the Sustainable Energy Sector Reform Program[1] under its programmatic approach of Policy-Based Lending. The Board document highlighted three constraints to improved sector performance: the gap between the end-user tariff and the cost recovery tariff; insufficient investment and private sector participation due to concerns about electricity payments, and lack of transparency.

A key recurring factor that has impeded progress in tackling the electricity crisis has been the issue of "circular debt". The issue is primarily of a cash flow problem that leads to operational inefficiencies and liquidity constraints as it cascades down to other components of the payment chain.

The present crisis started in 2006-2007 with a gradual widening gap between the demand and supply of electricity. This gap has been constantly on the rise and has now reached an alarming level.

Pakistan's energy crisis is more entrenched in poor governance rather than in simple shortage of actual generation of electricity. The situation may move towards some kind of a resolution if adhoc and crisis-driven decision-making is avoided in favour of holistic and comprehensive planning by those who are responsible for decision making in this sector. Political interference without adequate professional input leads to inconsistent policy-making resulting in waste of resources and time. The following steps may be taken to improve the situation:

i. A Ministry of Energy needs to be created through merger of Ministry of Water and Power and Ministry of Petroleum and Natural Resources.
ii. Secretary of the proposed Ministry of Energy should be a competent and bold individual with full powers and authority to take independent decisions.
iii. There should be a full-time Minister for this Ministry and not someone who is heading the ministry as an additional charge.
iv. Political interference in Ministry's affairs be avoided at all costs.

1. ADB Proposed Policy-Based Loans for Subprogram 2 Islamic Republic of Pakistan: Sustainable Energy Sector Reform Program, October 2015

v. Immediate attention is required to the governance issues in this sector; otherwise all the addition in generation and transmission will not bear any fruits for the consumers.

vi. Circular debt is one of the most critical issues in the energy sector. This issue can be partly resolved with measures like targeting subsidies and recovering losses. To fully resolve the problem the sector's payment mechanism must be automated leading to transparency.

vii. Conservation in the use of energy can reduce supply-demand gap. The energy saving potential is estimated around 2,250 MW. Improving energy efficiency and loss reduction programme have the lowest incremental cost but unfortunately has not been accorded the same priority as new supply line and generation initiatives.

viii. There should be a greater focus on provision of electricity to the rural population as progress against socio-economic indicators is linked with the same.

ix. Regulatory Authorities like NEPRA and OGRA must be strengthened and should be allowed to function independently without directions from Federal Government to ensure transparency in their decision-making.

June 5, 2015 – June 4, 2016

Introduction

Pakistan has for the past two decades faced serious energy crises in the form of power and gas shortages. Meanwhile, negligence in this sector by successive governments has continued to cost Pakistan's economy approximately 2% of GDP annually. Numerous solutions and proposed recommendations over time to resolve energy crises have been strikingly similar. This paper aims at assessing the performance of the Ministry of Water & Power (MOW&P) during the Financial Year (FY) ending June 2016.

After assuming office in June 2013, the PML-N Government introduced the National Power Policy, 2013. In the short term, the Policy aims to build an affordable, reliable, sustainable, and secure energy sector that would relieve citizens of daily blackouts; in the medium to long term, the Policy's goal is to support the country's economic growth. The Ministry of Water and Power (MOW&P) is the major player in implementing this Policy, while the Cabinet Committee on Energy (CCE) Chaired by the Prime Minister oversees and monitors the Ministry's progress. So far, over two-dozen meetings of the CCE have been held. The commitment is noble and the task arduous; however, the short-term results have been mixed. In the meanwhile, the miseries for average Pakistanis' continue unabated.

The assessment of the (MOW&P) during FY-2015-16[2] is based on the commitments made by the Government to overcome the energy crisis in the short run. Moreover, agreements signed with different international finance institutions (IFIs) and development partners[3] over the medium to long term will also be evaluated, since these institutions have been lending extensively in the hope that the Government would undertake reforms.

Judging by the public sentiment, the short term measures of providing relief from long hours of load shedding, improving service delivery and governance have not entirely yielded the desired results.[4] Going by the external funding in the energy sector in the past three years (Table 1) and the successful completion of the recently concluded IMF[5] programme, the initiation of structural reforms of the Public Sector Enterprises (PSEs) associated with the power sector seem to have commenced to the satisfaction of the international development partners. .

2. The Financial Year in GOP runs from Jul-1 to Jun-30
3. (i) US $ 500m World Bank 2nd Power Sector Reform DPC, Oct-2015 Para3.2 sub-Para 31 P-14, (ii) Pakistan Comp & Growth DPC P Box.1 P18 Jun 2016 (between Jun-2015-May 2016 US$ 1.5b) (iii) ADB's Sustainable Energy Sector Reform Program., Pak Power Transmission System MFF, US $ 810m, Oct-2015 para6, P-2.
4. "Electricity Production & Management" received a 38% Approval Rating as per PILDAT's Public Opinion Poll on the Quality of Governance, 2015-16
5. IMF $6.7 billion, 36-month program under EFF that amongst other reforms, aims to restructure and privatize PSEs to lower the fiscal deficit to a sustainable level.

Table 1: External Funding to Pakistan's Energy Sector

No.	FY	Energy/Power Sector Disbursements (US$ million)	Percentage of Total Disbursements
1.	2013-2014	1,326.38	19
2	2014-2015	1,335.95	23
3.	2015-2016	1,905.51	25

Table 2: Ministry of Water and Power's Reasons for Energy Crisis

Sr. No.	Issue responsible for Energy Crisis	Type of Issue
1.	Deterioration in Energy Mix is causing: a. Increase in Electricity Generation cost b. Shortage of Electricity due to insufficient available generation to supply the demand	Structural
2.	Inefficiencies and high cost of electricity generation	Governance/Structural
3.	Inefficiencies in Transmission and Distribution of electricity in terms of higher losses	Governance/Structural
4.	Regulatory deficiencies in full recovery of the cost of service	Structural
5.	Mounting circular debt	Structural
6.	Heavy Reliance on Subsidies and shortage of budget for them	Structural

Diagnosis

There are a number of diagnostic studies on the power sector in Pakistan. Since the performance of the MOW&P is being assessed, it is pertinent to study the findings of one of the Ministry's own reports (Quarterly Performance Report-Power Distribution Companies, 2016)[6] of the reasons for the energy crisis in Pakistan. In Table 2, the issues discussed in the report have been identified and a corresponding column has been added to clarify the type of the issue this is.

The issues indicated in Table 2 are primarily structural in nature, while two overlap with governance. It is pertinent to mention here that as a follow up to the Government's Energy Policy 2013, the ADB Board in October 2015 approved the Sub-program 2 of the Sustainable Energy Sector Reform Program[7] under its programmatic approach of Policy-Based Lending. The Board document highlighted three constraints to improved sector performance: the gap between the end-user tariff and the cost recovery tariff, insufficient investment and private sector participation, due to concerns about electricity payments, and a lack of transparency. Earlier, the Sub-program 1 had voiced similar concerns and had proposed to outsource revenue collection to the private sector.

The aforementioned Ministry report also highlights certain steps taken by the Government to meet the challenges mentioned in Table 2 whilst also to bringing liquidity in the sector and plugging the drain on resources. The measures are outlined in Table 3, where the right-most column has been added to categorize them as short/medium term or long term.

6. Quarterly Performance Report-Power Distribution Companies, Jan-Mar, 2016
7. ADB Proposed Policy-Based Loans for Subprogram 2 Islamic Republic of Pakistan: Sustainable Energy Sector Reform Program, October 2015

Table 3: Necessary Steps to Meet Challenges of Energy Crisis

Sr. No.	Steps to achieve objectives	Category
1.	Bringing existing capacity online	Short/Medium term
2.	Stopping pilferages in recoveries and reducing losses	Short/Medium term
3.	Rationalization of Tariff	Short term
4.	Implementing Performance Contracts and governance of the sectoral entities	Short term
5.	Enhancing transparency and accountability through open access to information and public outreach	Continuous

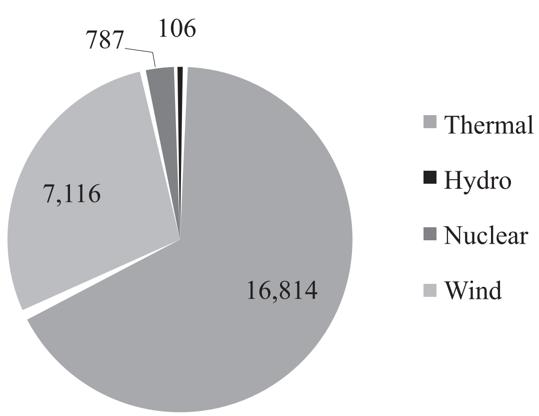
The first reason stated by the MOW&P for the energy crisis is a deteriorating energy mix, which in turn has led to a higher cost of generation and a shortage of electricity due to insufficient generation. Figures[8] illustrate the position over the first and the second year of the Federal Government (i.e., 2013-2014 and 2014-2015, respectively). The situation during 2015-2016 is no different.

To analyse this aspect in the proper context, one has to take stock of some historical facts. Pakistan's lack of fiscal capacity to develop power/energy infrastructure has meant that it has relied on foreign funding in this regard. IFIs like the World Bank have always favoured promoting the private sector,[9] which has tended to incline towards thermal power, which in Pakistan has historically been fuelled by crude oil. This has led to a shift from hydro to thermal power generation, which occurred during the late 1980s and has continued to rise ever since; Figure 1 and Figure 2 clearly illustrate that thermal generation is occupying the lion's share of the source of electricity production in Pakistan.

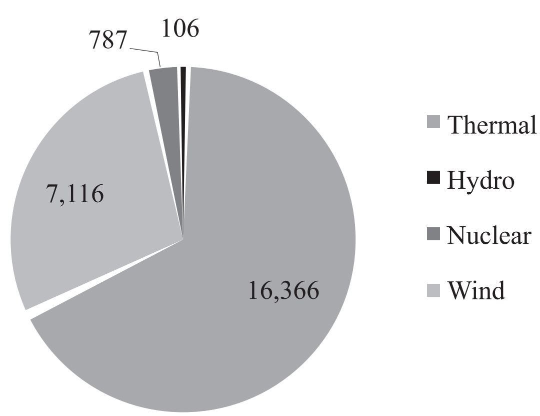
As a primary resource of electricity production in the country, the price of crude oil has always burdened Pakistan's imports. However, the cost of crude oil per barrel has fallen considerably in recent years, from US$ 110 in 2013-2014 to US$ 50.36 per barrel as of June 2016 (Figure 3). This has had a positive impact for Pakistan as it has reduced the pressure on the country's current account deficit and will also positively affect cost of electricity production. However, as per the IMF's staff report in its 7th review, subsidies to the power sector remain high, despite the drop in crude prices.[10] The question remains that have we used this opportunity to our advantage by creating a reserve fund for future shocks.

Figure 1: Pakistan's Energy Mix at A Glance

2013-2014
Electricity Generation Mix
(24,375 MW)

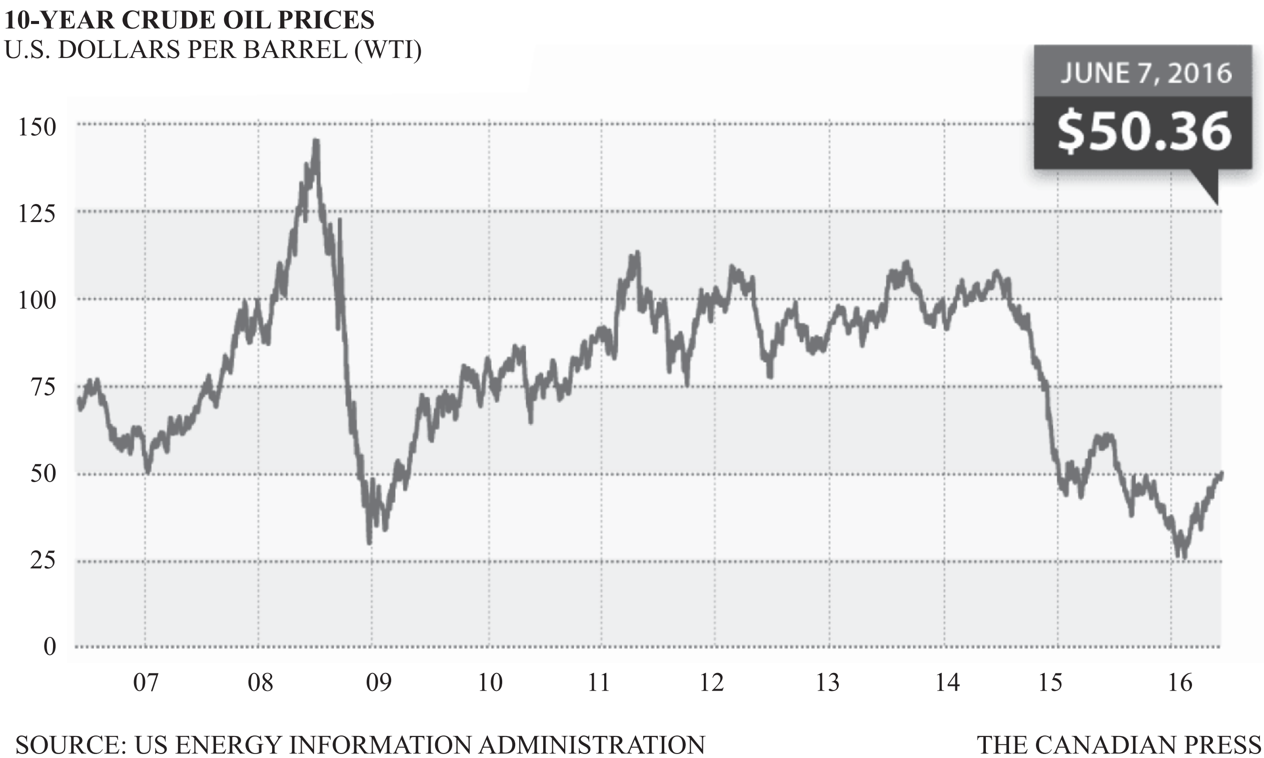


2014-2015
Electricity Generation Mix
(24,823 MW)



8. State of the Industry Report, 2014 & 2015, NEPRA
9. World Bank Report No:34943 'Country Assistance Evaluation' Feb 2006.
10. IMF Country Report No. 15/162, Jun 2015

Figure 2: 10-Year International Crude Oil Prices



It is pertinent to note that, as part of its plan to enhance the installed generation capacity of electricity by 1,027MW during 2015-2016, the Federal Government added a total of 402.66 MW[11] to the national grid, with hydro power being the third largest contributor of the increase (Table 4).

The second point in Table 2, inefficiencies and high cost of generation, relates to substandard maintenance of plants and machinery, which is mainly a spill-over of poor governance as it relates to regulatory inefficiency. With the fall in crude oil process, this factor does not carry the same weight as the other reasons cited in Table 2. After the passage of the National Energy Efficiency & Conservation Act 2016, the MOW&P through its affiliate National Energy Efficiency and Conservation Authority (NEECA) – formerly the National Energy Conservation Centre (ENERCON) – should adequately disseminate the Policy and promote the culture of Energy Audit. This surely is a governance issue where the MOW&P seems to drag its feet.

With regards to point number three in Table 2, there has long been a debate on whether the installed capacity, if fully generated, can be efficiently transmitted through the existing dilapidated transmission and distribution system. A major contributing factor to transmission losses is systematic theft that goes unchecked from the time electricity is provided by NTDC to the distribution companies (DISCOs), whereas circular debt and low recoveries due to weak governance further exacerbate the situation. Glaring episodes of inefficiencies (theft) that add to the cost as unaccounted loss were observed during spot/surprise checking as well as a daily strict monitoring mechanism that was introduced in the MOW&P some years ago.

The Quarterly Performance Report of the Distribution Companies issued by the MOW&P[12] sheds more light on these aspects. According to the report, attempts at reduction of losses and improvement of collections have continued to show good results during FY 2015-2016 (Table 5). This was done through capital expenditures to strengthen infrastructure, and through revenue-based load management. As a result of these efforts, the overall system losses during FY 2015-2016 declined compared to FY 2014-2015.

11. M/O Planning Development & Reform, Annual Plan 2016-17, Page 142 Table-1
12. Quarterly Performance Report-Power Distribution Companies Jan-Mar 2016 MOW&P, (Ministry's website)

Table 4: Addition to Electricity Generation Capacity in Pakistan

Planned addition of Installed Generation Capacity 2015-16		
Type	Proposed addition of MW	Actual addition of MW
Wind	179.5	179.5
Bagasse	107.4	107.4
Nuclear	340	-
Solar	300	-
Gas	100	-
Hydel	-	115.7
	1026.9	402.6

Table 5: Ministry of Water and Power's Progress on Key Challenges of Energy Crisis

Activity	2014-15	2015-16*	Remarks
Over all T&D system losses	18.7%	17.9%	The decline by -0.8% reflects marginal improvement through better monitoring and management of DISCOs performance
Company wise recovery ratio of billed verses collected	83.2%	94.6%	Reflects efforts to recover arrears, resolve litigation with consumers, provision of incentives to collectors. Better load management has led to an increase of 5.9%
Aggregated commercial and technical losses	28.2%	23.4%**	Unprecedented improvement of -4.8 % not only in Pakistan but in the region
* IMF Staff Report 12th Review, Attachment; performance of power sector P.58 Oct 2016 ** Quarterly Performance Report-Power Distribution Companies Jan-Mar 2016 MOW&P, (Ministry's website)			

Going by this information, the first two steps outlined in Table 3 – i.e., to bring existing capacity online and to reduce pilferages in recovery and reduce transmission and distribution losses – appear to be doing well. The MOW&P may be commended on this effort, as there has been an improvement of 1.3 percentage points in transmission/distribution losses and also of 5.9 percentage points recoveries when compared to the same period in 2014-2015.[13]

It is evident, then, that the billing system through mobile meter reading, which has been introduced in all DISCOs, is bearing good results. As a result of image printing, it has reduced the workload in the meter

13. Quarterly Performance Report-Power Distribution Companies Jan-Mar 2016 MOW&P, (Ministry's website)

reading sections, and has to a great extent illuminated the less/excess charging at the will of the meter reader and has remarkably reduced losses due to timely reporting. This plan was adopted in late 2015 and included steps to improve collections and reduce operating costs, losses, and price distortions in the tariff structure.

The MOW&P Quarterly Performance Report-Power Distribution Companies Jan-Mar 2016 also notes that load shedding has decreased in FY 2015-2016 (illustrated by Figure 3) while unscheduled power outages have been eliminated altogether.

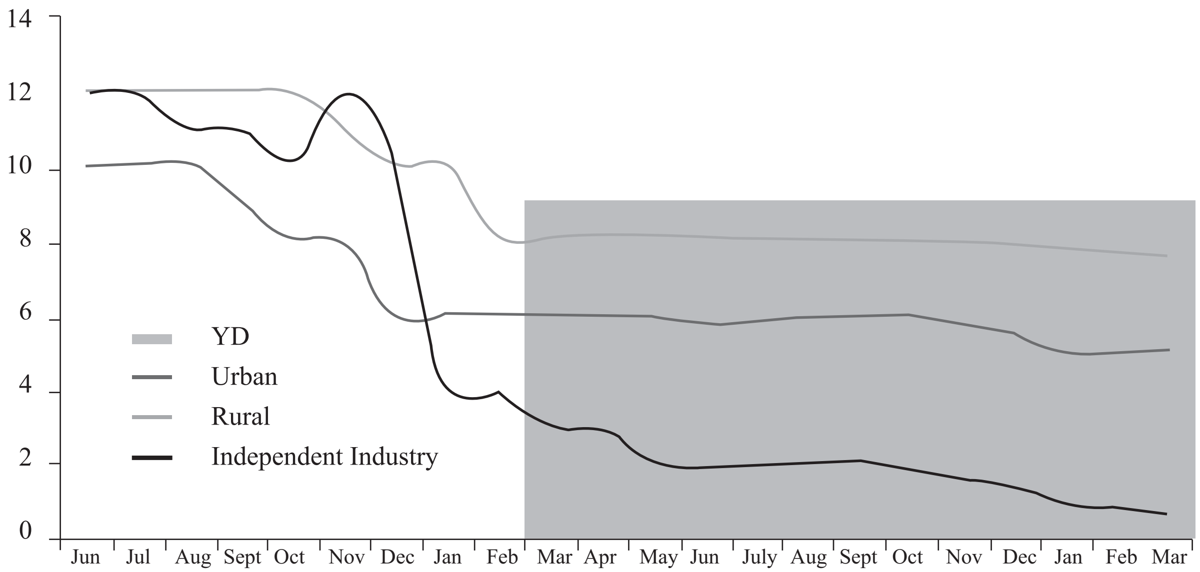
According to the report, measures taken by the MOW&P during the FY 2015-16 have yielded a reduction in load shedding. Even if we discount the print and electronic media reports and the agitation by people in different cities on the issue of power outages, the truth lies somewhere in between. The question is whether these steps have provided real time relief to the people in terms of reduced as well as scheduled load shedding. The MOW&P claimed that load shedding has been reduced during 2015-2016. However both print and electronic media continued to carry stories of load shedding and showed people demonstrating against long hours of 'unscheduled' outages. On the other hand commitments made with IFIs to improve performance were met which led to releases of tranche. As such while measures carried out by the Government fully met the requirements of the donors, they partially addressed the needs of the people.

Mounting Circular Debt

A key recurring factor that has impeded progress in tackling the electricity crisis has been the issue of "circular debt". The issue is primarily of a cash flow problem that leads to operational inefficiencies and liquidity constraints as it cascades down to other components of the payment chain. An IMF report from January 2014[14] acknowledged the Government's efforts of adding to the supply of electricity and containing accumulation of arrears, stating that the clearance of "Rs. 480 billion of payment arrears helped companies to honor their fuel bills, repay working capital credit lines, and increase generation capacity utilization."

However, the report also noted that unless prices were fully aligned with generation costs, circular debt would emerge again. As such, with estimated arrears of Rs. 117 billion in September 2014, other structural measures including, initiation of the process of privatization of some distribution companies, was expected to tackle this issue. The 2014-2015 Economic Survey of Pakistan stated that the level of circular debt in the year was around Rs. 250 billion "including Current Payable."[15]

Figure 3: Decline in Load Shedding



14. IMF staff report 1st Review Jan 2014, Para 32, p18.
15. Economic Survey of Pakistan, Energy, 2014-15

In June 2015, the IMF in its staff report during the 7th review observed that, because the country's power sector does not operate at cost recovery levels, existing power generation capacity is underutilized and arrears increase. This, the report posits, is what makes Pakistan's power sector a “bottleneck for growth and a drain on public resources.”[16] Another key point made by the report is related to the cost of producing electricity, which is illustrated by the Figure 4.

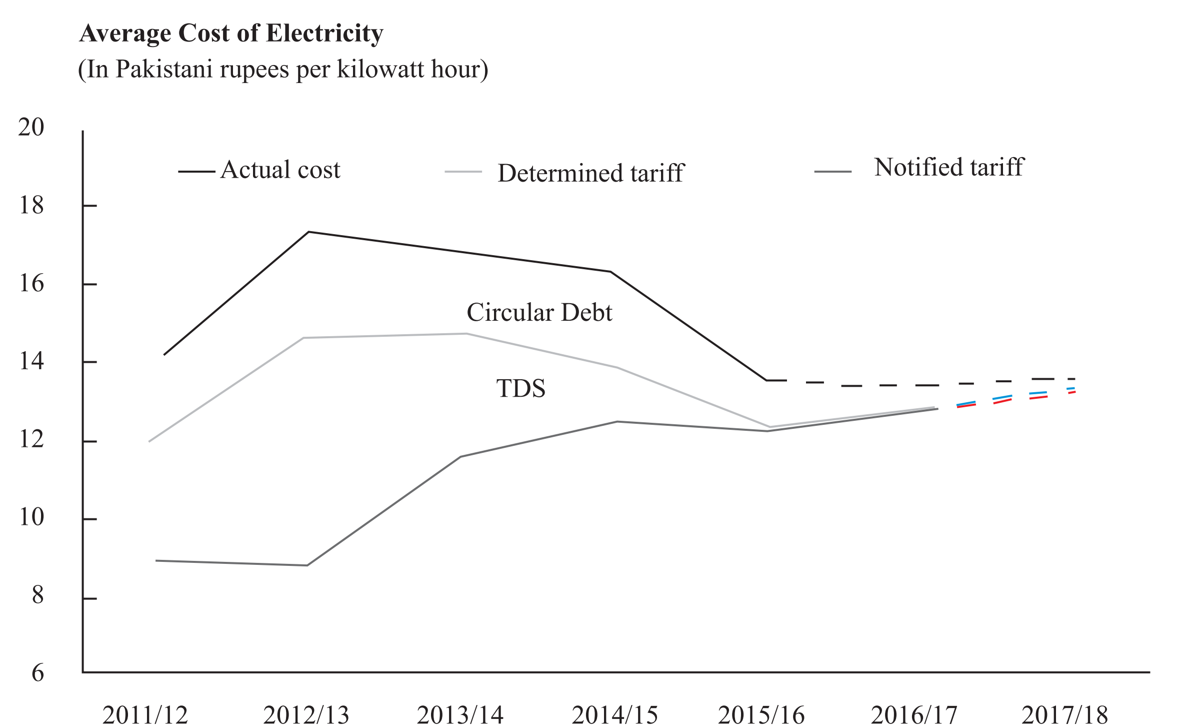
Thus, at the beginning of the Government's third year in office, the IMF, in its capacity of overseeing the economic recovery and monitoring progress on the structural reforms in Pakistan, was not overly impressed with the outcome. It may be noted that in the absence of availability of official data, one is constrained to quote from official public documents of the IMF, which are based on information provided by the Government of Pakistan.

Table 6 provides an overview of the stock and flow of payables in the power sector, compiled by the IMF.[17]

2015 to Rs. 321 billion in June 2016. If the stock at PHCL of Rs. 335 billion is added the total as in June 2016 comes to Rs. 656 billion. If we compare this with total figure of Rs. 597 billion in Jan 2014 (Rs.480 billion clearance of arrears + determined arrears of Rs. 117 billion) the stock of outstanding circular debt has risen by Rs. 59 billion.

However, making most of the favourably depressed international oil prices, continuous monitoring by the Prime Minister through the forum of CCE and rigorous efforts of the Finance Minister to comply with international commitments has augured well for the power sector. The IMF in its Staff Report[18] under the 11th EFF review pointed towards the improved performance of distribution companies. It stated that under the program's quarterly review:

“*The indicative targets (IT) for end March 2016 on the accumulation of power sector arrears was met with a large margin, owing to the positive impact of low oil prices, significant strengthening in collection rates,*



Sources: Pakistani authorities; and IMF staff calculations.

16. IMF Country Report No. 15/162, Jun 2015
17. IMF Country Report No. 16/325 Attachment-P.57-58, Oct 2016
18. IMF Country Report No. 16/207,D. Structural Issues Para 23, June 2016

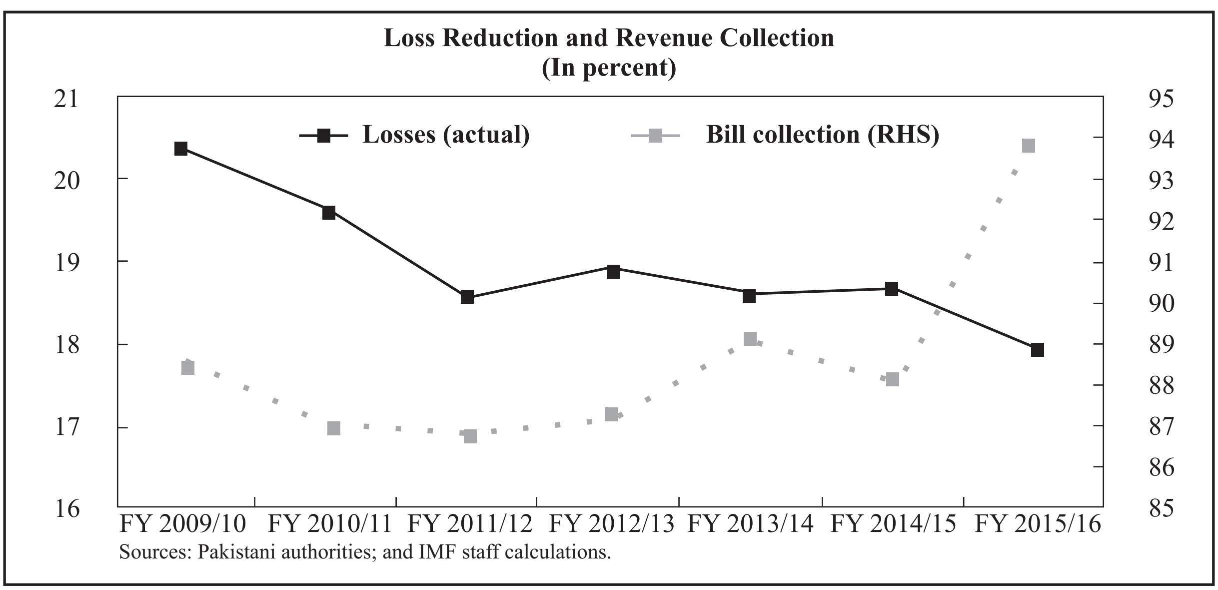
and further loss reduction."

The report also refers to Para 34 of the Memorandum of Economic and Financial Policies (MEFP)[19] in which the government reiterates its commitment of updating the plan for reducing the accumulation of payable arrears and gradually eliminating the outstanding stock. The following graph indicates improved loss reduction and revenue collection.

Table 6: Overview of Stock and Flow of Payables in Pakistan's Energy Sector

(In Billion PRs)1/	2015/16								2014/15	2015/16
	Q1		Q2		Q3		Q4			
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Total	Total
Non-recoveries	16	37	12	(6)	16.00	3.0	19	12	104	46
Accrued Markup	-	-	-	-	-		-	-	23	
Excess Line Losses	11	22	(3)	(8)	0.40	(2.7)	4	5	50	17
GST Non Refund	-	-	-	-	-		-		14	
Late Payment Surcharge	1		1				1		8	
Delay Determinations	3	-	3	-	-		-		11	
Row (under arrears plan)	31	59	13	(13)	16	0.3	23	17	210	63
Operational deficit/s urplus of the system		10		15		36	3	(18)	n.a.	43
Impact of oil prices		(56)		(20)	(2)	(29)	(8)	(14)	n.a.	(119)
Others 1/		(4)		18		12		19	n.a.	45
Stock clearance	47	4	63	-	-	(14)	-	(15)	n.a.	(25)
Total Flow		13		0	15	5	18	(10)	48	8
Total (Stock)	297	326	287	326	341	331	350	321	313	321

Figure 5: Loss Reduction and Revenue Collection (%)



19. Para 34, Page 49, MEFP, IMF Country Report No. 16/207, June 2016

The MOW&P's efforts in reducing the outstanding stock of power sector arrears and significantly reducing the pace of new accumulations is noteworthy. However, the restructuring of PSEs through privatization under the reform program encountered political opposition and social tensions. As a result, the Government has for now put on hold the plan for an outright privatization of DISCOs. Instead, it is moving ahead with a more socially acceptable way through Initial Public Offering (IPO) for a minority share. For this purpose, expression of interest has been solicited for divestment of the Kot Addu Power Company. The transaction is expected to be completed by March 2017. Additionally, work on conducting IPOs for Faisalabad Electric Supply Company (FESCO), Islamabad Electric Supply Company (IESCO) and Lahore Electric Supply (LESCO) are also targeted for completion by end of FY 2016/17.[20] Commitment for seeking participation from the private sector over the medium term has also been made.

Budget

A budget allocation to ministries, divisions and attached departments is made under two categories, which are current and development expenditure. While current expenditure covers the day to day running of the ministry including salaries of employees, the development expenditure is allocated as part of the Public Sector Development Program (PSDP). Thus while evaluating the performance of MOW&P during 2015-16, the focus would be on the utilization of its PSDP allocations.

The Planning Commission of Pakistan follows a mechanism for the release PSDP funds. The practice has been the same as last year of releasing 20 percent of funds in first quarter (July September), 20 percent in second quarter (October December), 30 percent in 3rd quarter (January March) and 30 percent in fourth quarter (April June). The following table has been prepared using data from the PSDP document published by the Government.[21]

Looking at the above table, there is a slight improvement in the total expenditure. This could be the result of continuous monitoring by the PM through CCE. However the utilization of foreign assistance remains very poor. Undisbursed Loans from multi-laterals have a cost in the shape of commitment charges.

Table 7: Budget *(Rs. Millions)*

S.No.	Item	2014-15	2015-16
1.	Total cost Hydel Projects (on-going & new)	3,242,753.910	3,372626.730
2.	Foreign Assistance	1,252,571.734	1,271,600.324
3.	Rupee Component	1,990,182.176	2,101.026.406
4.	Total expenditure up to June 30	304,948.444	439,587.854
5.	Total expenditure as percentage of total cost	9.4%	13.03%
6.	Total expenditure as percentage of Rupee component	15.3%	20.92%

20. IMF Country Report No. 16/325 Structural Issues Para 27, 4th bullet, Oct 2016
21. PSDP 2015-16 & 16-17

Conclusion

Based on the parameter of providing relief to the people from load shedding on the back of depressed international oil prices, the overall performance assessment of the MOW&P during 2015-2016 can be termed as moderately satisfactory. While providing marginal relief of load shedding in the urban areas, the overall situation could have been far better with continuous supervision and governance. According to assessments, Pakistan has a de-rated generation capacity of around 19,000 MW. However, optimal capacity cannot be utilized due to poor transmission network. While funding from a number of donors like ADB and China is available for this purpose, the Government focus appears to be on generation. Unless simultaneous work on both sectors is not coordinated, Pakistan could again end up with excess generation like in the 1990s as evacuation of additional generation will be difficult.

Measuring performance on meeting international commitments, with outright support from the Ministry of Finance, quantitative international commitments were met. However, for gaining long term dividends and sustaining improvements, the Government in general and the MOW&P in particular will have to move beyond window dressing and undertake structural measures to address structural problems.

The expansion of generation capacity will require commensurate upgrades of transmission and distribution networks. According to the World Bank's Pakistan development update of April 2016, adequate level of investments in distribution is linked with the timing of privatization of DISCOs since new owners would be required to implement investment program as a condition of purchase. With divestment through IPOs, the situation would change and DISCOs would have to depend on public funding which faces fiscal constraints.

In terms of tariff rationalization and provision of relief to citizens following the fall in oil prices during 2015-2016, the MOW&P's output was contingent upon a number of variables that were at times far beyond its control. National Electric Power Regulatory Authority (NEPRA) as an independent regulator determines the tariff. These have to be notified by the Government to become effective political compulsions and court judgments from time to time impact the Ministry's ability to implement.

In June 2015, the Government under international commitments[22] agreed to reduce electricity subsidies to 0.3 percent of GDP during the FY 2015-2016. This was based on the tariff notified by NEPRA in June 2015. The government in June 2016 reiterated its commitment of 0.3 percent.[23] The achievement of this outcome can be credited to the perseverance and successful completion of the IMF program spearheaded by the Ministry of Finance under the tutelage of the Finance Minister rather than the concerned ministry.

One can say that the short-term commitments to alleviate the sufferings of the common man may have marginally improved during FY 2015-2016 compared to the previous year. This has been made possible due to efforts of the MOW&P through increased monitoring due to the impact of low international crude oil prices. The Government has been able to keep the arrears under manageable levels, which helped the independent power producers to keep afloat. However sustained solutions to tackle the energy crisis in Pakistan would need more than just low international oil prices. Structural reforms, simultaneous investment in transmission infrastructure, measures to improve governance and institute transparency in metering system would have to be adopted. The IMF in its final assessment of the energy sector has also voiced similar sentiments.[24]

22. MEFP Para 28, IMF Country Report No. 15/162, June 2015
23. MEFP Para 33, IMF Country Report No. 16/207, June 2016
24. IMF Country Report No. 16/325 Structural Issues Para 6, P 6, Oct 2016

Recommendations

Pakistan went through surplus of electricity from the late 1990 to 2004-2005. The present crisis started in 2006-2007 with a gradual widening in the demand and supply of electricity. This gap has been constantly on the rise and has now reached an alarming level. The mere addition of generation capacity and building of new power plants will not resolve the energy crisis in Pakistan. Though the oil prices have been very low for the last more than two years yet we have been facing load shedding of five to eight hours in urban areas and of eight to fourteen hours in rural areas as the overall energy deficit remains around thirty to forty percent of the total demand depending on the time of the year.

1. Pakistan's energy crisis is more entrenched in poor governance rather than in simple shortage of actual generation of electricity. The situation may move towards some kind of a resolution if adhoc and crisis driven decision making is avoided in favour of holistic and comprehensive planning by those who are responsible for decision making in this sector. We have witnessed that political interference without adequate professional input leads to inconsistent policy making resulting in waste of resources and time.

2. The current Government has accorded great attention to the energy crisis in line with its election manifesto of resolving the electricity load shedding issue in the country. Unfortunately its approach to its resolution has not been very professional. There are too many people and entities in the Government who are impacting decision making in this sector. The following steps may be taken to improve the situation:

i. A Ministry of Energy needs to be created through merger of Ministry of Water and Power and Ministry of Petroleum and Natural Resources.
ii. Secretary of this Ministry should be a competent and bold individual with full powers and authority to take independent decisions.
iii. There should be a full fledged Minister for this Ministry.
iv. Political interference in Ministry's affairs be avoided at all costs.
v. Immediate attention is required to the governance issues in this sector; otherwise all the addition in generation and transmission will not bear any fruits for the consumers.
vi. Circular debt is one of the most critical issues in the energy sector. This issue can be partly resolved with measures like targeting subsidies and recovering losses. To fully resolve the problem the sector's payment mechanism must be automated leading to transparency.
vii. Conservation in the use of energy can generate substantial gains in supply, thus automatically reducing supply demand gap. The energy saving potential is estimated around 2250 MW. Improving energy efficiency and loss reduction programme have the lowest incremental cost - unfortunately has not been accorded the same priority as new supply line initiatives.
viii. There should be focus on provision of electricity to the rural population as progress against socio economic indicators is linked with the same.
ix. Regulatory Authorities like NEPRA and OGRA must be strengthened and should be allowed to function independently without directions from Federal Government to ensure transparency in their decision making.

3. Reforms in the energy/power sector are key to the smooth implementation of energy policies as well as to overall economic development across the country. The measures elaborated in preceding paragraphs above have the potential to address Pakistan energy/power challenges.

APPENDICES

Annexure 1 (i)

Annexure 1 (i)World Bank 2nd Power Sector Reform DPC, Oct-2015 Para3.2 sub-Para 31 P-14

3.2. The Government's Policy and Program for the Electric Power Sector

31. **Pakistan's goal is to develop an efficient and consumer oriented electric power system that meets the needs of its people and economy sustainably and affordably.** The three guiding principles of the 2013 National Power Policy are efficiency, competition and sustainability, and it focuses on the five targets set out in Table 4.

Table 4: The Five Targets of the National Power Policy (July 2013)

Target	Current Situation	Goal and date
Decrease gap between supply and demand	4,500 – 5,000 MW shortfall	Reduce to zero by 2017
Improve affordability by decreasing cost of generation	Average generation cost 12 US¢/kWh	Reduce average generation cost to 10 US¢/kWh by 2017
Decrease aggregate technical and commercial transmission and distribution (T&D) losses	T&D losses currently about 23-25 percent	Reduce T&D losses to about 16 percent by 2017
Improve collection of billed electricity	Collections are currently about 85 percent of billing	Increase collections to 95 percent of billing
Improve governance by decreasing decision making times at Ministries, related departments and regulators	Slow decision making	Shorter processing times (goal yet to be established)

Annexure 1 (ii)

Box 1: Key Economic Priorities of the Government's Program

The Government's economic reform program focuses on macroeconomic stability, aiming at bringing inflation down to 6–7 percent and achieving growth rate targets of 6–7 percent by FY17/18 or earlier. To do this, it has laid out the following policy agenda:

Stabilization

Fiscal consolidation. Reducing the fiscal deficit from 8.3 percent of GDP in FY12/13 to 3.5-4 percent in FY16/17 by increasing revenues by around 3 percent of GDP, eliminating tax exemptions, imposing austerity in non-social expenditure outlays, reducing subsidies and improving debt management.
Rebuilding external reserves to no less than 3 months of imports along with prudence in monetary policy. Scaling back monetary accommodation of fiscal deficits and setting up policy rates to keep positive real interest rates; strengthening the central bank's independence.

Main growth-enhancing reforms

Comprehensive power sector reforms. Reducing power subsidies; restructuring boards of power distribution and generation companies; attracting investments; strengthening the power sector regulator; and expanding alternative sources of energy.
Reforming or privatizing SOEs. Privatizing by equity or strategic sales; or restructuring and requiring compliance with the Public Sector Companies (Corporate Governance) Rules 2013.
Improving trade competitiveness. Simplifying trade slabs and phasing out trade-distortive statutory regulatory orders (SROs).
Improved trade quantum with preferential trade alliances. Increased effort to benefit from all preferential trade alliances and taking full advantages of GSP+ from the European Union.
Enhancing the investment climate. Strengthening the Board of Investment in implementing a plan for improving the business environment and establishing investment-friendly special economic zones.
Expanding access to finance. Developing the State Bank of Pakistan's Financial Inclusion Program to enhance access of SMEs to financial services through regulatory reforms, product innovation, technology upgrade, financial literacy, and consumer protection.

Annexure 1 (iii)

ADB's Sustainable Energy Sector Reform Program., Pak Power Transmission System MFF, US $ 810m, Oct-2015

entities are still fully owned by the government except for the Karachi Electric Supply Company, which was privatized in 2005. Independent power producers (IPPs) generate 56% of the country's power. The National Electric Power Regulatory Authority (NEPRA), established in 1997, determines tariffs, issues licenses, and regulates the sector. About two-thirds of the population had access to grid electricity in 2014,[9] and electricity consumption has remained constrained at about 80 terawatt hours per year since 2009 despite the growth in demand (footnote 7).

5. Three key constraints to improved sector performance are (i) the gap between end-user and cost recovery tariffs,[10] (ii) insufficient investment and limited private sector participation due to concerns about electricity payments, and (iii) lack of transparency.[11]

6. **Tariff and subsidies.** A major goal of the overall program is improving the financial condition of the electricity sector through elimination of (i) the difference between the cost-recovery and end-user tariffs, and (ii) nonserviceable debts. Past governments have been reluctant to pass the total cost of electricity to customers, resulting in substantial government subsidies. There was a significant lag in determining the tariff, which consequently did not reflect the current cost. Costs that could not be recovered from consumers or subsidies were accumulated on the books of the DISCOs, which failed to pay fully for electricity purchases, giving rise to circular debt.[12] To address these issues, the Economic Coordination Committee (ECC) approved the National Power Tariff and Subsidy Policy Guidelines under subprogram 1, which set goals for (i) subsidy reduction, (ii) developing improved tariff determination processes, and (iii) a mechanism to cap the circular debt. Subprogram 2 was designed to detail and finalize these mechanisms (outputs are in paras. 18–20). Subsidies have decreased from 1.8% (FY2013) to 0.8% (FY2015) of gross domestic product and have been largely eliminated for industrial, commercial, and consumers using more than 300 kilowatt-hours per month.[13]

7. **Sector performance and private sector participation.** The performance of most public sector electricity companies is less than optimal, with low operational efficiency, poor service quality, and a weak financial position. Subprogram 1 resulted in instructions being given to four DISCOs to outsource collection to the private sector, and to all DISCOs to implement a revenue protection program. Two DISCOs have outsourced part of their collections, while two others are in the process of doing so. A detailed progress assessment will be made in subprogram 3. Losses have declined from 21.9% in 2013 to 18.7% in 2015, and collection has increased from 86% to 89% over the same period.

8. The overall program required the government to develop performance contracts with public power companies. In subprogram 1, the Ministry of Water and Power (MOWP) signed performance contracts with three DISCOs. Subprogram 2 is designed to complete signing of performance contracts with all DISCOs, GENCOs, and NTDC (delivered outputs are in para. 23).

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[9] World Bank. 2014. *Reducing Poverty by Closing South Asia's Infrastructure Gap.* Washington, DC.

[10] The gap between the end-user and cost-recovery tariff consists of two factors: (i) the difference between cost-recovery and NEPRA-determined tariffs, and (ii) the difference between NEPRA-determined and government-notified tariffs, which are balanced through subsidies.

[11] The details of the sector problem is described in subprogram 1 (footnote 2).

[12] Circular Debt Impact on Power Sector Investment (accessible from the list of the linked documents in Appendix 2).

[13] Household customers accounted for 47% of total electricity consumption in Pakistan in 2013 (Government of Pakistan, Ministry of Finance. *Pakistan Economic Survey 2013–2014.* Islamabad). The World Bank considers 40% of households in Pakistan "poor" (T. Walker et al. 2014. Reforming Electricity Subsidies in Pakistan: Measures to Protect the Poor. *World Bank Policy Paper Series on Pakistan.* PK 24/12. Washington, DC: World Bank).

Annexure-2

INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/287

September 2013

PAKISTAN

2013 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the combined discussion on the 2013 Article IV consultation with Pakistan and its request for an extended arrangement under the Extended Fund Facility, the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV consultation and Request for an Extended Arrangement Under the Extended Fund Facility, prepared by a staff team of the IMF, following discussions that ended on July 3, 2013, with the officials of Pakistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 22, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** of August 20, 2013
- **Staff Supplement** of August 28, 2013, updating information on recent developments.
- **Press Release** summarizing the views of the Executive Board as expressed during its September 4, 2013 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Pakistan.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

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Annexure-2

enhancing investigation, prosecution, and penalties. High priority will be given to improve energy sector governance and transparency. Additional electricity production projects will be accelerated.

- ***Gas sector*** (MEFP ¶34). The authorities will prepare a gas price rationalization plan to accompany the electricity price rationalization already underway. In the short-run, they will administratively allocate gas to uses with higher economic value (e.g., energy production) while preparing to let price mechanisms take over the allocation function in the future. They will develop facilities to import gas, and will increase incentives for higher domestic production.

63. The authorities agreed to move forward with business climate reforms to help increase foreign and domestic private investment (MEFP ¶36). The Corporate Rehabilitation Act, Alternative Dispute Resolution (ADR) Mechanisms, setting up a one-stop shop (including the human resource and funding needs), and identifying the required changes in the regulations and administration will be required to tackle the impediments to doing business. In this respect, the Board of Investment, in coordination with SECP, Federal Bureau of Revenue, provincial governments, and other concerned agencies, will develop a plan to further simplify procedures and reduce costs for setting-up businesses in Pakistan.

64. Trade policy and PSE reforms will be important components of the program (MEFP ¶37). These reforms will increase consumer welfare, stimulate growth via increased competition, and improve public resource allocation. The authorities will prepare a three-year program to return to a simplified import tariff regime, with 4 tariff rates ranging from 0-25 percent with few exceptions. The elimination of SROs will also remove the source of many distortions to the trade regime. The authorities will embark on a stock-taking of all major loss-making PSEs. This shall be followed by implementation of medium-term action plans to privatize firms, restructure those with prospects of profitability but which the government wishes to retain in the public sector, and close nonviable firms.

65. Enhanced and better-targeted assistance for the poorest households is necessary (MEFP ¶13). The poor and most vulnerable segments of the society will be protected from the direct and indirect impacts of fiscal consolidation and tariff adjustments. The Benazir Income Support Program (BISP) is the largest targeted social assistance mechanism directly reaching 4.8 million families (16 percent of the population) within the two poorest quintiles. As savings from tariff adjustments and fiscal space are realized, the authorities agreed to expand its coverage and increase the benefit amount to protect the real purchasing power of the beneficiaries.

PROGRAM MODALITIES

66. *Access, Duration, Phasing*: An extended arrangement under the EFF would be appropriate to meet Pakistan's medium-term financing needs, build reserve buffers from their current level of US$5.4 billion, and put the economy on a sustainable, higher-growth path. Access of 425 percent of quota (SDR 4,393 million, equivalent to US$6.68 billion) is based on Pakistan's external financing needs (Box 8). The required fiscal adjustment, outstanding credit, and record of using Fund

Annexure-3

Quarterly Performance Report - Power Distribution Companies

1 General

Power Sector in Pakistan was facing serious crises before 2015, owing due to the following reasons:

i. Deterioration in Energy Mix causing:
   a. Increase in Electricity Generation cost.
   b. Shortage of Electricity due to insufficient available generation to supply the demand.

ii. Inefficiencies and high cost in generation.

iii. Inefficiencies in Transmission and Distribution of electricity in terms of its higher losses

iv. Regulatory deficiencies in full recovery of the cost of service

v. Mounting circular debt.

vi. Heavy Reliance on Subsidies and shortage of budget for them

The purpose of this document is to detail the steps being taken to attain the overall objectives and goals of the GOP National Energy (Power) Policy 2013 and to develop an efficient and consumer oriented electric power system that meets the needs of its people and is economy sustainable and affordable. The document enumerates the steps taken and the results attained in the area of power distribution through managing revenues, collections and losses of DISCOs to establish credit worthiness of the sector and ensure liquidity.

The Government has taken number of steps both in long term and short term to achieve the vision laid down in the National Energy (Power) Policy 2013 for the power sector and to overcome the challenges. In the long term, the Government of Pakistan has set the following goals:

i. Build a Power Generation Capacity that can meet Pakistan's energy needs in a sustainable manner

ii. Create a culture of energy conservation and responsibility

Ministry of Water and Power Page 2

Annexure-4

8. Electricity Sector Overview

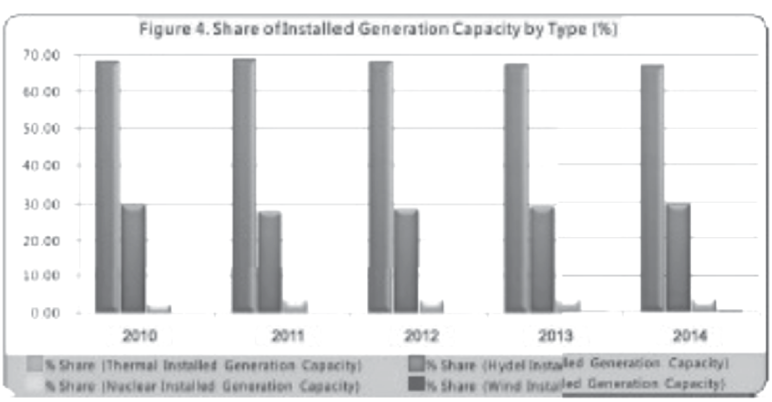
8.1 Installed Capacity:

The total nominal power generation capacity of Pakistan as on 30th June, 2014 was 24,375 MW; of which 16,366 MW (67.14%) was thermal, 7,116 MW (29.19%) was hydroelectric, 787 MW (3.23%) was nuclear and 106 MW (0.43%) was wind. The installed power generating capacity of Pakistan from 2010 to 2014 is given in table 4.

TABLE 4
Installed Generation Capacity by Type (MW)

As on 30th June		2010	2011	2012	2013	2014
THERMAL						
GENCOs with PEPCO		4,885	4,885	4,885	4,885	4,829
KEL Own		1,946	1,821	2,381	2,359	2,359
IPPs	Connected with PEPCO	7,346	8,678	8,312	8,342	8,723
	Connected with KEL	262	252	252	252	252
RPPs	Connected with PEPCO	286	353	0	0	0
	Connected with KEL	50	50	0	0	0
CPPs/SPPs connected with KEL		272	324	239	203	203
Sub-Total		**15,047**	**16,363**	**16,069**	**16,041**	**16,366**
% Share (Thermal Installed Generation Capacity)		68.20	68.77	68.13	67.33	67.14
HYDEL						
WAPDA Hydel		6,444	6,516	6,516	6,733	6,902
IPPs Hydel		111	129	214	214	214
Sub-Total		**6,555**	**6,645**	**6,730**	**6,947**	**7,116**
% Share (Hydel Installed Generation Capacity)		29.71	27.93	28.53	29.16	29.19
NUCLEAR						
CHASNUPP (I&II)		325	650	650	650	650
KANUPP		137	137	137	137	137
Sub-Total		**462**	**787**	**787**	**787**	**787**
% Share (Nuclear Installed Generation Capacity)		2.09	3.31	3.34	3.30	3.23
WIND						
Wind Power Plants connected with PEPCO		0	0	1	50	106
Sub-Total		**0**	**0**	**1**	**50**	**106**
% Share (Wind Installed Generation Capacity)		0.00	0.00	0.00	0.21	0.43
Total Installed Generation Capacity of the Country		**22,064**	**23,795**	**23,587**	**23,825**	**24,375**

Source: PSS/NTDC/KEL



Annexure-5

10. ELECTRICITY SECTOR OVERVIEW

10.1 Installed Capacity

The total nominal power generation capacity of Pakistan as on 30th June, 2015 was 24,823 MW; of which 16,814 MW (67.74%) was thermal, 7,116 MW (28.67%) was hydroelectric, 787 MW (3.17%) was nuclear and 106 MW (0.43%) was wind. The installed power generating capacity of Pakistan from 2011 to 2015 is given in table 4.

TABLE 4
Installed Generation Capacity by Type (MW)

As on 30th June		2011	2012	2013	2014	2015
HYDEL						
WAPDA Hydel		6,516	6,516	6,733	6,902	6,902
IPPs Hydel		129	214	214	214	214
Sub-Total		**6,645**	**6,730**	**6,947**	**7,116**	**7,116**
% Share (Hydel Installed Generation Capacity)		28.47	28.65	29.28	29.99	28.67
THERMAL						
GENCOs with PEPCO		4,785	4,785	4,785	4,590	5,762
KEL Own		1,821	2,381	2,359	1,951	1,874
IPPs	Connected with PEPCO	8,325	8,312	8,342	8,726	8,726
	Connected with KEL	252	252	252	252	252
RPPs	Connected with PEPCO	353	0	0	0	0
	Connected with KEL	50	0	0	0	0
CPPs/SPPs connected with KEL		324	239	203	200	200
Sub-Total		**15,910**	**15,969**	**15,941**	**15,719**	**16,814**
% Share (Thermal Installed Generation Capacity)		68.16	67.99	67.19	66.25	67.74
NUCLEAR						
CHASNUPP (I&II)		650	650	650	650	650
KANUPP		137	137	137	137	137
Sub-Total		**787**	**787**	**787**	**787**	**787**
% Share (Nuclear Installed Generation Capacity)		3.37	3.35	3.32	3.32	3.17
WIND						
Wind Power Plants connected with PEPCO		0	1	50	106	106
Sub-Total		**0**	**1**	**50**	**106**	**106**
% Share (Wind Installed Generation Capacity)		0.00	0.00	0.21	0.45	0.43
Total Installed Generation Capacity of the Country		**23,342**	**23,487**	**23,725**	**23,728**	**24,823**

Source: PSS/NTDC/KEL

Annexure-6

privatization, and investment climate, reforms were supported through AAA and conditionality in structural adjustment loans. This section discusses each of these areas below.

Energy and Infrastructure

5.6 The Bank's infrastructure strategy, in Pakistan and worldwide, shifted away from Government-owned and operated infrastructure, towards greater involvement of the private sector. The Bank concentrated its initial efforts in Pakistan on the power sector, supporting an expansion of the role of the private sector (through the use of guarantees and other financial products), financing public sector investments, and promoting improvements in the operating efficiency of public enterprises. However, investment lending for energy disappeared in the late 1990's as a result of poor performance in power sector restructuring, poor progress in policy reform in other infrastructure subsectors, and the need to focus on other borrowing priorities. The Bank did maintain an active dialogue, supplemented with AAA and targeted TA.

Table 5.1: Infrastructure operations FY94-03

FY	Project	Amount in US$ million
1994	Power Sector Development Loan	230.0
1994	Sindh Special Development Credit	46.8
1995	Second Private Sector Energy Development Project	250.0
1995	Uch Power Guarantee	75.0
1995	Hub Power Guarantee	240.0
1996	Ghazi Barotha Hydro Loan	350.0
1996	Telecommunications Regulatory and Privatization	35.0
2000	Policy Reforms in the Petroleum Sector IDF Grant	0.50
2001	Trade and Transport Credit	3.0
	Total	1230.0

Infrastructure Outcomes

5.7 ***Power Sector.*** The most notable progress in the power sector has been in terms of physical expansion. More than 5,000 MW of new private power generation capacity was installed in the 1990s, over one-third of current capacity, which helped ease the chronic shortages in generating capacity which Pakistan had experienced in the preceding decade.[30] One generation company was privatized, the transmission system was upgraded to service the new generation capacity, and chronic supply shortages were reduced. The sale of 73 percent of Karachi Electric Supply Company (KESC) was recently announced. On the other hand, the price of new generation capacity developed under the private power program was high[31], serious allegations of corruption were raised related to awarding and negotiating contracts with private participants (Box 5.1), and the process of restructuring and privatization has been slow. Finally, the sector's financial performance has worsened dramatically, so that in recent years losses at the Water and

[30] In addition to private power, the Bank also supported the Government run Ghazi Barotha hydropower project, which had a low generation cost of US$1.07 cents per kwh.

[31] The cost per KW for the Hub, Uch, Rousch and Southern Electric power projects funded under the two power sector development loans ranged from US$1,205 to US$1,395. Price comparisons must be interpreted carefully because world generation prices fell as technology and competition advanced. However, although it may be that the cost per KW was reasonable for the IPP projects at that time, the failure to move to competitive bidding at an earlier time and to phase in the new contracts meant that the system had excess capacity for a number of years, and could not take advantage of the lower prices that accompanied technology advances and optimized fuel mix.

Annexure-7

An amount of Rs143 million has been allocated in PSDP 2016-17 for the following two projects of Geological Survey of Pakistan.

- Appraisal of Newly Discovered Coal Resources of Badin Coal Field and its adjoining areas of Southern Sindh
- Exploration of Tertiary Coal in Central Salt Range, Punjab

The Sindh Engro Coal Mining Company (SECMC) with their Chinese contactors will continue its mining project of 3.8 million tons per annum capacity for supplying Thar coal to 2x 330 MW power plant at Block–II. About 40 million cubic meters of over burden will be removed. Under dewatering operations mine will dewatered to a tune of 35 cusecs per day.

The Khyber Pakhtunkhwa Oil and Gas Company Ltd (KPOGCL) has planned to execute Basin Studies of Khyber Pakhtunkhwa and Establishment of Khyber Pakhtunkhwa Hydrocarbon Research Centre (KPHRC).The Government of Punjab has also established Punjab Energy Holding Company (PEHC) to cater for Oil and Gas exploration in the province in close collaboration with the Director General Petroleum Concession, Ministry of Petroleum and Natural Resources (MPNR).

Performance review 2015-16

Power sector

An addition of 402.66 MW out of 1,027 MW planned in 2015-16 was actualised. A total of 6046 different villages throughout Pakistan were electrified. Details are given at table-1 below.

Table-1
Addition in generation capacity 2015-16

Sr. #	Name of project	Agency	Fuel/ Source	Capacity (MW)
1	Sapphire Wind Power Company (Pvt) Ltd	AEDB	Wind	49.5
2	Chiniot Power Ltd	AEDB	Bagasse	62.4
3	RYK Mills Limited	AEDB	Bagasse	30
4	Hamza Sugar Mill Limited	AEDB	Bagasse	15
5	Yunus Energy Ltd	AEDB	Wind	50
6	Tapal Wind Energy (Pvt.) Ltd	AEDB	Wind	30
7	Metro Power Co. (Pvt) Ltd	AEDB	Wind	50
8	KPK	Energy Deptt	Hydel	105.3
9	Punjab	Energy Deptt	Small Hydel	10.46
	Total Addition 2015-16			402.66

The existing installed capacity is 24,760MW, including 22,885 MW on the NTDC system and 1,875MW on the K-Electric. The power generation mix by source is given in the Figure-1 below.

Annexure-8

ADB

Board of Directors

FOR OFFICIAL USE ONLY
(For consideration by the Board on or about 20 November 2015)

R124-15
30 October 2015

Proposed Policy-Based Loans for Subprogram 2 Sustainable Energy Sector Reform Program (Pakistan)

1. The Report and Recommendation of the President (RRP: PAK 47015-002) on the proposed policy-based loans for subprogram 2 to Pakistan for the Sustainable Energy Sector Reform Program is circulated herewith.

2. This Report and Recommendation should be read with (i) *Country Partnership Strategy: Pakistan, 2015–2019,* which was circulated to the Board on 4 August 2015 (DOC.SecM.24-15); and (ii) *Country Operations Business Plan: Pakistan, 2015–2017,* which was circulated to the Board on 24 December 2014 (DOC.IN.481-14).

3. This Report and Recommendation is being submitted to the Board for discussion as it does not meet the following criterion for summary procedure: (i) the amount of ADB financial assistance should not exceed $200 million for sovereign and sovereign-guaranteed operations.

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(Ext. 6874)

Annexure 9

32. **Electricity supply has increased and payments arrears are down.** Data from the Ministry of Water and Power point to an additional 1700 MW of electricity supply to the system and a reduction of load shedding by around three hours since the new government took office in June. This is mainly due to clearance of PRs 480 billion of payment arrears, which allowed companies to honor their fuel bills, repay working capital credit lines, and increase generation capacity utilization. Arrears are estimated about PRs 117 billion (end-September), which is the level that is deemed a normal payment float. However, circular debt will again accumulate until prices are fully aligned with generation costs later in the program. The authorities are moving ahead with hiring a firm to conduct a technical and financial audit of the system to identify the stock and flow of payables at all levels of the energy supply chain (end-November structural benchmark) (MEFP ¶26). The findings of the report will allow the authorities to take concrete steps to prevent the accumulation and recurrence of payables arrears.

33. **Improving natural gas supplies, price rationalization, and domestic allocation to the most efficient uses remain a key challenge** (MEFP ¶32). To improve supply in the short-run, the authorities are moving forward with plans to import Liquefied Natural Gas (LNG). They recently issued tender and received bids for LNG facilities, and are planning to finalize the contract by end-December 2013, with imports expected to begin by end-November 2014. Efforts to invest in existing fields are also bearing fruit. The supply of gas is projected to rise by 7 percent before the end of the year. The authorities are working on a plan to rationalize gas prices. The first step of implementation will be through an increase in the GIDC by end-December 2013 that should generate 0.4 percent of GDP in annualized tax revenues for the federal government (structural benchmark).

Annexure-10

Right from the beginning, the present government has attached high priority to energy sector. The government retired the circular debt (Rs 480 billion) immediately after taking oath which added 1752 MW of electricity into the system. In FY 15, the current level of circular debt is around Rs. 250 billion including Current Payable. Further a long awaited National Power Policy 2013focusedto support the current and future energy needs of the country and to set Pakistan on a trajectory of rapid economic growth and social development. The policy describes sustainability in the power sector as "the underpinning of long term transformation. The principle of sustainability will be grounded on three pillars: low cost energy, fair and level playing field, and demand management. Altering the fuel mix towards less expensive fuels will lead to low cost energy. Investments required for the low cost fuel mix will necessitate rationalization of the electricity tariff. Fairness will be ensured by protecting the poor and cross-subsidizing their consumption from the affluent. A level playing field will be created by providing power at comparable prices to all industrial users. Demand management will be introduced through novel policy, pricing and regulatory instruments." In December 2014, "Monitoring Report on Pakistan Energy Reform" was presented to the Economic Coordination Committee (ECC) of the Cabinet to analyze the progress and was subsequently released to the public as per ECC decision.

Lower tax to GDP ratio restricted the government in financing energy project solely thus private sector was also encouraged to play their role. Likewise energy sector always remained a key component of dialogue between the government and multilateral and bilateral development partners. During the recent visit of the Prime Minister to Turkmenistan, apart from mutual cooperation on various fields like trade, education, etc., the review of Turkmenistan–Afghanistan-Pakistan-India (TAPI) Pipeline and energy security remained main focus of the meeting. The project is expected to be materialized by end of 2017 will be providing the gas of 1.3 billion cubic feet to Pakistan. Turkmenistan, Afghanistan, India and Pakistan linked the Transaction Advisory Services Agreement (TASA) with Asian Development Bank (ADB) to find leading, technically and financially sound company that could form a consortium to generate the finances for the project.

The government was keeping itself bound with its timelines related to energy projects, however undue sit-in by two political parties in August 2014 and disastrous flood witnessed by Kashmir region in September 2014 became significant hindrance. Flood delayed Neelum-Jhelum hydropower which is now expected to complete in 2016 and due to sit-in, many planned engagements with multilateral and bilateral donor was delayed, most importantly the due visit of President of China was rescheduled.

Apprehending the commitment of the present government, Asian Development Bank (ADB) has approved assistance packages to help Pakistan to undertake key reforms in the power sector. This included funding to ensure energy delivery to industrial and private consumers, and to build two vital power generation plants in Sindh Province. The Jamshoro Power Generation Project, which on completion in 2018, will add 1,300 megawatts (MW) to the country's electricity grid. Reliability of the power distribution network is also being enhanced through the investment of $167.2 million to upgrade 284 grid stations. The World Bank also approved a financing package from the International Development Association (IDA) to help expand hydro-electricity generation in Pakistan through the development of the Dasu Hydropower Stage-I Project (DHP-I). The package consists of an IDA Credit of $588.4 million and an IDA Partial Credit Guarantee (PCG) of $460 million to help mobilize commercial financing for the project. DHP-I would have 2,160 megawatt (MW) hydropower plant on the main Indus River, which can be expanded to 4,320 MW in future with less additional cost.

During the recent visit of President of China, Pakistan and China signed 51 Memorandums of Understanding (MoUs) relating to diverse aspects of bilateral relations, including the Pakistan China Economic Corridor and series of energy projects. Thus almost $15.5 billion worth of coal, wind, solar and hydro energy projects will come online by 2017 and when mature will add 10,400 megawatts of energy to Pakistan's national grid.

Annexure-11

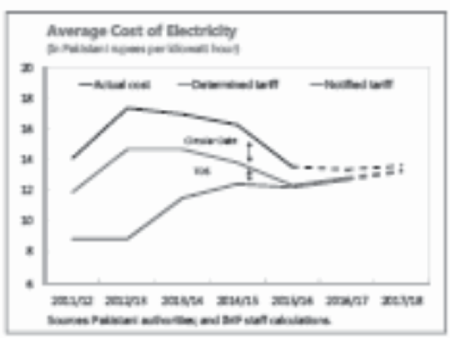
which is expected to become operational by January 2016 (MEFP ¶26). The authorities have enacted the recently approved Securities Bill, modernizing the framework for security exchanges, central depositories, and clearing houses. They also plan to put in place a Futures Trading Bill, and to strengthen the regulatory powers of the Securities and Exchange Commission of Pakistan (SECP), including by amending the SECP Act (MEFP ¶25). These steps constitute significant improvements toward strengthening systems in support of financial stability.

22. **The authorities continue strengthening the anti money laundering and combating the financing of terrorism (AML/CFT) framework**. Amendments to the AML Act that will enable to use of AML tools to combat tax crimes were submitted to parliament in December 2014, and SBP regulations have been upgraded to include the definition of politically exposed persons (PEPs) in line with international standards. Staff and the authorities agreed that there is a need to continue bolstering the effectiveness of the framework to mitigate ML/FT risks, including the proceeds of corruption and tax crimes, and the financing of terrorism. In particular, the authorities intend to adopt the amendments to the AMLA by end September 2015 (SB) and continue bringing the regulatory framework in line with international standards. They are also strengthening the analytical capability of the Financial Monitoring Unit, and are continuing to bolster CFT measures, including by effectively implementing relevant United Nations Security Council Resolutions.

D. Structural Issues

Energy

23. **Despite significant efforts over the first half of the EFF, the power sector remains a key bottleneck for growth and a drain on public resources.** Power outages of nearly six hours per day on average remain unacceptably high. The system still does not operate at cost recovery levels, leading to underutilization of existing capacity and the build-up of arrears (so-called circular debt). Despite the large drop in oil prices, budgetary subsidies also remain significant.



24. **Performance of distribution companies (DISCOs) has been mixed**. So far in this fiscal year, collections remained at around 89 percent, while technical losses were reduced to 17.6 percent (from 18.5 percent last year), despite increased electricity supply. To strengthen the management of DISCOs, the authorities replaced some chief executives of poorly performing companies (MEFP ¶3).

25. **The authorities continue with their plans to bring electricity tariffs toward cost recovery levels** (MEFP ¶28–36). NEPRA determined FY2014/15 electricity tariffs in April and subsequently the government implemented the new tariffs including surcharges (prior action). In case of a negative outcome concerning legal challenges to electricity surcharges, the authorities are committed to protect the level of revenue in the electricity sector by adjusting tariffs accordingly

Annexure-12

Attachment. Performance of the Power Sector

1. **Stock and flow of payables in the power sector**. The stock of payment arrears includes the payables of PRs 321 billion, and the stock of PHCL of PRs 335 billion at end-June 2016. The evolution of the stock and the flow of payables, including its components, for FY 2014/15 and FY 2015/16 are given in the following table:

(In Billion PRs) 1/	2015/16								2014/15	2015/16
	Q1		Q2		Q3		Q4			
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Total	Total
Non-recoveries	16	37	12	(6)	16.00	3.0	19	12	104	46
Accrued Markup	-	-	-	-	-		-	-	23	
Excess Line Losses	11	22	(3)	(8)	0.40	(2.7)	4	5	50	17
GST Non Refund	-	-	-	-	-		-		14	
Late Payment Surcharge	1		1				1		8	
Delay Determinations	3	-	3	-	-		-		11	
Flow (under arrears plan)	**31**	**59**	**13**	**(14)**	**16**	**0.3**	**24**	**17**	**210**	**63**
Operational deficit/surplus of the system		10		15		36	3	(16)	n.a.	43
Impact of oil prices		(56)		(20)	(2)	(29)	(6)	(14)	n.a.	(119)
Others 1/		(4)		18		12		19	n.a.	45
Stock clearance	47	4	63	-	-	(14)	-	(15)	n.a.	(25)
Total flow		**13**		**0**	**15**	**5**	**18**	**(10)**	**48**	**8**
Total (Stock)	**297**	**326**	**287**	**328**	**341**	**331**	**360**	**321**	**313**	**321**

1/ Includes GTFC arrears due to court stay, LNG payment arrears due to delay in tariff determination and other costs not recovered.

2. **Performance of DISCOs.** In October 2015, quarterly quantitative targets have been determined by MWP and each DISCO for distribution losses, and collection. The performance of DISCOs against targets are given in the tables below:

Annexure-13

Target Bill Collection (In percent)	Q1	Q2		Q3		Q4		FY 2015/16	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
LESCO	95.4	107.4	108.7	111.3	112.1	76.4	92.7	96.2	99.7
GEPCO	95.7	103.2	107.5	110	111.3	80.8	93.6	95.7	99.7
FESCO	95.9	107.1	113.6	105.5	105.9	88.4	95.5	98.5	100.4
IESCO	79.4	98.3	103.7	89.1	90.1	86.9	95.3	87.6	91.1
MEPCO	92	105.7	113.3	112.4	106.8	88.6	96.5	98.1	100.6
PESCO	81.7	90.9	94.9	96.6	87.7	81.5	91.3	87.1	88.7
TESCO	8.8	8.7	12.3	9.1	11.3	414.9	585.8	75.4	444.5
HESCO	52.8	81.7	90.7	93.9	90.9	72.8	69.7	72.6	72.4
SEPCO	42	51.3	64.7	77.6	70.6	64.7	56.5	56.2	55.0
QESCO	105.1	22.9	74.3	27	83.3	49.5	34.5	57.5	67.1
TOTAL DISCOs	**86.9**	**95.6**	**101.5**	**98.5**	**97.3**	**83.1**	**93.9**	**90.2**	**94.6**

Losses target (In percent)	Q1	Q2		Q3		Q4		FY 2015/16	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
LESCO	15.2	9.1	9	9.1	9.8	18.4	19.1	14.1	13.9
GEPCO	14.3	3.1	2.4	7.1	7	14.0	14.4	10.7	10.6
FESCO	11.9	5.3	2.4	6.7	5.8	15.4	15.5	10.9	9.8
IESCO	9.6	1.5	1.8	3.1	5.2	18.3	16.3	9.4	9.1
MEPCO	21.5	10	9.4	10	9.8	19.5	20.3	16.7	16.4
PESCO	41.7	26.2	27.2	26.1	27.8	35.2	34.8	34.0	33.8
TESCO	21.1	17.8	17.5	14.1	16.6	28.3	20.4	20.6	19.0
HESCO	29.2	18.7	20.4	23.2	22.7	30.3	30.4	26.5	26.5
SEPCO	42.6	30.6	30.8	30.5	30.6	41.8	41.6	38.1	37.9
QESCO	24.9	19.4	21.8	23.5	22.9	27	25.7	23.9	23.9
TOTAL DISCOs	**21.1**	**12.4**	**11.9**	**13.2**	**13.4**	**22.2**	**22.0**	**18.0**	**17.9**

Annexure-14

which is expected to become operational by January 2016 (MEFP ¶26). The authorities have enacted the recently approved Securities Bill, modernizing the framework for security exchanges, central depositories, and clearing houses. They also plan to put in place a Futures Trading Bill, and to strengthen the regulatory powers of the Securities and Exchange Commission of Pakistan (SECP), including by amending the SECP Act (MEFP ¶25). These steps constitute significant improvements toward strengthening systems in support of financial stability.

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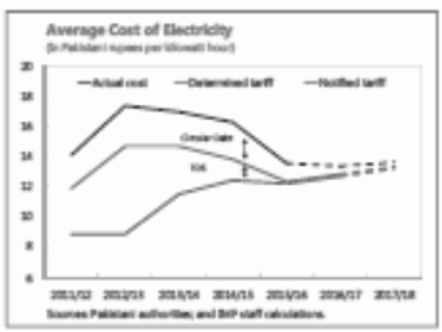
D. Structural Issues

Energy



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Annexure-15

- We are committed to continue phasing out untargeted subsidies, while continuing to protect the most vulnerable consumers. We are reducing electricity subsidies to 0.3 percent of GDP in FY 2015/16, and allocating an additional 0.1 percent for arrears clearance. In order to meet our target, we have expedited and notified the quarterly determination for K-Electric for the pending four quarters. We are committed to continue reducing electricity subsidies to 0.3 percent of GDP in FY 2016/17.

34. **Arrears (Circular Debt)**. We have developed a monitoring mechanism to track the stock and flow of payables at all levels of the energy sector (including Power Sector Holding Company Limited, PHCL) (as defined in TMU ¶19). There are two main components of the stock of this circular debt:

- The payables in the power sector in the third quarter of FY 2015/16 increased to PRs 331.5 billion. In addition to current payables, they comprise: (i) a residual from payables clearance of June and July 2013; (ii) a disputed amount with the Independent Power Producers (IPPs); (iii) Distribution Companies (DISCOs) nonrecovery and penalties levied on past nonpayment (as defined in the TMU); (iv) transmission and distribution losses that are not recognized by the regulator; (v) the debt that emerged from the court stay order on surcharges; (vi) unpaid amounts of verified subsidy claims of DISCOs under various heads, (vii) PHCL loan servicing, and (viii) payables to cross border trade.

- The stock of past arrears held in PHCL in the syndicated term credit finance (STCF) facility remained at PRs 335 billion at end-March 2016.

- We are in the process of updating our plan for reducing the accumulation of payables arrears and to gradually eliminate the outstanding stock. The plan adopted in late 2015 included steps to improve collections and reduce operating costs, losses, and price distortions in the tariff structure. With this, the accumulation of payables would be reduced from PRs 209 billion in FY 2014/15 (including the PHCL) to under PRs 100 billion in FY 2015/16, with a view towards further halving new arrears accumulation by FY 2018/19. While some elements of the plan have not been fully addressed i.e., implementation in two regions and GST refunds, we have significantly over-performed the end-March 2016 IT on the flow of accumulation of power sector arrears, helped by the impact of lower oil prices, further loss reduction by better monitoring and management of DISCOs performance, and better mobilization of receivables, including of some arrears at the provincial level. In light of developments since adoption of the plan, including delays in the privatization of DISCOs, we will, by June 15, 2016, prepare an initial update of our plan to further limit the accumulation of new payables and gradually eliminate the outstanding stock of payable arrears, on the basis of available information and in consultation with stakeholders. We will finalize this updated plan by July 15, 2016 (new SB).

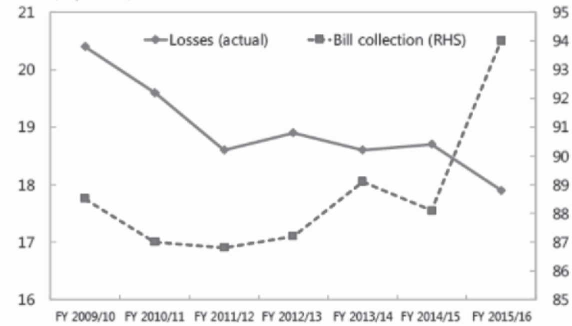
Annexure 16

- **Energy sector**. The authorities have solicited expressions of interest for the divestment of KAPCO, a major generation company (July 15, 2016 SB) and plan to finalize the transaction by March 2017. Furthermore, preparatory work has started to conduct an Initial Public Offering (IPO) for FESCO by February 2017, to be followed by IPOs for IESCO and LESCO by the end of FY 2016/17. The authorities expressed their commitment to seek strategic private sector participation in DISCOs in the medium term.

Energy Sector

28. Favorable oil prices and efforts to further strengthen DISCOs' performance have continued to contain the accumulation of new arrears in the power sector. The end-June 2016 IT on the accumulation of power sector arrears was met with a large margin, reflecting favorable oil prices, a strengthening in DISCOs' payments collection, and a reduction in distribution losses. In particular, most DISCOs met their quarterly performance targets in terms of collection and distribution losses at end-June 2016. With this, there was no new accumulation of arrears in the fourth quarter of FY 2016/17 and the stock of outstanding arrears declined slightly.

Loss Reduction and Revenue Collection
(In percent)



Sources: Pakistani authorities; and IMF staff calculations.

29. Further limiting the accumulation of power sector arrears and gradually reducing the outstanding stock is needed to ensure the soundness of the sector. The authorities have updated, in consultation with development partners, their power sector arrears reduction plan (July 15, 2016 SB) to take into account changes in the privatization strategy for DISCOs. In order to contain the accumulation of new arrears, the authorities will continue to strengthen DISCOs' performance by further reducing distribution losses, increasing payment collections, and continuing to set quarterly performance targets. Furthermore, they are seeking to revise the regulatory benchmarking for tariff determination and are working to resolve outstanding issues with regional governments. In parallel, proceeds from the planned IPOs of FESCO, IESCO and LESCO will be used to reduce the stock of outstanding arrears.

30. Moving forward with establishing a multi-year tariff framework for DISCOs will be key to attract investors and strengthen the regulatory framework. The notification of the multi-year tariffs for FESCO, IESCO and LESCO was further delayed (missed July 15, 2016 SB), owing to the DISCOs' unresolved dispute with the regulator. Notably, DISCOs have requested the regulator to revise benchmark distribution losses used for the FY 2015/16 tariff determination in order to reflect higher distribution losses. Staff reiterated the importance of establishing a multi-year tariff framework in preparation for DISCOs' IPOs and called for the swift resolution of the ongoing

Annexure-17

INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/162

PAKISTAN

June 2015

SEVENTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the Seventh Review Under the Extended Arrangement and Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 26, 2015, following discussions that ended on May 11, 2015, with the officials of Pakistan on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on June 12, 2015.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Pakistan.

The documents listed below will be separately released:

Letter of Intent sent to the IMF by the authorities of Pakistan*
Memorandum of Economic and Financial Policies by the authorities of Pakistan*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Annexure 18

MEFP Para 28, IMF Country Report No. 15/162, June 2015

PAKISTAN

E. Energy Sector Reforms

28. **The National Energy Policy identified priority steps to anchor the reform agenda for the next three–five years**. We are implementing our time-bound strategy to tackle price distortions, insufficient collections, costly and poorly targeted subsidies, governance and regulatory deficiencies, and low efficiency in energy supply and distribution with the support of our international partners. We are reducing electricity subsidies to 0.3 percent of GDP in FY 2015/16 with the recent tariff notification. We also began addressing both the flow and stock of payable arrears in the power sector including by allocating budgetary resources, levying surcharges, gradual improvement in company performances and recoveries, and initiating the process of privatizing power sector companies.

Annexure 19

D. Energy Sector Reforms

32. **The National Energy Policy identified priority steps to anchor the reform agenda for the next three–five years**. We significantly advanced in the implementation of our time-bound strategy to tackle price distortions, insufficient collections, costly and poorly targeted subsidies, governance and regulatory deficiencies, and low efficiency in energy supply and distribution, with the support of our international partners. We also began addressing both the flow and stock of payable arrears in the power sector, including by allocating budgetary resources, levying surcharges, gradual improvement in company performances and recoveries.

Power Sector

33. **Price Adjustments**.

- In June 2015, we notified the FY 2014/15 tariff, as determined by NEPRA, and implemented surcharges in line with the program targets (as defined in the TMU ¶20). We are committed to protect the level of revenue in the electricity sector by adjusting prices as needed. NEPRA has moved forward in the determination of multi-year tariffs for FESCO, IESCO and LESCO, which had submitted five-year investment plans. The multi-year tariff for FESCO was determined by NEPRA in December 2015. Multi-year tariffs for IESCO and LESCO (January 2016 SB) were determined in February and March 2016, respectively, following delays in the finalization of the investment plan by the financial advisor. The tariff determination for the remaining DISCOs was completed in April 2016 and will continue to be done annually on a rolling basis. Subsequent to the tariff determinations, DISCOs filed review petitions in an effort to achieve revised losses and collection targets. Following the review process by NEPRA, we will notify the tariffs for FESCO, IESCO and LESCO with a delay by July 15, 2016 (modified SB). We will notify the annual tariffs for the remaining DISCOs at the same time. We are committed to move ahead with setting up multi-year tariffs for the remaining DISCOs, and three DISCOs have already prepared their multi-year tariff petitions for FY 2016/17. We will continue to undertake all necessary measures to ensure the full recovery of costs from consumers.
- We have finalized independent technical loss diagnostic studies for all DISCOs, which have provided better estimates and bases of loss rates by NEPRA. In light of these results, discussions are ongoing with NEPRA in order to revisit the regulatory benchmarking for losses to be considered in the FY 2015/16 tariff determination.

Annexure 20

6. **Key structural weaknesses are being tackled, and reforms will need to continue after the program ends**. The implementation of growth-supporting structural reforms has advanced, albeit with some delays. Continuing these reforms beyond the end of the program—notably in the energy sector, business climate and PSEs reform—will be key to foster higher and more inclusive medium-term growth and limit fiscal risks.

- **Power sector**. Widespread electricity outages, while still present, were gradually reduced through improved supply and demand management, and untargeted subsidies were lowered. The accumulation of arrears was significantly reduced (though a substantial stock of arrears still remains), helped by lower oil prices, improved performance of distribution companies (DISCOs), tariff rationalization, and the introduction of surcharges. However, additional efforts are needed to further reduce the accumulation of arrears and address the outstanding stock.

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