

Signing of Japanese ODA Loan Agreement with the Islamic Republic of Pakistan

—Supporting Energy Sector Reforms by the Government of Pakistan to Solve Serious Power Shortages—

On June 4, the Japan International Cooperation Agency (JICA) signed a Japanese ODA loan agreement with the Government of Pakistan in Islamabad to provide an ODA loan of up to 5 billion yen for the Energy Sector Reform Program.

With approximately 180 million people, Pakistan has the sixth largest population of the countries of the world. In recent years, the country has suffered severe power shortages with outages lasting up to 12 hours a day even in urban areas. Without enough power available for companies to operate factories and carrying out commercial activities, economic development is hampered, leading to a reduction in private and foreign direct investment. The negative impact that inadequate power has on the gross domestic product in the country is believed to be about 2 percent. In addition to the rapidly increasing demand for power that the supply cannot keep pace with, a major factor behind this shortage is inadequate operating funds for power generation facilities. This is because of low electricity tariffs backed by government subsidies, payment collection difficulties and transmission and distribution losses. Due to these factors, the costs needed to generate and supply power cannot be recovered. On top of this, subsidies to keep the electricity rates low is exacerbating the severe financial situation in Pakistan, so reforming the energy sector is a priority for Pakistan both from the perspective of economics and fiscal policy.



Signing ceremony

To solve such structural issues in the energy sector, the Sharif administration which won the election in May 2013 issued its "National Power Policy 2013" in July that includes specific numerical targets for improving the gap between the power supply and demand, reducing the cost of power generation, reducing transmission and distribution losses, and improving the tariff collection rate. Proactive efforts by the government are now underway to reform the energy sector, including a tariff increase that went into effect in August 2013.

Together with co-financing by the World Bank and the Asian Development Bank (ADB), this program aims to promote energy sector reform and to improve the financial viability of the Government of Pakistan. The reforms are based on three pillars: 1) establishing appropriate electricity tariffs and subsidies, 2) reducing the costs for generating power, and 3) improving accountability and transparency in the energy sector. Once progress is made in energy sector reforms and a sustainable, stable power supply is achieved, it is expected that economic activities will receive a boost, making Pakistan even more attractive as a potential market given its large population.

Japan has provided various assistance to the energy sector in Pakistan, from improving infrastructure by constructing power plants, transmission lines and substations to human resource development to strengthen the capacity of maintaining and operating facilities as well. Building on those experiences, technical support for formulating least cost generation development plans and other activities utilizing Japanese knowledge is planned, related to this program. Because the energy sector is expected to need further assistance going forward, JICA will continue to provide support to Pakistan at appropriate times in cooperation with the international community while monitoring the progress of the reforms by the Government of Pakistan.

Reference

1. Terms and Amount of Loan

Project title	Amount (million yen)	Annual interest rate (%)		Repayment period (years)	Grace period (years)	Procurement
		Project	Consulting services			
Energy Sector Reform Program	5,000	Yen LIBOR -10 bp	-	30	10	General untied

2. Executing Agency

Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization
Address: Block "Q" Pak Secretariat, Islamabad, Pakistan

3. Planned Implementation Schedule

(1) Completion of project: June 2014 – with completion of the loan disbursement

(2) Consulting services: No hiring of consultants is planned for this program.

(3) Tender announcement of initial procurement package for international competitive bidding on project construction: No work in conjunction with tendering is planned for this program.

- "World Bank Group Approves \$1 billion for Supporting Economic Reforms in Pakistan" ([external link](#))
- "\$400 Million ADB Loan to Help Pakistan End Crippling Power Problems" ([external link](#))