



COUNTRY ENGAGEMENT FRAMEWORK FOR **PAKISTAN**

Supporting Resilience & Economic Transformation
2023–2025

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ACKNOWLEDGMENTS

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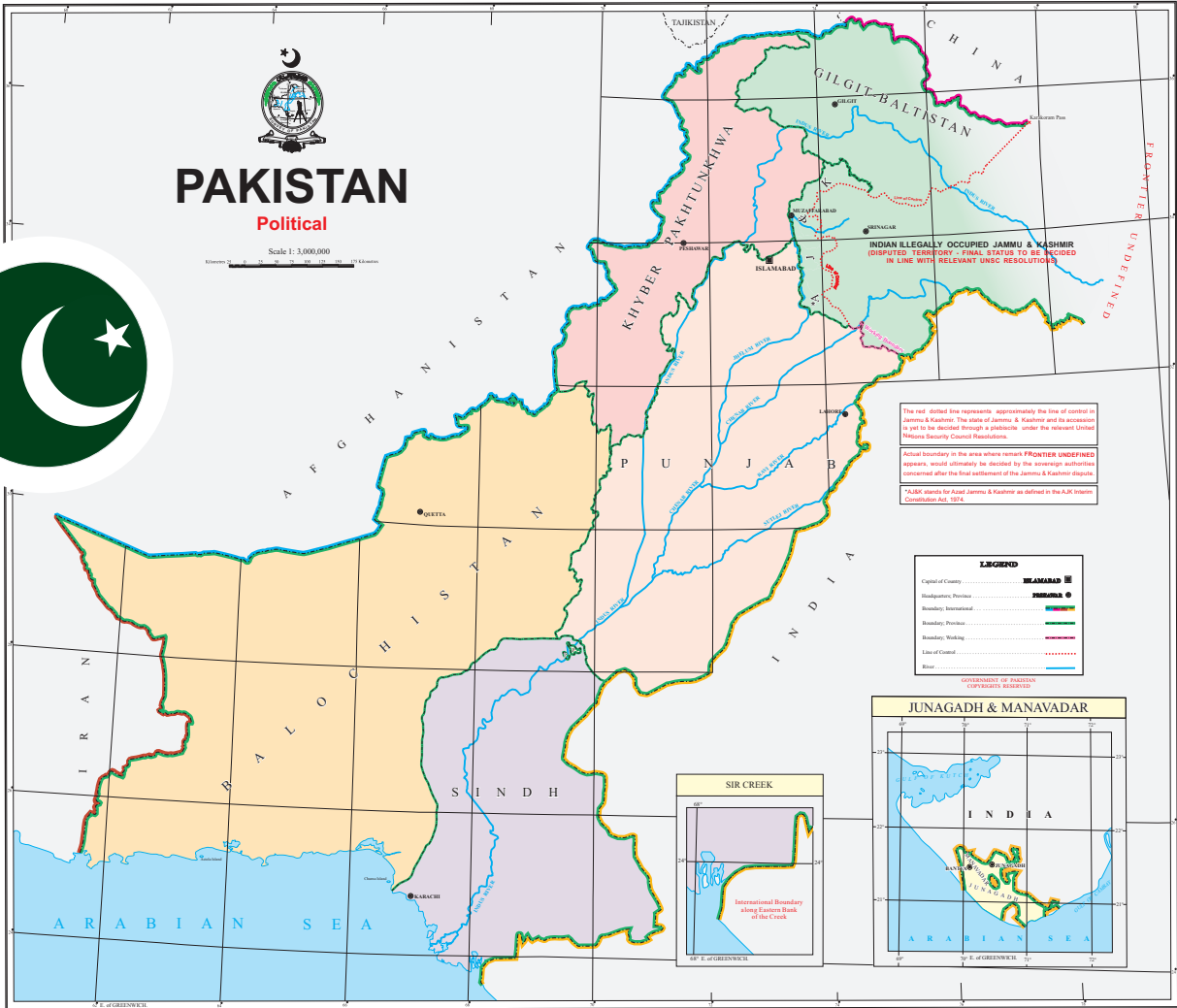
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PAKISTAN

Political

Scale 1: 3,000,000



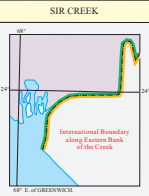
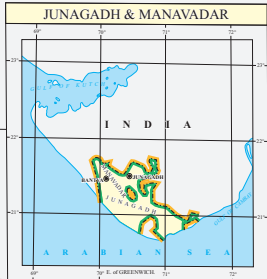
The red dotted line represents approximately the line of control in Jammu & Kashmir. The status of Jammu & Kashmir and its accession is yet to be decided through a plebiscite under the relevant United Nations Security Council Resolutions.

Actual boundary in the area where remark FRONTIER UNDEFINED appears, should ultimately be decided by the sovereignty authorities concerned after the final settlement of the Jammu & Kashmir dispute.

*AJK stands for Azad Jammu & Kashmir as defined in the AJK (Status) Constitution Act, 1974.

LEGEND	
Capital of Country	ISLAMABAD
Headquarters, Province	PROVINCE
Boundary, International	INTERNATIONAL
Boundary, Working	WORKING
Line of Control	LINE OF CONTROL
Sea	SEA

GOVERNMENT OF PAKISTAN
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EXECUTIVE SUMMARY

In the recent past, Pakistan's economy faced significant challenges – exacerbated by the catastrophic floods in 2022. Pakistan has initiated structural reforms to transform its economy to achieve long-term sustainability and competitiveness. These reforms require focus on areas such as enhancing productive capacity, investing in human capital, developing infrastructure, and promoting political stability and climate resilience. The Pakistan Vision 2025 and the Resilient Recovery, Rehabilitation and Reconstruction Framework (4RF) form the strategic plans and framework to tackle the challenges.

IsDB Group's Country Engagement Framework (CEF) for Pakistan, Supporting Resilience and Economic Transformation covers three years (2023–2025) and is aligned with Vision 2025 and 4RF in guiding the recovery and response to the recent floods.

The CEF consists of two strategic pillars. The first pillar focuses on green, resilient and sustainable infrastructure, including the energy sector, to spur productive economic activity, transport and ICT to facilitate logistics and regional connectivity, as well as agriculture, water and sanitation to enhance food security, productivity and basic services. The second pillar emphasizes inclusive human capital development to support the economic transformation by improving education and healthcare. Additionally, the CEF includes cross-cutting pillars such as Islamic finance, women and youth empowerment, climate change and capacity development, which are integrated across both strategic pillars to ensure comprehensive and holistic development.

While implementing the CEF, the Bank and the Country need to consider several portfolio performance issues. These challenges include long start-up and implementation periods, low project design and quality at the initial stages, inadequate communication and coordination with executing agencies, and delays in financial audits and project procurement processes.

The CEF recommends stronger design and planning, timely financial audits, improved procurement support, enhanced follow-up and oversight mechanisms, and effective communication with project stakeholders. The IsDB Group and the Pakistan government will aim to enhance project implementation and performance by implementing these recommendations.

The IsDB Group has made substantial commitments to Pakistan. These commitments include project and trade financing operations and insurance services. The active portfolio demonstrates satisfactory overall performance, with a particular focus on sectors such as energy, industry and agriculture. The IsDB Group recognizes the importance of resource mobilization and strategic partnerships to overcome challenges and maximize the impact of its interventions on Pakistan's economy. During the post-flood Geneva Conference in January 2023, the IsDB Group pledged more than US\$600 million to be provided through IsDB Ordinary Capital Resources (OCR) for public sector projects, while up to US\$3.67 billion would come from the private sector (primarily in the form of trade finance), on a best-effort basis. This US\$4.27 billion constitutes the CEF allocation from 2023 to 2025. Subject to IsDB Group Management considerations, headroom availability and readiness of bankable projects, the CEF allocation (especially the OCR amounts) may be revisited.



1. INTRODUCTION



CEF Pakistan is crafted to focus on two parallel priorities: (1) facilitating rehabilitation and recovery from the recent floods, and (2) addressing entrenched structural economic issues.

[1] Pakistan's Vision 2025 and the Resilient Recovery, Rehabilitation and Reconstruction Framework (4RF) steer the recovery and response to the recent floods and guide CEF's basics and priorities, covering the three-year period (2023–2025).

[2] Further, the CEF is in line with the Bank's Strategic Realignment 2023–2025, which focuses on (1) boosting recovery, (2) tackling poverty and building resilience, and (3) driving green economic growth. The current economic challenges faced by Pakistan are characterized by a degree of political uncertainty exacerbated by the recent catastrophic floods. CEF Pakistan is thus crafted to focus on two parallel priorities: (1) facilitating rehabilitation and recovery from the recent floods, and (2) addressing entrenched structural economic issues that will facilitate the country's structural transformation (elaborated in sections 2 and 4).



TABLE 1. SELECTED ECONOMIC INDICATORS AND ECONOMIC OUTLOOK OF PAKISTAN

Main Economic Indicators and Forecast	2021	2022	2023*	2024*	2025*	2026*
GDP Growth (%)	6.5	6.0	4.5	5.0	5.0	5.0
Inflation (%)	9.5	19.9	7.8	6.5	6.5	6.5
Current account balance (% of GDP)	-3.5	-3.2	-3.5	-3.3	-3.0	-2.7
FDI (% of GDP)	0.6	0.4	0.9	1.0	1.0	1.0
Personal Remittances received (% of GDP)	9.0	7.9	8.8	8.5	8.2	7.9
Budget Balance	6.1	6.5	-4.4	-4.4	-3.9	-3.5
Total external debt (% of GDP)	35.1	34.5	40.1	39.1	37.7	35.2

Source: IMF Article IV Consultations, February 2022, and World Bank Data.

[3] This CEF has been developed based on extensive consultations with the Government of Pakistan and multilateral stakeholders. The process benefitted from constructive discussions with the government and other development partners to identify Pakistan's priorities and needs. The government's formal acceptance of this document would convey its concurrence of the

engagement framework and the related work program. Such acceptance would enable IsDBG to proceed with the business development and project processing activities, noting that the Indicative Work Program (although providing a range of indicative project-level allocations) does not constitute any financial commitment from IsDB.

2. STRUCTURAL TRANSFORMATION

[4] Pakistan has tackled and averted a significant economic crisis caused by the surge in global commodity prices since June 2021, which was further amplified by the recovery of the global economy and the recent Russia–Ukraine conflict.¹ Foreign exchange reserves had fallen to one-and-a-half months of import cover at the end of 2022, and devastating floods in Pakistan resulted in more than US\$30 billion in economic damage. As a result, there has been a dramatic escalation in the country's need for external financing.

[5] Notwithstanding the current circumstances, Pakistan's long-run economic trajectory can be made sustainable. Pakistan's economic growth rate has been lower than regional comparators such as India and Bangladesh across the last two decades, and its GDP Per Capita has fallen behind (see *Figure 1*). Furthermore, compared to its regional peers – India, Bangladesh,

Sri Lanka and the Maldives – Pakistan has somewhat lagged across key socio-economic indicators such as infant mortality rate, literacy rate and female-to-male labour force participation rate (see *Figures 2 and 3*).

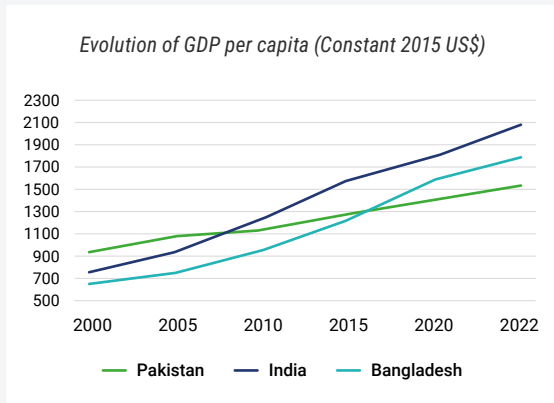
[6] Symptoms of unsustainable economic trajectory.² The country's chronic Balance of Payments (BoP) issues illustrate the underlying structural issues within Pakistan's economy. Since 2000, Pakistan has sought IMF support five times to resolve its external imbalances. The BoP issues are a manifestation of (1) previously stagnant (and recently declining) Gross Fixed Capital Formation (see *Figure 4*) due to a persistent savings-investment trap, (2) burgeoning export-import imbalance with exports remaining stagnant and import growing steadily (see *Figure 5*), and (3) consumption-driven growth, whereby growth upticks adversely impacted the Current Account balance (see *Figure 6*).



1 The Ukraine-Russia war is impacting Pakistan's energy security. Some economists believe that the conflict is costing Pakistan 1 per cent of GDP and directly contributing 9 per cent to the inflation rate.

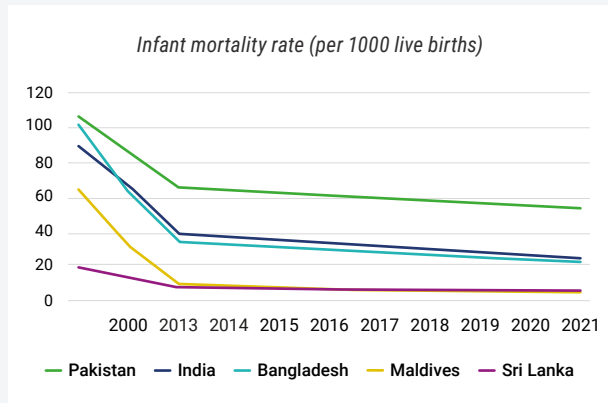
2 Despite IMF forecast of 5 per cent economic growth up to 2026, the underlying macroeconomic imbalances and associated domestic and international risks continue to put pressure on economic activities, increasing economic uncertainty. Pakistan's economic outlook depends largely on restoring political stability along with the continued implementation of current structural reforms.

FIGURE 1. EVOLUTION OF GDP PER CAPITA



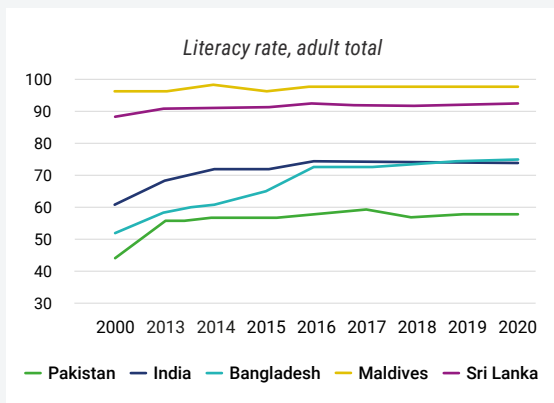
Source: WDID

FIGURE 2. INFANT MORTALITY RATE



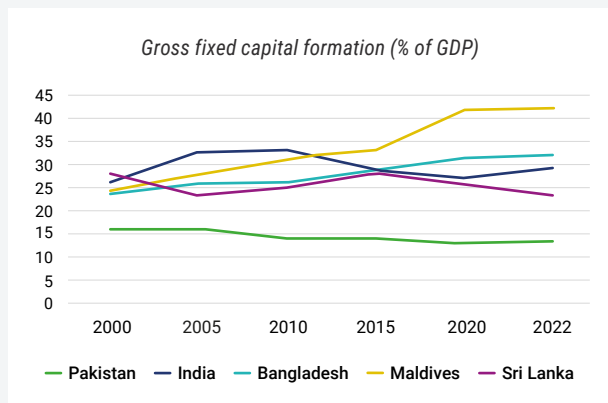
Source: WDID

FIGURE 3. LITERACY RATE



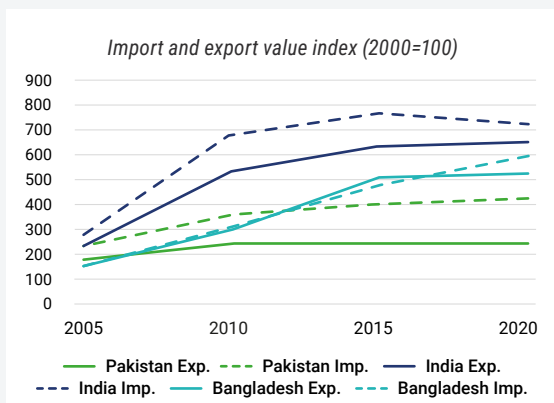
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FIGURE 4. GROSS FIXED CAPITAL FORMATION



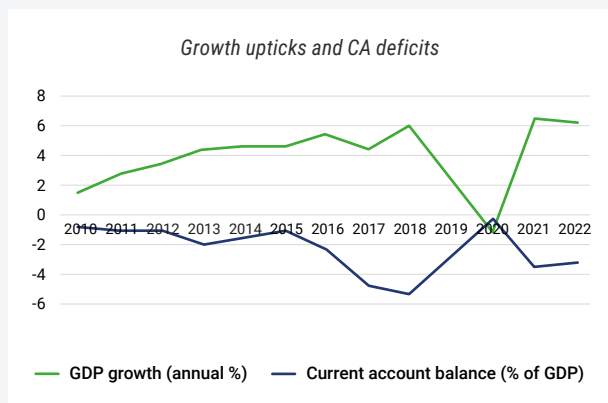
Source: WDID

FIGURE 5. IMPORT AND EXPORT VALUE INDEX



Source: WDID

FIGURE 6. INVERSE RELATIONSHIP BETWEEN GROWTH AND CA BALANCE



Source: WDID

[7] The symptoms mentioned above reflect a **lack of productive capacity** within the economy, illustrated by the steady downward slide of Pakistan's exchange rate to 279 PKR/US\$ from 83 PKR/US\$ in 2010, signifying consistently weakening trade terms. Further, labour productivity increased by merely 32 per cent in Pakistan over the last decade, which is on the lower side as compared to other regional countries. Furthermore, from 2017 to 2021, agriculture contributed around 22 per cent to Pakistan's GDP, and the industry sector contributed 19 per cent. The latter's share of the GDP of Bangladesh and India was around 33 per cent and 26 per cent, respectively.



The climate change-exacerbated floods in August 2022 affected around 33 million people, including nearly 8 million displaced.



[8] This lack of structural transformation can be rectified through the following (1) investment in human capital (health, education and nutrition), (2) **infrastructure** investments (energy, transport, water and food security), (3) more crucially, **long-term planning in terms of industrial policy** that focuses on specializing and **enhancing trade competitiveness and internalizing value-addition**, and, finally, (4) fostering persistent political stability and instituting good governance. This final factor will feature (a) **commitment towards long-term national planning** focused on channelling **investments towards tradeable sectors**, (b) shifting incentives for investments towards sectors demonstrating productivity growth rather than tax advantages and non-tradeable speculative promises (real estate), (c) **reducing turnkey investments in favour of domestic value-added creation**, (d) targeting more support towards tradeable sectors, and (e) addressing the low rates of financialization of the economy.

[9] **Critical to the success of the above recommendations is prudential fiscal management.** Pakistan's fiscal system needs to generate sufficient revenue for investment in essential public services. Pakistan's fiscal management requires an overhaul comprising (1) **broadening the tax base**, (2) emphasizing **progressive direct taxation**, (3) **tying sectoral tax advantages to productivity** and contributions to public revenue, and (4) ensuring political non-interference in and autonomy of tax collection. On the expenditure side, **prudent management of debt** is a necessity. Pakistan's high debt burden translates to debt servicing routinely being the top category in Pakistan's budget, leaving little fiscal space for public investments. The higher budget deficit makes it more difficult for the government to raise funds to finance expenditures, so the government needs to keep its growing fiscal pressures under control to avoid turning the budget deficit into pressure on foreign exchange reserves or further external borrowing. Finally, peaceful and democratic **political transitions can ensure policy continuity** conducive to realizing long-term national plans.

[10] The climate change-exacerbated floods in August 2022 affected around 33 million people, including nearly 8 million displaced. The floods took the lives of more than 1,700 people, and more than half the districts in the country were classified as 'calamity hit'. The total damage is estimated at PKR3.2 trillion (US\$14.9 billion), and the total needs are at PKR3.5 trillion (US\$16.3 billion).

3. NATIONAL DEVELOPMENT PRIORITIES



[11] Pakistan is currently guided by two medium-term plans, **Pakistan Vision 2025** and the **Resilient Recovery, Rehabilitation and Reconstruction Framework (4RF)**, which guide the recovery and response to the recent floods. The CEF for Pakistan is aligned with these currently active medium-term plans. However, a new longer-term national vision ‘Pakistan Outlook 2035’ is in the works, which focuses on a transformational path for

Pakistan’s economy by 2035, envisaging a US\$1 trillion economy with an average annual growth rate of 6 per cent. The CEF’s agriculture- and industry-led structural transformation resonates with the aspirations of Pakistan Outlook 2035. Explicit alignments will be made after the Pakistan Outlook 2035 is published and/or with the changing priorities of the government during the lifetime of the CEF.

TABLE 2. NATIONAL DEVELOPMENT PRIORITIES

Pakistan Vision 2025	Resilient Recovery, Rehabilitation, Reconstruction Framework (4RF)
V1: Developing human and social capital	SR01: Enhance governance
V2: Achieving inclusive growth	SR02: Restore livelihoods and economic opportunities
V3: Democratic governance, institutional reform and modernization of the public sector	SR03: Ensure social inclusion and participation
V4: Energy, water & food security	SR04: Restore and improve basic services and physical infrastructure
V5: Private sector & entrepreneurship-led growth	
V6: Competitive knowledge economy	
V7: Modernizing transport & regional connectivity	

4. ISDB GROUP COUNTRY ENGAGEMENT FRAMEWORK: SUPPORTING RESILIENCE AND ECONOMIC TRANSFORMATION



IsDB will finance priority development projects in Pakistan under the theme of ‘Supporting Resilience and Economic Transformation’.

4.1. CEF Objectives

[12] The primary objective of this CEF is to support Pakistan in attaining a sustainable growth trajectory through structural transformation. This CEF aims to support addressing key bottlenecks of Pakistan’s economy, highlighted in Section II, and additional complementary areas to help bolster that objective. The IsDB’s Realigned Strategy (2023–2025) has the objectives of boosting recovery, tackling poverty and building resilience, and driving green economic growth. With this strategy, the IsDB will finance priority development projects in Pakistan under the theme of ‘Supporting Resilience and Economic Transformation’; comprising two strategic pillars of **Green, Resilient and Sustainable Infrastructure** and **Inclusive Human Capital**





Development, along with the transitional cross-cutting pillar of **Flood Rehabilitation and Recovery Support**. The main pillars will be supported by the cross-cutting pillars of Islamic Finance, Women and Youth Empowerment, Climate Change and Capacity Development, and Private Sector Development. *Table 3* illustrates the structure of the CEF and its alignment with national priorities.

4.2. CEF Pillars and Priorities

[13] PILLAR 1: Green, Resilient and Sustainable Infrastructure.

This pillar will focus on supporting the country's efforts to improve the foundational infrastructure needed to support its economic transformation.

Chief among these efforts are the supply of **energy** and electricity to fuel industrial activity to curtail chronic balance of payments (BoP) issues related to energy imports, **transport** and **ICT** infrastructure to promote logistical upgrading and regional connectivity, as well as agriculture, water and sanitation to enhance food security, productivity and basic services.



[14] PILLAR 2: Inclusive Human Capital Development.

This pillar will focus on improving human capital dimensions to support Pakistan's economic transformation with the requisite human capital base. The primary focus of this pillar will be on **improving education** and alignment with industry needs, improving **healthcare** access and health outcomes.



[15] Cross-cutting Pillars. Pillars 1 and 2 complement each other and include hard and soft interventions for the comprehensive development of the prerequisites for Pakistan's economic transformation. In addition, they will be supported by the cross-cutting pillars of the following:

1. **Islamic Finance** for supporting a buoyant private sector led by SMEs and enhancing financial market depth through access to finance and Islamic Finance instruments.³
2. **Women and Youth Empowerment** to enhance women's labour force participation and to capitalize on youth readiness to contribute to Pakistan's economic transformation.

³ There are almost 3.8 million SMEs in the country, with 0.8 million (21.1 per cent) in the manufacturing sector; 1.2 million (31.6 per cent) in the services sector; and 1.8 million (47.36 per cent) commercial units. SMEs constitute nearly 90 per cent of all enterprises in Pakistan, and employ 80 per cent of non-agricultural labour force. The SME share of the annual GDP and exports is about 40 per cent.



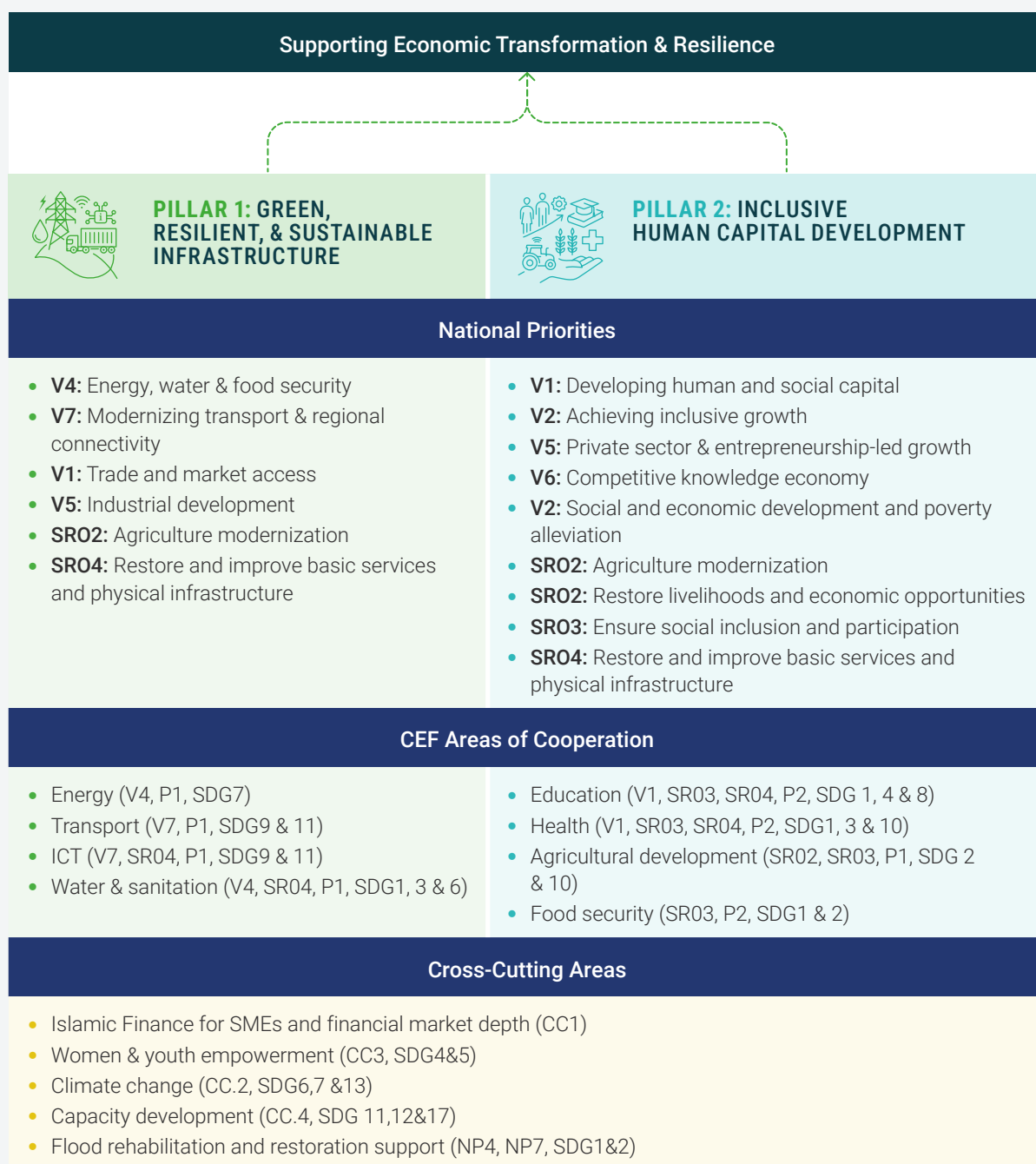
3. **Climate Change adaptation and mitigation** focused on building climate resilience and rehabilitative support from the recent floods in Pakistan.
4. **Capacity Development** through South-South and Triangular Cooperation (SSTrC) to facilitate knowledge transfer out of, and into, Pakistan in the areas of private sector and SME development, smart agriculture and agricultural research, and public administration and e-governance. There would also be a chance to explore cooperation on Reverse Linkages and other capacity development interventions (including those centred around climate action).
5. **Private sector development** – the CEF will support the government’s efforts in addressing the private sector’s key challenges in becoming more competitive and meeting the demands of a rapidly evolving global economy. The CEF will support bankable projects to enhance the share of the private sector in the economy and engage in public-private partnerships in the country.

[16] Transitional Cross-cutting Pillar and Flood Rehabilitation and Recovery Support. Aside from

“ The catastrophic floods in Pakistan in 2022 affected all four of the country’s provinces and approximately 33 per cent of its population.

long-term structural transformation-related support, the Bank will also work with the Pakistan Government and civil society organizations (CSOs) to identify projects and programs related to immediate support towards rehabilitation and recovery from the catastrophic floods in Pakistan in 2022. The floods affected all four of the country’s provinces and approximately 33 per cent of its population. This transitional pillar will be active during Pakistan’s need for support.

TABLE 3. SUPPORTING ECONOMIC TRANSFORMATION & RESILIENCE



Note: V and SRO refer to Vision 2025 and 4RF-related results areas, while P1 and P2 refer to IsDB Group’s Strategic Pillars.

4.3. IsDB Group Planned Interventions

[17] IsDB plans to prioritize public sector interventions focused on the structural transformation of Pakistan's economy, including



support through the FSRP in Pakistan. The aim is to integrate flagship programs, especially those with grant resources such as Reverse Linkages and STI, trust funds and partnership initiatives to enhance outcomes and concessionality.

[18] ICIEC supports Pakistan's economic development and food security through insurance and reinsurance services.



The corporation will collaborate with leading suppliers, provide budgetary support, explore sustainable energy and food security transactions, and assist local banks and exporters to achieve the desired outcomes.

[19] ISFD proposes a joint endowment investment program with the Pakistan Government to fight poverty.



Resources will come from ISFD, the government and other partners. One example is a joint program with the Pakistan Poverty Alleviation Fund, with ongoing discussions.

[20] ICD interventions include strengthening the Islamic finance ecosystem, financing SMEs through partner financial institutions, co-financing projects through MDBs, providing term finance support to corporates and developing Islamic debt finance markets.



[21] ITFC will support Pakistan in importing essential commodities such as oil, petroleum and LNG.



ITFC will expand financing for food, agriculture, and SME sectors, provide trade finance facilities to textile exporters, and coordinate with government entities for trade development solutions.

[22] The PPP Division aims to continue supporting the power sector and improve energy security. The Bank will explore opportunities for private sector financing in other infrastructure projects using Islamic finance and PPP modalities.

[23] Engagements will leverage the Bank's mechanisms and initiatives, such as climate action and the Food Security Response Program (FSRP), to address food insecurity and rural poverty, and enhance agricultural resilience against climate-induced disasters and vulnerabilities. (See Annex 1 for IsDB's Indicative Country Work Program and more details on planned Group activities.)



All interventions anticipated over the CEF timeframe will be aligned with the Sustainable Development Goals (SDGs) and National Priorities (Vision 2025 and 4RF).



4.4. Key Result Areas

[24] All interventions anticipated over the CEF timeframe will be aligned with the Sustainable Development Goals (SDGs) and National Priorities (Vision 2025 and 4RF). Further, the CEF aims to contribute to achieving results within the cooperation areas listed in Table 3. A CEF Results Framework with more details is provided in Annex 2. As the Work Program is implemented, specific indicators and results from the Results Based Management Framework (RBMF) of potential projects will be aggregated in the CEF Result Framework. A matrix showing the alignment of the CEF with the development challenges and related results is shown in Annex 3.

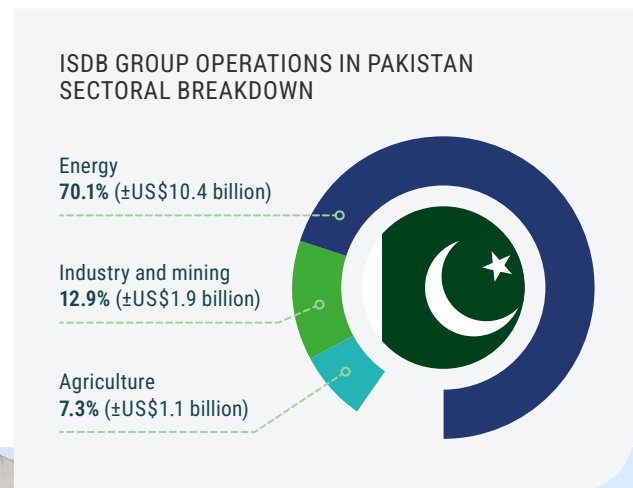
5. ISDBG PORTFOLIO & IMPLEMENTATION ARRANGEMENTS FOR CEF

“ The IsDB Group has approved a total financing of about US\$14.8 billion for Pakistan.

[26] **Modalities & Sectoral Breakdown.** Project financing represents 17.8 per cent (US\$2.6 billion) of total financing, while trade financing represents 80.5 per cent (US\$11.9 billion) and concessional financing is 1.7 per cent (US\$246.1 million). Sectoral breakdown of the IsDB Group operations in Pakistan is as follows: the sector with the highest share is energy at 70.1 per cent (about US\$10.4 billion), followed by industry and mining at 12.9 per cent (about US\$1.9 billion), and agriculture at 7.3 per cent (about US\$1.1 billion).

5.1. IsDB Group Operations in Pakistan

[25] **Overall Portfolio.** As of March 2023, the IsDB Group has approved a **total financing of about US\$14.8 billion** for Pakistan since inception. This amount includes **US\$2.7 billion in project financing by IsDB; US\$274.9 million approved by ICD; US\$7 billion in trade operations by ITFC; and US\$4.9 billion by other IsDB Group funds and operations** (which were also trade financing). In addition, ICIEC has provided **US\$6.0 billion as business insured and US\$4.0 billion as new insurance commitments.**





5.2. IsDB Portfolio in Pakistan

[27] Active Portfolio. Out of IsDB's active project portfolio of US\$350 million, US\$181 million is pre-effective, comprising one project for which the Financing Agreement was signed in March 2022 and one Emergency Grant as Flood Response.

[28] Active Portfolio Performance. The active portfolio's performance has been satisfactory, with an average PIASR rating of 0.89/1.00 across the projects in 2021 and 2022. The disbursement ratio is around 53 per cent, which will increase once the expected disbursements under the Mohmand Dam Project (PAK1049) are processed. The Cumulative Undisbursed Commitments (CUC) is around 8 per cent, with the majority being with the younger segment of the portfolio. Previously, there were no issues with counterpart financing in projects. For the new generation of projects (2021–2022), the time for signature and effectiveness were well within the policy timelines, with a continuing trend expected.

5.3. Lessons Learned and Systemic Portfolio Issues

[29] Design and Implementation Challenges. These challenges include (1) long start-up and implementation periods have been observed in projects (e.g., Basic Education for the Poor project); (2) poor design and quality at entry have impacted implementation (e.g., Support to Basic Education project); (3) lack of concerted follow-up mechanisms, especially coordination among co-financiers, has impacted project progress (e.g., Jamshoro Coal Power project); (4) insufficient attention to readiness requirements has led to delays in the first disbursement of funds, e.g., Mohmand Dam and Hydropower Project where the first disbursement was delayed due to delay in signing of a financing agreement with co-financier, and Kuwait Fund for Development (KAFED), due to a delay in the constitution of its Board; and (5) administrative or political interference in procurement matters by the EAs and local government has been a challenge (e.g., Out of School Children project).

[30] Financial Management. While the disbursement arrangements have been satisfactory across the portfolio overall, the timely preparation and submission of acceptable financial audit reports have been challenging, delaying the closure of projects, including the recent Support to Basic Education project.

[31] Project Procurement. EAs have successfully performed most procurement activities in the recent project. However, there are historical issues such as a need to enhance capacity and adherence to IsDB procurement requirements (e.g., Sindh Integrated Health and Women Empowerment Project) and agreeing on more structured and high-level acceptance of the Bank's procurement processes (e.g., delays caused in the Out of School Children Project could have been avoided).

[32] Follow-up and Oversight. Regular monitoring and follow-up mechanisms are needed to improve timely and effective project implementation (as has been demonstrated with the Polio Eradication Projects), while the lack of physical missions, despite the introduction of virtual missions, leads to supervision and oversight limitations (as observed during the CASA-1000 and Mohmand Dam and Hydropower Project physical missions).

5.4. Recommendations and Approach for CEF Implementation

[33] Implementing the recommendations summarized below will help address the issues highlighted in the previous section, apply the lessons learned, and improve the efficiency and effectiveness of project design, implementation and oversight within the portfolio.

[34] Design and Implementation. A non-exhaustive list of improvements would be to (1) ensure availability of a robust, implementable project pipeline; (2) have context-specific project designs; (3) assess the capacity and ownership of the Executing Agencies; (4) bring in smart clustering/packaging of civil works and equipment activities; (5) ensure prompt issuance of IsDB clearances; and (6) assign appropriate limits and arrangements for Special Accounts (SAs).

[35] Financial Management. These would include (1) ensure timely and effective financial audits for responsible financial practices, and (2) streamline the preparation and submission of project audit reports to facilitate financial closure.



[36] Project Procurement. These would include (1) arrange targeted procurement clinics to enhance understanding of IsDB requirements and guidelines; (2) strengthen the capacity of EAs and PMUs to navigate procurement processes effectively; and (3) the possibility of joint work with partners in Country Assessments and Procurement Reforms, including aspects such as e-Government Procurement (e-GP).

[37] Follow-up, Oversight and Monitoring. These would include (1) improve monitoring mechanisms through regular video calls, PIASRs, and progress reports; (2) conduct physical missions when conditions permit for enhanced supervision and oversight; and (3) establish and institutionalize Technical Working Groups and Steering/ Review Committees among the financiers and the Government, which could help in the CEF implementation and results monitoring, contributing towards better evaluability.

[38] Ownership and Commitment of the Counterparts. A major success factor (e.g., for the polio eradication or COVID-19 projects) is (1) the national ownership and establishment of a high-level and efficient institutional infrastructure; (2) obtaining high-level agreement and acceptance of the Bank's procurement processes, which

“ A major success factor (e.g., for the polio eradication or COVID-19 projects) is the national ownership and establishment of a high-level and efficient institutional infrastructure.

has to be cascaded; (3) obtaining prompt commitment on the availability and allocation of counterpart funds, particularly given the overall constrained fiscal space (a scenario encountered in the CASA-1000 project); and (4) requiring government assurance that the excellent payment track record of dues (capital, operations and dividends) will be maintained. Annex 4 provides a summary of specific portfolio actions emanating from the previous Country Portfolio Review Note (CPRN), in line with the above points.



5.5. CEF Programming Approach for the IsDB Work Program

[39] The CEF comprises a tentative pipeline of potential IsDB interventions in Pakistan for 2023–2025 (see *Annex 7*). This list is subject to changes based on **priority, readiness factors and guidance from IsDB management and the Pakistan Government**. The indicative **financing ranges mentioned at the project level should not be considered a commitment** from the IsDB. The finalization of the annual work program is expected to be completed by August of the preceding year, allowing for timely project preparation activities. Some key considerations in the CEF programming approach and project identification and selection guidance for the IsDB Work Program are listed below.

[40] **IsDB Quality and Prioritization Requirements** are IsDB's internal criteria that will assess various quality and prioritization parameters for each project, before being included in the three-year and Annual Work Programs as Category A or Category B projects.

[41] **Partnerships** are also an essential element of the CEF, considering the huge financing need, especially following the recent natural disaster, given that each development partner comes with its comparative advantage and value-additions. Also, given the current global and country contexts, there is a strong push among the development financiers to join hands and co-finance.

[42] **Processing Readiness** would include, but not be limited to, the readiness and quality of the project proposal (i.e., PC-1 document) from the Executing Agency, the status of internal processing and clearance of the PC-1 form, the competent national forums, the status of a capable Project Management Unit (PMU), the readiness in terms of the land clearances, and environmental and social safeguards, and other standard prerequisites.

[43] **Implementation Readiness** covers all elements ensuring quality-at-implementation dimensions, such as a detailed and up-to-date financing plan, preliminary project designs (at least at the preliminary level), project management and monitoring structures, procurement strategies and plans, and pragmatic implementation schedules.

5.6. Financing and Resource Mobilization

[44] S&P Global Ratings downgraded Pakistan due to a series of shocks from floods to surging inflation that further deteriorated the nation's external, fiscal, and economic metrics. However, Pakistan's potential attractiveness for investment can be improved through resource mobilization, co-financing and complementarity with strategic partners, and programs that will be key considerations of any project supported by the IsDB (see *Annex-5* for international Financier Map of Pakistan).

[45] During the Geneva Conference in January 2023 to garner international financial support for post-flood recovery and resilience, the IsDB Group Chairman pledged that up to US\$600 million would be provided through the IsDB Ordinary Capital Resources (OCR) for public sector projects, while up to US\$3.67 billion would be coming from the private sector, on a best-effort basis, for commodity financing. This pledge is acknowledged as a positive trigger for many other countries, financiers and institutions to make financial and technical support pledges to the country.

[46] The above-mentioned US\$4.27 billion pledge constitutes the CEF allocation of the IsDB Group, with a tentative breakdown of IsDB (US\$600 million), ITFC (US\$3.6 billion), and ICD (US\$70 million). In addition to the above, there may also be ICIEC insurance/commitments (US\$900 million). All financing support is contingent on the availability of ready, well-designed projects, co-financing/ syndication, and capacity of the executing agencies, country risk and other macro-level considerations. Subject to IsDB Group Management consideration, headroom availability and readiness of bankable projects, the CEF allocation (especially the OCR amounts) may be revisited. The higher markup rate of IsDB Group, as compared to the pricing of other development partners, is seen as a major challenge in the utilization of IsDB Group financing. The Government would request IsDB Group to provide more competitive rates, as far as possible, explore opportunities for concessional financing and grants, and add to the OCR funding to lower the overall cost of borrowing on a best-effort basis.

6. RISKS MANAGEMENT



By addressing several risks, Pakistan can enhance its resilience, promote economic stability and achieve sustainable development outcomes.

[47] Pakistan faces several risks that could impact its economic stability and the implementation of the Country Engagement Framework (CEF), including **external shocks, commodity price volatility, fiscal slippages, delays in reform implementation, political and geopolitical risks, and disaster risks related to climate change and geophysical hazards vulnerabilities.** Mitigation strategies such as **joint portfolio reviews, market monitoring, fiscal assessments, coordination with the government, financial sector supervision, and alignment with climate goals can help navigate these risks** and ensure successful CEF implementation. By addressing these challenges, Pakistan can enhance its resilience, promote economic stability and achieve sustainable development outcomes. A detailed risk matrix is provided in *Annex 6*.



ANNEX 1: INDICATIVE COUNTRY WORK PROGRAM

During the Geneva Conference in January 2023, held to garner international financial support for post-flood recovery and resilience, the IsDB Group Chairman pledged up to US\$4.27 billion over the three years from 2023 to 2025. This amount constitutes the CEF allocation of the IsDB Group, with a tentative breakdown of IsDB (US\$600 million), ITFC (US\$3.6 billion), and ICD (US\$70 million). In addition to the above, there may also be ICIEC insurance/commitments (US\$900 million). All financing support is contingent on the availability of ready, well-designed projects, co-financing/ syndication, and capacity of the executing agencies, country risk and other macro-level considerations. Subject to IsDB Group Management consideration, headroom availability and readiness of

bankable projects, the CEF allocation (especially the OCR amounts) may be revisited.

Table A1 provides the indicative IsDB Work Program over the CEF period. It is intentionally programmed to be above the OCR allocation due to the tentative nature of the pipeline projects, which may have varying degrees of readiness and other quality-at-entry factors. Only those projects that fulfil the entry requirements for IsDB processing and are within the cumulative amount of IsDB financing will be cleared for the country following internal Bank considerations. More notes are provided at the end of the table.

Table A1. Indicative IsDB Work Program for CEF (2023–2025)

No.	CEF Year	Project Name	Sector	CEF Pillar	Readiness Categorization	IsDB Financing (US\$ millions)	Co-Financing (US\$ millions)	Total Financing (US\$ millions)
1	2023	Polio Eradication Ph-IV Project	Health/ WYE	Pillar 2	Approved	100.00		
2	2023	Sindh Flood Emergency Housing Reconstruction Project	Rural Housing	CC.	Cat-A	200.00	500.00	927.28
3	2024	Chashma Right Bank Canal Irrigation Project	Agriculture	Pillar 1	TBD	75.00		
4	2024	Special Development Initiatives for Backward/ Poor Districts for Poverty Alleviation in Balochistan	Poverty Alleviation/ Finance	Pillar 2	CAT-B	98.40		
5	2024	Community Infrastructure and Admin. Strengthening Project	Rural Dev/ CDD	Pillar 1 & 2	TBD	100.00		

No.	CEF Year	Project Name	Sector	CEF Pillar	Readiness Categorization	IsDB Financing (US\$ millions)	Co-Financing (US\$ millions)	Total Financing (US\$ millions)
6	2025	16 small dams for harvesting rainwater in Sindh province	Agriculture/ Water	Pillar 1	TBD	–		
7	2025	Mohmand Dam HPP Power Evacuation Project	Energy	Pillar 1	TBD	40.00		
8	2025	Possible Line of Finance to Pakistan EXIMBANK	Multiple	Pillar 1 & 2	TBD	100.00		
9	2025	Diamer-Bhasha dam	Energy/ Agriculture	Pillar 1	TBD	75.00		
10	2025	Out of School Children Project in AJ&K	Education	Pillar 2	CAT-B	15.00		
11	2025	2nd Power Transmission Strengthening Project	Energy	Pillar 1	TBD	100.00		
12	2025	Kachi Kanal Project	Energy	Pillar 1	TBD	–		
Total						903.40	702.20	1210.44

Note 1: The above IsDB work program is tentative, and projects will be filtered, screened and processed based on the quality of design, readiness to implement, co-financing, the capacity of the executing agencies, country risk and other macro-level considerations. The Bank's country allocations will be abided by despite the total IsDB amount in the work program being larger than the US\$600 million allocated under the CEF.

Note 2: Two projects were approved in 2022 linked to Flood Relief and Recovery/ Reconstruction. They were the Emergency Response to Flood in Pakistan (US\$0.7 million) and the Sindh Integrated Health and Women Empowerment Project (US\$50.26 million). These would also be considered part of the IsDB Group's support for the Resilience pillar of the CEF, but the financing amounts of these projects (US\$50.96 million) will not be considered within the CEF envelope.

The following write-up provides more details on the intended and possible IsDB Group and PPP focus areas and activities on a best-effort basis.

ICIEC: The entity is committed to supporting Pakistan's economic development and food security through its insurance and reinsurance services. Specifically, ICIEC will do the following:



- sign with leading food and agri-commodity suppliers to provide food security relief as part of the IsDB's Food Security Response Program initiative;

- provide headroom and budgetary support to Pakistan's economy by working with other MDBs;
- continue to explore pipeline transactions with MDBs, particularly in the areas of sustainable energy and food security;
- assist the local banks – through insurance services to international confirming banks – covers to enhance the acceptability of LCs issues by Pakistani banks; and
- cooperate with EXIM Bank Pakistan to help build its capabilities and assist exporters in meeting trade credit and financing requirements.

ICD: The following is the list of activities of ICD's interventions:



- engaging directly with its FI (financial institutions) network. This action would strengthen the Islamic finance ecosystem by equipping FI clients with the right products and services and support in building required capabilities to position them as key enablers for local private sector markets;
- providing financing to SMEs using a line of finance products. The engagement with the FIs will target SMEs, the credit lines will be approved, and allocation to SMEs will be expected from partnered FIs;
- engaging indirectly with the private sector via its MDB network with a clear focus on co-financing certain projects. The corporation aims to deepen its relationships to mobilize resources and facilitate access to investment opportunities. Furthermore, the corporation envisions leveraging the expanded network for sourcing business opportunities (e.g., investment options and development projects);
- providing support to corporates and projects through its term finance product. Direct financing to the corporates will be provided based on project and corporate financing. The corporate will provide infrastructure and corporate term finance directly to the real sector. The support could be provided jointly with leading FI partners; and
- building relationships with selective and relevant non-FIs for its Sukuk advisory offerings to develop Islamic debt finance markets and support private sector players to access Shari'ah-compliant funding.

ITFC: The entity is committed to continuing its support to meet Pakistan's financial needs for importing essential commodities.



Listed below are some of the specific areas of intervention:

- providing financing facilities to meet Pakistan's import of crude oil, petroleum products, and LNG;
- expanding its financing to the food and agricultural sector as part of ISDB's food security program;
- supporting the SME sector by providing lines of finance to local banks. The banks will use these lines to provide trade finance facilities to their SME clients in the country;

- supporting the textile sector through the 'Supplier Financing Scheme'. This facility will provide textile exporters with the cash needed in a timely manner, allowing them to expand production and increase the country's overall export capacity; and
- coordinating with relevant governmental entities to provide trade development solutions such as (1) trade-related capacity building and training, (2) Trade Related Technical Assistance (TRTA), and (3) trade facilitation and promotion.

ISFD: The ISFD, as the IsDB's arm in fighting poverty, proposes to establish a joint endowment investment program with the Pakistan government. The ISFD, the Pakistan government and other partners will provide the program resources. The initial size of the program will be agreed upon with the Pakistan government. The resources of the program will be invested, and the income generated will be used, on a grant basis, to finance programs in poverty alleviation in accordance with the proposed Country Engagement Framework for Pakistan and the ISFD strategy (contribution to priority 1 of pillar 1, and priority 2 of pillar 2). The ISFD has started discussions with the Pakistan Poverty Alleviation Fund (PPAF) for such an initiative. The program is also open to other donors, philanthropists, and partners.



PPP: The division is committed to maintaining the existing portfolio in the power sector, addressing the electricity supply and improving energy security in the country. The division will also look at opportunities to finance private-sector involvement in other infrastructure projects under the Islamic finance structure in a well-designed PPP modality. This intervention will consider all relevant factors, such as country rating, headroom and bankability of such projects.

ANNEX 2: RESULTS FRAMEWORK

The Result Indicators Framework presented below was derived from Pakistan’s national development plan (Pakistan 2025). The CEF will actively contribute to these result indicators, aligning IsDBG organizational initiatives with the objectives of Pakistan 2025. Through proposed strategic planning and concerted efforts, the CEF aims to play a significant role in supporting Pakistan in achieving milestones that contribute to

broader socio-economic progress. All interventions anticipated over the CEF timeframe will be aligned with the Sustainable Development Goals (SDGs), National Priorities and specific indicators of the IsDB’s Results Based Management Framework (RBMF) as potential projects from the indicative pipeline are entered into the IsDB’s project cycle.

Table A2. Tentative Indicators and Results Areas expected across the CEF Pillars

CEF Outcomes	Key Results Indicators
PILLAR 1: GREEN, RESILIENT, AND SUSTAINABLE INFRASTRUCTURE	
Priority 1. Supporting the Energy Sector	
Supporting the country’s efforts to improve energy and electricity supply, especially in rural areas. Improving energy sector infrastructure, contributing to energy independence and energy efficiency needed to fuel structural transformation.	<ul style="list-style-type: none"> • Double the power generation to 42,000 MW to provide uninterrupted and affordable electricity, and increase electricity access from 67% to over 90% of the population by 2025 (number and percentage) • Reduce average cost per unit by over 25% by improving generation mix (15%) and reducing distribution losses (10%) (percentage) • Increase the percentage of indigenous sources of power generation to over 50% (percentage) • Address demand management by increasing usage of energy-efficient appliances/ products to 80% (percentage)
Priority 2. Supporting Transport Sector	
Supporting the country’s efforts to improve transportation and communication networks, to promote logistical upgradation, regional connectivity and domestic trade.	<ul style="list-style-type: none"> • Increase road density from 32 km/100 km² to 64 km/100 km², and share of rail in transport from 4% to 20% number and percentage) • Increase the number of tourist arrivals to 2 million (number)
Priority 3. Promoting ICT	
Supporting the government in leveraging ICT to drive socio-economic development in the country.	<ul style="list-style-type: none"> • Improve Pakistan’s score on the World Bank Institute’s Knowledge Economy Index from 2.2 to 4.0, and increase internet penetration to over 50% (percentage) • Triple labour and capital productivity (number)
Priority 4. Water & Sanitation	
Supporting the efforts of the country to enhance water resources & sanitation management.	<ul style="list-style-type: none"> • Increase the proportion of the population with access to improved sanitation from 48% to 90% (percentage)

CEF Outcomes	Key Results Indicators
PILLAR 2: INCLUSIVE HUMAN CAPITAL DEVELOPMENT	
Priority 1. Education	
Improving the education environment and facilitating system strengthening for sustainable implementation of an inclusive, competency-based education system to provide the human resource base needed to support structural transformation.	<ul style="list-style-type: none"> • Increase Primary school enrolment and completion rate to 100% & literacy rate to 90% (percentage) • Increase Higher Education coverage from 7% to 12%, and increase no. of PhDs from 7,000 to 15,000 (percentage and number) • Improve Primary and Secondary Gender Parity Index to 1, and increase female workforce participation rate from 24% to 45% (percentage)
Priority 2. Health	
Supporting the country's efforts to improve health outcomes to improve human capital.	<ul style="list-style-type: none"> • Reduce infant mortality rate from 74 to less than 40 (per 1,000 births) and reduce maternal mortality rate from 276 to less than 140 (per 1,000 births) • Reduce the incidence/ prevalence of hepatitis, diarrhoea, polio, diabetes and heart disease by 50% (percentage)
Priority 3. Agricultural Development	
Improving agriculture productivity to position agriculture as a key export industry and addressing food security.	<ul style="list-style-type: none"> • Increase storage capacity to 90 days, improve efficiency of usage in agriculture by 20%, and ensure access to clean drinking water (percentage) • Reduce food insecure population from 60% to 30% (percentage) • Reduce poverty level by half (percentage) • Triple labour and capital productivity
CEF CROSS-CUTTING THEMATIC AREAS	
Islamic Finance for SMEs and Financial Market Depth	
Mainstreaming Islamic Finance into its financial systems to enhance access to finance and financial market depth.	<ul style="list-style-type: none"> • Ensure social, financial inclusion and participation by creating an enabling investment environment • Increase diaspora investment (via remittances) in the private sector from US\$14 billion to US\$40 billion (number)
Women & Youth Empowerment	
Supporting government initiatives and commitments to empowering women and youth in the country's socio-economic development.	<ul style="list-style-type: none"> • Triple labour and capital productivity (number) • Ensure social, financial inclusion and participation by creating an enabling investment environment • Reduce poverty level by half (number)
Climate Change	
Supporting the government in strengthening disaster preparedness and response, implementing climate-resilient agriculture practices and increasing the potential for deployment of green and sustainable finance	<ul style="list-style-type: none"> • Increase storage capacity to 90 days, improve efficiency of usage in agriculture by 20%, and ensure access to clean drinking water for all Pakistanis (percentage)

CEF Outcomes	Key Results Indicators
Capacity development	
Supporting the country to address public administration challenges and the structural determinants of productivity and competitiveness. CEF will focus on the exchange of skills, knowledge, technology and know-how by using various tools such as the Technical Cooperation Program and the Reverse Linkage mechanism	<ul style="list-style-type: none"> • Create at least five global Pakistani brands (having more than 50% of sales coming from consumers outside Pakistan), and make 'Made in Pakistan' a symbol of quality (number and percentage) • Rank in the top 50 countries on the World Bank's 'Ease of Doing Business' Rankings • Increase annual Foreign Direct Investment from US\$600 million to over US\$15 billion.
Flood Rehabilitation and Restoration Support	
Supporting the country's response to the recent flood and its consequences, including food insecurity and rural poverty.	<ul style="list-style-type: none"> • The CEF will also work with the Government of Pakistan to identify projects and programs related to immediate support towards rehabilitation and restoration from the recent catastrophic floods in Pakistan. This transitional pillar will be active during Pakistan's need for support

Note: The above indicators are imported from Pakistan 2025.

ANNEX 3: DEVELOPMENT CHALLENGES ALIGNMENT MATRIX

Table A3. Alignment of development challenges with national priorities, IsDB strategic priorities and the SDGs

Key Development Challenges	National Priorities	IsDB Strategic Realignment 2023–2025	SDGs Alignment
Energy. Inadequate energy infrastructure and low electrification to fuel structural transformation.	V4. Energy, water & food security	P1. Green, resilient and sustainable infrastructure P2. Inclusive human capital development C2, C4. Cross-cutting areas: Capacity development, Climate change	SDGs 7, 9, 13
Transport & ICT. Poor logistics performance and regional connectivity to support industrialization.	V7. Modernizing transport & regional connectivity SR04. Restore and improve basic services and physical infrastructure	P1. Green, resilient and sustainable infrastructure C3, C4. Cross-cutting areas: Women & youth empowerment, Capacity development	SDGs 3, 4, 5, 6, 8, 9
Agriculture & food security. Low agricultural transformation, productivity and high food insecurity.	SR02. Restore livelihoods and economic opportunities SR03. Ensure social inclusion and participation	P1. Green, resilient and sustainable infrastructure C1, C2, C3 and C4.	SDGs 1, 2, 3, 8, 10, 13
Water & sanitation. Inadequate water and sanitation infrastructure to support human capital development and agricultural transformation.	V4. Energy, water & food security SR04: Restore and improve basic services and physical infrastructure	P1. Green, resilient and sustainable infrastructure C2 & C4.	
Health & education. Low health outcomes, literacy rate and skills development for structural transformation.	V1. Developing human and social capital SR03. Ensure social inclusion and participation SR04. Restore and improve basic services and physical infrastructure	P2. Inclusive human capital development C3. Cross-cutting areas: Women & youth empowerment	SDGs 1, 4, 5, 8, 10
Low financial market depth.	V2. Achieving inclusive growth V5. Private sector & entrepreneurship-led growth SR03. Ensure social inclusion and participation	P2. Inclusive human capital development C1, C3, C4. Cross-cutting areas: Islamic finance, Women & youth empowerment, Capacity development	SDGs 1, 2, 3, 5, 8, 9, 10

ANNEX 4: PORTFOLIO IMPLEMENTATION ACTION PLAN

Table A4. Plan for implementation of the project portfolio

Code	Project name	Ops	Appr. Am. (US\$m)	Disb. Am. (US\$m)	Issues	Actions Required	Responsible Entity	By When
Economic Infrastructure								
PAK0155	Central Asia South Asia Electricity Transmission and Trade Project (CASA-1000)	Ijarah	35.00	25.52	<ul style="list-style-type: none"> NTDC (the EA) requested additional financing of US\$14.3 million to cover the cost increase due to 1) the revision of BOQ, 2) price adjustment due to escalation of rates of supply material, and 3) increase in price due to change in tower foundation type and price. Previously, based on the EA's request, the remaining available funds under the project were solely allocated for US\$ portions. The additional financing would target mainly the PKR portions of the TW02 contract. The request was later revised to US\$7.5-8 million on 10 October 2022. Advance payment and performance guarantees are lacking for the increased L/Cs under the project. RAP of HVDC T/L has been approved by the World Bank and NTDC. RAP of Electrode station and Electrode line has been approved by the World Bank and with approval from NTDC. ESIA for HVDC T/L has been approved by WB. ESIA for Electrode station and Electrode line is submitted to WB for NOL. 	<ul style="list-style-type: none"> NTDC to submit the justification report and the complimentary information requested by the RHT Ops team regarding the additional financing request. Additional advance payment and performance guarantees need to be submitted. NTDC to update the RHT Ops team regularly on the developments regarding the RAP/ESIA, the halted activities, the flood impact and the recovery status. Resuming the construction works in AFG is the most critical matter under the master CASA-1000 project. Hence, the reactivation of three lots in AFG territory shall be closely followed up. 	NTDC	31 Dec 2022

Code	Project name	Ops	Appr. Am. (US\$m)	Disb. Am. (US\$m)	Issues	Actions Required	Responsible Entity	By When
Economic Infrastructure cont.								
PAK0155 cont.					<ul style="list-style-type: none"> Foundation construction activities were halted at multiple tower locations due to the pending approval of the rock-blasting material permit. NTDC recently got the no-objection notice from the Ministry of Interior and is liaising with the local administration to get consent from the security agencies. Due to the recent flood situation in District Charsadda, NTDC served a Force Majeure notice to the contractor on 23 September 2022. Once the affected sites are restored, the contractor will be instructed to resume the activities on the Earth Electrode line. Since 30 September 2021, all CASA-1000 activities in AFG have been suspended. 			
PAK1049	Mohmand Dam Hydropower Project	I. Sale	180.00	N/A	<ul style="list-style-type: none"> The ISDB FA has yet to be declared effective since the FAs with SFD and KFAED have not been signed. Both SFD and KFAED have recently conducted their appraisal missions. The respective FAs were expected to be signed by the end of 2022. Diversion Tunnels were flooded and submerged during the flood on Aug 26-28, 2022. Assessment of damages to structures of MDHP, the implementation delays induced by the flood and the remedy plan development are needed. In line with the project's RRP/PAD, a WASH program needs to be developed for the KP region. 	<ul style="list-style-type: none"> To follow up on the SFD and KFAED FA signing processes. To prepare and submit the detailed flood-impact assessment report and the remedy action plan. Regularly submit the progress reports by the Contractor and the Consultant. Report on the PIASR follow-up actions. To propose potential NGOs for WASH activities in the KP region. 	EAD WAPDA Consultant	31 Dec 2022

Code	Project name	Ops	Appr. Am. (US\$m)	Disb. Am. (US\$m)	Issues	Actions Required	Responsible Entity	By When
Social Infrastructure								
PAK1054	IVAC COVID-19 Vaccine Support for Pakistan	I. Sale ISFD Loan	70.00 2.5		The project was approved and signed, and the first disbursement were all made in a record time of under two months. The project is physically and financially completed, and closure is underway.	<ul style="list-style-type: none"> EA to finalize the return of unutilized funds Borrower and EA to concur with DRSS The Bank to finalize financial closure 	EA EA and EAD IsDB	Nov 2023
PAK1057	Sindh Integrated Health and Women Empowerment Project	I. Sale IsDB Loan IsDB Grant	40.00 10.00 0.26		The project was approved and signed. The effectiveness declaration process is awaiting the submission of documents from the Government. In parallel, preparations are being initiated for the first disbursement and implementation start-up.	<ul style="list-style-type: none"> Govt. to submit effectiveness documentation Preparation for disbursement Implementation plans 	EAD EA and EAD EA	Aug 2023 Aug 2023 Sep 2023
PAK1058	Polio Eradication Phase-IV Project	I. Sale	100.00		The project was approved in the May BED. The draft FAs were shared by the Government. The BMGF Agreement is undergoing the signing process by IsDB. The effectiveness declaration process is awaiting the submission of documents from the Government. In parallel, preparations are being initiated for the first disbursement.	<ul style="list-style-type: none"> Govt. to concur to the draft FAs FAs to be signed Govt. to submit effectiveness documentation Preparation for disbursement 	EAD EAD and IsDB EAD EA and EAD	Aug 2023 Aug 2023 Aug 2023 Sep 2023

Code	Project name	Ops	Appr. Am. (US\$m)	Disb. Am. (US\$m)	Issues	Actions Required	Responsible Entity	By When
Grants								
PAK1015	Reverse Linkage Project between Pakistan and Turkey on Earthquake Seismological Research	Grant (Waqf)	0.27	0.16	The Project is active and progressing. Twelve staff members from the Pakistan Meteorological Department (PMD) attended training programs under the project during Q1/2022. Also, MRC experts visited PMD Pakistan to follow up on the training of PMD professionals in the country. Activities will continue with the professional training of twelve staff from PMD (phase 2). With the completion of additional activities via contingency funds, training programs in Turkey and on-the-job training in Pakistan, the project will be en route to a successful closure.	<ul style="list-style-type: none"> Promotional video production and procurement of geophones Organizing six training courses for Pakistani staff in Turkey Conducting six visits by Turkish experts to Pakistan to deliver on-the-job training. Project closure 	MRC, Turkey; PMD, Pakistan	Dec 2022
							IsDB, TIKA and SESRIC.	Mar 2023
								Jun 2023
								Jul 2023

ANNEX 5: INTERNATIONAL FINANCIER MAP OF PAKISTAN

Table A5. Development partners and sectors/themes

Development Partner (Indicative average annual loans/ grants 2021–2022)	Sectors									Cross-cutting themes	
	Energy	Trade Finance	Roads	Water & Sanitation	Agriculture	Public Finance	Private Sector	Health	Education	Regional Cooperation	Youth & Gender
Chinese Eximbank (US\$131m)			✓								
WB (US\$630m)	✓		✓	✓	✓	✓		✓	✓		
ADB (US\$3.8b)	✓		✓	✓	✓	✓	✓	✓			✓
IMF (US\$3b)						✓					
OPEC Fund (US\$1m)				✓	✓						
Asian Infrastructure Bank (US\$450m)								✓			✓
IFC (US\$680m)		✓					✓				
IsDBG (US\$252m)	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓

Sources: operational data obtained from institution websites. However, it should be noted that several organizations are expected to ramp up their financial support to Pakistan in 2023 and beyond, in line with IMF financial support.

ANNEX 6: RISKS TO CEF AND MITIGATION MEASURES

Table A6. Potential risks to the CEF and corresponding mitigation measures

Risks	Scale	Mitigation
External Shocks/Global Uncertainty. Domestic and international risks continue to pressure economic activities, increasing economic uncertainty. The economic outlook depends mainly on restoring political stability. The outlook is uncertain due to the Russia-Ukraine conflict, which has created significant uncertainty about international commodity prices and global financial conditions.	Medium	Pakistan is vulnerable to direct and indirect spillovers from regional conflicts. CEF pillars will help the country to be more resilient against internal shocks. It is advisable to hold regular joint country portfolio reviews with the Pakistan Government to mitigate this risk.
Commodity price shocks. The Russia-Ukraine conflict has created significant uncertainty about the outlook for international commodity prices and global financial conditions. Given the country's dependency on imports, supply chain and market disruptions are at risk. The projects under CEF implementation may be affected.	High/ Medium	Pakistan depends heavily on commodity revenue, and commodity price volatility would adversely affect its external and fiscal positions. Last year's floods destroyed a large portion of agricultural products, necessitating an adjustment in electricity prices, along with exchange rate depreciation and a rapid increase in global fuel and commodity prices, as well as the lag effect of the large budget deficit during previous years. CEF will engage with the government to mitigate this risk via market monitoring and ensuring government contribution in case of budget overrun due to supply chain disruption.
The risk of fiscal slippages is increasing. Public finances are expected to come under pressure due to weakening growth prospects, a decline in tax revenues, the provision of relief to vulnerable people, and governments' supportive measures. This situation may hamper the achievements of CEF results.	High/ Medium	CEF will thoroughly assess the government's fiscal situation and agree on the project's financial arrangements before processing any project.
External resources remain under pressure, and the potential impact of delay in improving the business environment and implementing reforms can impact CEF implementation.	Medium	Many positive initial steps have already been taken to improve the decision-making effectiveness of business processes, enabling environment and implementation. However, any potential delays in continuity and/ or robustness may slow down or negatively impact the intended results. CEF will ensure coordination of its operations with the Government to ensure the impact of its interventions.

Risks	Scale	Mitigation
Pakistan's financial sector can be exposed to political and geopolitical risks , including changes in government policies, regional tensions, and international economic developments. These risks can affect investor confidence, capital flows, and overall stability in the financial markets.	Medium	CEF will closely follow up with the financial system in channelling support to the private sector and strengthening supervision for early detection of emerging risks and crisis management and bank resolution frameworks.
Climate Change and Natural Disaster Risk. Climate change is considered one of the greatest threats to economic stability. Pakistan's vulnerability to climate change is increasing due to changing demographic patterns, environmental degradation, limited natural resource management mechanisms and dependence on agriculture. The most vulnerable to climate change in Pakistan are small landholders who form more than 80% of the total farming population in the country.	High/ Medium	The IsDB, alongside other MDBs, is committed to aligning its operations with the goals of the Paris Agreement. Specifically, ensuring the Bank's operations are consistent with member countries' low-emissions and climate-resilient development pathways. To reflect and pursue the actualization of its commitment, the Bank has identified strategic sectors and activities with the potential to reduce emissions, drive green growth and build long-term climate resilience in the country.
Project Risk. Implementation delays and capacity constraints.	Medium	At the design stages, due attention would be given to strengthening the Executing Agencies and the related Project Management Units (PMUs) through adequate staffing and capacity building. At the start-up stages, there would be an acceleration in the signing, effectiveness and procurement planning. During implementation, there would be the institution of Technical Working Groups, technical backstopping, and intensive field monitoring.
Project Risk. Cost overrun due to changes in physical quantities and/ or prices may arise during the project implementation.	Medium/ Low	During project design, care would be taken to ensure that the detailed costing would be up-to-date and based on market value, with adequate contingencies for physical and financial variations.

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