PAKISTAN

Country Partnership Strategy

2013-2014

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I. Basic Macroeconomic Indicators

Table 1: Basic Macroeconomic Indicators

Key Indicators: Pakistan 2008-2012	2007-08	2008-09	2009-10	2010-11	2011-12
Population (mid-year; mln)	161.0	168.2	171.7	175.3	178.9
Average exchange rate (PAK/ USD)	62.6	78.5	83.8	85.5	89.2
Inflation rate (CPI average; %)	12.0	17.0	10.1	13.7	11.0
GDP at current prices, (nat. currency bln)	10,243	12,724	14,804	18,033	20,654
GDP at current prices (USD, bln)	164	162	177	211	232
GDP / capita (in current. prices; USD)	1,038	990	1,068	1,258	1372
Real GDP growth (%)	3.7	1.7	3.1	3.0	3.7
Unemployment rate (%)	5.2	5.2	5.5	6.0	6.0
Remittances, net (USD bln)	6.5	7.8	8.9	11.2	13.2
Direct foreign investment (USD bln)	5.4	3.7	2.2	1.6	0.8
Consolidated budget balance / GDP (%)	-7.6	-5.3	-6.3	-6.6	-6.6
Gross government debt / GDP (%)	58.7	56.1	55.7	56.1	55.6
Exports (fob, USD bln)	20.4	19.1	19.7	25.4	24.7
Imports (fob USD bln)	35.4	31.7	31.2	35.9	40.1
Trade balance (exp. fob. - imp.fob.; USD bln)	-15.0	-12.6	-11.5	-10.5	-15.5
Current account balance (USD bln)	-13.9	-9.3	-3.9	0.2	-4.6
Current account / GDP (%)	-8.5	-5.7	-2.2	0.1	-2.0
Official reserves(excl.gold; eop; USD bln)	8.7	9.5	13.1	15.7	10.9

Sources:

(1) State Bank of Pakistan.
(2) Pakistan Bureau of Statistics
(3) Ministry of Finance

II. Economic Overview and Outlook

Real Sector

Due to the critical external and internal challenges over the past four years, the Pakistan economy has fallen back from its strong growth performance during the global economic pre-crisis era. The economy has experienced an average annual growth rate of 6.6% after the following six years since FY02 which is the long-term trend potential of the economy. But real economic growth started to slow down starting in 2008 with the effects of the global crisis showing its presence. Pakistan attained a real GDP growth of 3.7% in fiscal year FY08 against the target growth rate of 7.2%. In the global crisis year of FY09, economic growth scaled back sharply and a moderate expansion of 1.7% was recorded.

The economy is still recovering from the adverse effects of the floods of 2010 and 2011, as real GDP growth rebounded slightly to 3.7% during fiscal year FY12 which is higher than the 3.0% realized in the previous year, but less than the target of 4.2%. Even though the economy has shown some resilience in terms of GDP growth, the key macro indicators still remain weak. During the last three years the economy is under a stabilization process where the average economic growth came down to 3.2% which is half the growth rate required for a sustained increase in employment and a reduction in poverty.

Per capita income is continuing to increase and is up 35% in FY12 compared to FY08. The per capita income has increased from USD 582 in FY03 to USD 1,372 in FY12. The major factors, which contributed in the rise of per capita income, include acceleration in real GDP growth, inflows of workers remittances and the stable exchange rate.

Economic growth has taken a hit from the investment channel which was adversely affected by external and internal factors during the last years. Total investment has declined from 22.1% of GDP in FY08 to almost half the rate at 12.5% of GDP in FY12. The fall in investment’s share in GDP was all across the board as fixed investment plunged to 10.9% of GDP in FY12 from 20.5% of GDP in FY08. On the other hand, private investment collapsed down to 7.9% in FY12 compared to 15% of GDP in FY08 while public investment as a percent of GDP also declined to 3% in FY12 against the 5.4% in FY08.

Continued security issues, unresolved energy problems, and two major floods have limited economic growth and employment creation. In order to achieve the required economic growth in this environment, the government’s new growth strategy framework decided to put emphasis on productivity and efficiency, to build a better government and markets, to implement sustained reforms in public sector management, to develop competitive markets, and to improve urban management.

External Sector

Despite the slowing down of the world trade, Pakistan’s external sector showed positive developments over the last several years. Exports from Pakistan peaked in 2010-11 at USD 25.4 billion which is up by a quarter from a year ago and was the first time in history for exports to cross the USD 20 billion mark. The strong export performance continued in 2011-12 which was supported by high cotton prices even though the country went through the negative effects of the energy shortages domestically and the slowdown of external demand. The economy managed to export USD 24.7 billion as decline in the quantity of exports was matched by increase in the unit values of the majority of items.

The effect of strong export performance was overshadowed when the imports outpaced the rise in exports over the last two years as a result of oil prices surging from USD 76 per barrel in July 2010 to USD 115 per barrel in August 2012. Imports hit USD 40.1 billion in 2011-12, up by USD 4 billion compared to a year ago as a result of 70% year-to-year (y/y) rise in petroleum product category. The share of exports in imports deteriorated 10 percentage points to 61% in 2011-12 which erased the gains experienced since FY07.

The most significant development during the 2010-11 was the historic performance of the external sector which registered a very rare current account surplus despite being very small at the tune of USD 100 million. Most probably the biggest support to this development came from the remittances recording double digit growth and reached a historic level of more than USD 11.2 billion in 2010-11. The positive trend continued in 2011-12 when remittances notched another record of USD 13.2 billion but failing to save the current account from falling into negative territory once again. The combined effect of strong exports and remittances was reflected in the growth of external reserves which also touched a historic high of USD 17.1 billion at the end of April, 2011.

The deterioration in current account balance that started in final months of FY12 is continuing in 2012-13. Current account turned negative in the first five months of FY13 on the back of decline in monthly remittances to USD 1 billion, and higher interest payments. This development together with the re-payments to IMF put pressure on the local currency.

Pakistan made payment of eight installments of Stand-By Arrangement (SBA) program. Total payments made to IMF under SBA from February-December 2012 amount to USD 2.2 billion, while payments due for the remaining part of FY13 amount to USD 1.5 billion. Due to weak financial account failing to offset the current account and repayments to IMF, the reserves of the State Bank of Pakistan (SBP) are estimated to fall to USD 5.7 billion by June 2013.

Table 2 and 3 show that despite all the inter-governmental efforts, trade volume of Pakistan with Turkey and Iran is either declining or at best, stagnant over the last years. Turkish-Pakistani trade volume fell from its peak of USD 1 billion reached in 2011 while the scale back is much more severe between Iran and Pakistan.

Table 2. Turkey-Pakistan Foreign Trade Figures (USD, Mln)

	2007	2008	2009	2010	2011	2012*
Trade from Turkey to Pakistan	157	155	163	248	213	253
Trade from Pakistan to Turkey	531	586	619	749	873	522

Source: Turkish Statistical Institute , *January- December 2012

Table 3. Iran-Pakistan Foreign Trade Figures (USD, Mln)

	2006-7	2007-8	2008-9	2009-0	2010-11	2011-12
Trade from Iran to Pakistan	312	381	506	1,017	302	123
Trade from Pakistan to Iran	178	103	187	203	128	131

Source: State Bank of Pakistan (SBP)

Fiscal Outlook

Low tax revenue is a structural issue for the economy as tax revenues historically have remained stagnant at 9-10% of GDP which is one of the lowest globally. The general government deficit (excluding grants) reached 6.6% of GDP in FY11, the highest level since the 2008 crisis. High spending on agriculture and energy subsidies, security, and interest, as well as a 15% salary increase lead the way for budget deterioration. The same fiscal weakness continued in FY12 when the budget gave another 6.6% GDP deficit.

However adding Rs. 391 billion (1.9% of the GDP) “one off” payment on account of debt consolidation, the budget deficit reaches to 8.5% of the GDP during FY12. Government shifting source of deficit financing from external and non-bank sources to bank financing, including the SBP, crowded out the private sector access to finance. Getting the fiscal deficit under control is vital to safeguarding macroeconomic stability and setting the foundations for higher growth the economy desperately needs.

Pakistan economy continues to go through hard times. The country’s large external debt remains the biggest threat to medium-term stability. External debt increased from USD 44 billion in October 2008 to USD 65 billion in June 2012. Annual external debt payments are projected to average USD 4.5 billion from FY11-FY15, including repayments of the IMF loan. As a result, CDS spreads for Pakistan have been very volatile over the past years. As of Q4 2012, the spread is fluctuating around 750 points.

The IMF ended a three-year USD 11 billion program with Pakistan in 2011 year after disbursing only around USD 8 billion. External financing will remain a challenge, especially as private investment, including FDI, slows sharply. The reserves held by SBP have dropped to USD 9.0bn in early December 2012.

Due to the potential difficulties in external debt financing capacity, Moody's in summer 2012 downgraded Pakistan's foreign and local currency long term bond ratings by one notch to Caa1 from B3. The government's difficulty to get a massive budget and mounting trade deficit under control coupled with deteriorating domestic and external conditions may force Pakistan to return to IMF for financial assistance once again after the 2013 elections.

Inflation Dynamics

Persistent core inflation is one of the key challenges for Pakistan since 2008. Before that, inflation had averaged about 5.5% for more than a decade. But the global commodity price shocks in 2008 and a resulting sharp depreciation of the rupee led to a spike in inflation which was not been taken under control yet. SBP financing of the fiscal deficit is an important driver of double digit persistent inflation over the last several years.

CPI average inflation fell from its peak of 17.1% recorded in FY09 but remained at double digits over the next three years. The consumer inflation ended FY12 at 11% but was on a disinflation trend since May 2012 due to fall in food and energy components. Revision in inflation basket also played a crucial role in reducing the inflation numbers for the first half of FY13.

CPI inflation dropped as low as 6.93% in November 2012 which was a 32-month low. The decelerations in prices were driven by fall in perishable food inflation. Core inflation also dropped to a 16-month low of 9.7% in November. But the disinflation trend is likely to take a hit in remainder of FY13 due to pending decisions on CNG and wheat prices.

Monetary Policy

In order to accommodate fiscal deficits, SBP has adopted an expansionary monetary policy stance since early 2011-12. SBP cut its policy rate by a cumulative 200 basis points to 12% in July-September 2011 and stuck to it till the end of FY12. In August 2012, SBP cut discount rate by 150 basis points (bps) to 10.5% supported by the disinflation process. Benefitting from increased comfort from the recent disinflation process, SBP continued its monetary easing path in order to encourage lending to private sector.

SBP cut discount rate yet again this time by 50bps to 10.0% in November 2012 taking it to levels last seen in the second half of FY07. In the December 2012 monetary policy review, State Bank of Pakistan reduced the discount rate by 50bps to 9.5%, due to faster than projected deceleration in CPI inflation and single digit core inflation. This brings the discount rate at par with the government's inflation target for FY13E.

The fact that core inflation has remained sticky over 10% since August 2011 intensifies the belief that headline inflation is not under control yet. Headline inflation rate is expected to be back in double digits by second half of FY13 which is likely to reverse the rate cutting trend. The stop in headline and core inflation figures cuts the likelihood for continuation of the easing cycle while the Export Refinance Rates (ERF) being lowered by 20 basis points, effective January 2013, is another hint that the easing cycle has ended and the economy can face a rate reversal in H2 FY13.

Labor market

Generating employment for a young and fast-growing population is a key policy challenge for the economy. Pakistan's population has grown by an average 2.2% per annum over the past decade, taking its labor force to amount to 58 million in 2010-11 while participation rate was only 33%, which is very low in relation to its comparators. The official recorded unemployment is low at 6% by the end of FY12, only 0.8 percentage points higher compared to the global crisis year of 2008. Surveys show that a large part of the employed labor force is unpaid, works less than 35 hours a week, and works in the informal sector.

The real economic growth falling to half of its potential is likely to create issues in the medium-run to absorb the rising labor force, causing unemployment to rise. According to recent estimates, there are around 8,000 new labor force entrants every day in Pakistan. Considering that the economy needs to perform around 7% in order to meet the job demands of the new entrants and to drop the unemployment rate, the restoration of macroeconomic stability is of utmost importance for the country.

Future Outlook

There are several potential risks that may hurt the growth projections of the economy. Pakistan in recent years is seen as a big challenge and a risk for many investors due to law and order situations and crippling power shortages. According to the government's own estimates, the overall power crisis cost the economy close to 2.0% of GDP in the past years.

Fiscal challenges are another risk factor that the economy will live with as the budget deficit to GDP ratio is not projected to come back to pre-crisis levels in the medium term. As a result, external and total public debts to GDP ratios are expected to show and increasing trend over the next couple of years.

Fall in investment is an important item that is likely to hurt the economy in the medium term. Foreign direct investment in the past few years continued its downward journey to reach USD 708 million during FY12 from USD 5.45 billion in FY08. The declining trend in FDI is likely to have long term repercussions on the economic progression.

Looking forward, economic growth is projected to perform at a stable 3.5% rate in the medium term which is 2.8 percentage points lower than the average achieved in the last three years before the global economic crisis. The current account as percentage of GDP is projected to be below 3% which is not a risk element but the level of current account estimated to be USD 5 billion on average over the next few years is a downside factor that has the potential to hurt the official reserves, local currency, and inflation in the short term to medium term.

III. Review of Bank's Operations

The Bank's operations have been growing in Pakistan across following means i.e. lending through financial intermediaries, project and corporate finance loans. From the beginning of operations in 2008, the total disbursement of the Bank to various operations in Pakistan amounted to USD 190.7 million by the end of 2012. In addition, undisbursed commitments of USD 6.7 million will be released according to performance of a project related to renewable energy. The Bank's total outstanding portfolio in Pakistan was USD 59.3 million as of end-December 2012.

The Bank has been working with selected local financial intermediaries in Pakistan where such delegation of responsibility assists the Bank in serving a targeted market segment more efficiently and effectively than the Bank might be able to do directly. The liberalized financial institutional and formation of privately held banks provide a conducive environment for a thriving intermediary business. In Pakistan, supporting expansion of the financial sector and improving financial inclusion is important in enhancing credit flow to development of real sector and alleviate poverty as well. Efforts are made to encourage financial institutions to provide support to real sector investments and development of SMEs, micro-enterprises, rural areas.

The Bank is making efforts to extend its partner network with relevant FIs in Pakistan and will be exploring possibilities to cooperate with leasing companies and microfinance institutions. Particular, microfinance has huge potential in the country for generating employment opportunities and reducing poverty. Pakistan is one of the few countries in the world that has a separate legal and regulatory framework for microfinance banks and enjoys the number three position in the world in terms of microfinance business environment. The SBP has been taking significant steps to promote the growth of the microfinance sector. The gross loan portfolio of the microfinance institutions increased from Rs. 2.3 billion in 2004 to Rs. 37.97 billion by the end of September 2012 on the back of increasing loan sizes. There were about 2.3 million active microfinance beneficiaries as of September 2012, which increased from a low base of 240,000 in 2003. The penetration rate remains at around 7.6 percent, which shows a considerable room for business development. Therefore, through micro-finance institutions, the Bank will focus on expanding access to finance, particularly among lower-income groups and micro-enterprises. In line with the Pakistan's poverty reduction strategy, the Bank would also cooperate and provide support to relevant programs that focus on community empowerment. While introducing new products, the key financial sector strategies would also include providing development finance to targeted markets, SMEs and trade through Islamic banking and microfinance institutions. The Bank would also enhance its guarantee facilities as one of the most complementary instruments to its credit operations in order to stimulate trade finance and investment in Pakistan.

The Bank has a dedicated guarantee, trade finance and SME development programs conducted through credit lines to local financial institutions. The cash and non-cash (guarantees) credit limits approved to ten FIs in Pakistan amounted to USD 415 million as of December 2012. However, certain factors resulted in sub-optimal uptake of Bank's funds by these financial institutions. Firstly, tough economic conditions, energy shortages and security situation in Pakistan took its toll on businesses which led to increasing ratios of non-performing loans in the portfolio of large banks making them scale back their SME operations. Secondly, the large deposit base of some financial institutions gave them access to sizeable amounts of liquidity at very low prices. Thirdly, the continued depreciation of Pakistani rupee against US dollar discouraged them to increase their foreign currency liabilities. Moreover, banks are financing the fiscal deficit, which is crowding out the private sector and affecting the credit growth. And finally, the availability of alternative and concessional financing window available to them from the State Bank of Pakistan for export financing also dampened their eagerness for ETDB funds.

The Bank is paying utmost attention in selecting trusted and experienced partners for its intermediated operations. At least once each year during implementation, the Bank conducts a formal review of the condition and performance of participating FIs, including a review of their audited financial statements, to determine their continued performance and compliance with objectives of such lending.

In order to improve its disbursement positions vis-à-vis Pakistani banks, in the ensuing period the Bank would focus more on mid-tier banks, microfinance banks and evaluate financially sound institutions in order to add them to its list of approved FIs. Furthermore, the economic situation is now showing signs of stabilization and it's expected that private sector credit from the larger banks would also increase in near future making them more receptive towards ETDB's financing facilities.

In the forthcoming period, the Bank will give due consideration to identification of bankable projects and increasing its operations in Pakistan. Broadly defined, operations would be directed towards supporting the financial sector, SMEs, trade finance, corporate sector and development of energy infrastructure.

Small and Medium Sized Enterprises (SMEs) Development Facility

Under this program the Bank make loans to local banks and other financial intermediaries which subsequently on-lend to the SMEs. The Bank is seeking co-funding from the participating financial institution in each on-lending, in order to strengthen the relationship between the intermediary and its clients, and to increase the intermediaries' interest in the good performance of the credit line. The main goal of these intermediated loans is to support growth and employment potential of the SMEs. The SMEs comprise 85 percent of entrepreneurial businesses in Pakistan, employ approximately 78 percent of the non-agricultural labor force and contribute over 25 percent of the country's exports of manufactured goods. Therefore, promoting the production and innovation capacity of vibrant SMEs in Pakistan remains a priority for the Bank. By the end of 2012, the total credit limits approved for the use of nine partner FIs in Pakistan amounted to USD 115 million. The operations of the Bank supported the availability and lengthen the maturity of funding for SMEs. The total disbursements amounted to USD 30 million by the end of December 2012. The SMEs that benefitted from these funds were mainly active in the manufacturing, trade and services sectors, thereby contributing to the economic development of the country and job creation.

In the coming years, the Bank will continue to cooperate with local financial institution for the benefit of the flourishing entrepreneurial activities in Pakistan. In this respect, the operation with partner institutions in support of SMEs will improve the conditions offered to the end-beneficiaries.

Short Term Trade Finance (STTF) Program

Trade finance is a distinct core business of the Bank. The program has been designed to strengthen the ability of local banks to provide trade financing to entrepreneurs throughout the country to expand their import and export trade. The FIs participating in the program have been making use of relevant products offered under the STTF and have helped a number of businessmen in their trade transactions within and outside of the region. The Bank approved credit limits amounting to USD 140 million to seven banks in Pakistan as of December 2012. Under this facility, the total disbursements amounted to USD 33 million by the end of 2012. The Bank will continue to seek new opportunities to provide short and medium term trade financing to eligible partner banks for trade finance purpose and to the companies for trade transactions under its Trade Finance Program.

Corporate and Project Finance

In line with its overall objective of fostering economic development and social progress, the Bank provides medium to long term finance to development projects. The process of selecting projects is based on the assessment of additionality and development impact. Contribution to national priorities and promoting complementarities among member states, in particular, tends to preclude a preferential factor in allocating funds towards projects with the optimum risk/return ratio. The corporate loans are provided to firms and public sector entities in order to cover their needs such as acquisition of equipment, modernization of plant and structures, trade transactions and other related expenditures. Since 2008, the total disbursement under corporate and project finance operations in Pakistan have been intensified and amounted to USD 127.7 million as of December 2012.

A USD 20 million loan has been provided to Zorlu Enerji to support the construction of a landmark wind-power (56.4 MW) project in Sindh Province. The loan agreement was signed in November 2011 and having the tenure of 12 years including 2 years grace period. It is designed to increase Pakistan's renewable-energy generation capacity and is one of the first commercial wind-power projects in the country. This project would help to alleviate a sever power shortfall in Pakistan and reduce the country's reliance on imported fuel for power generation. It is the first co-financing deal of the Bank with other MDBs namely International Finance Corporation (IFC) and Asian Development Bank (ADB). The project has received the "Middle East Renewable Deal of the Year" for 2011. The remaining disbursement of this project amounting to USD 6.7 million is under process according to the performance of the project.

In response to the devastating floods that displaced millions of people in Pakistan, a soft loan agreement amounting to USD 10 million and having tenure of 10 years (including 3 years grace period) was signed in June 2011 with the Government of Pakistan. The Bank supported the recovery and rehabilitation efforts of Pakistan in the areas which were severely impacted by the floods. The project is expected to generate wider economic benefits by supporting people and their livelihoods from the impacts of floods. The project will also contribute to Pakistan's adaptation to the effects of climate change.

A corporate loan amounting to USD 20.9 million having the tenure of 5 years (including 1 year grace period) was signed on November 2011 with one of the biggest cement producer in Pakistan, DG Khan Cement. The Bank supported the company to establish a waste heat recovery and refuse derived fuel plant in order to provide cost and energy efficiency. The project is first of its kind and would add to the alternate energy supply to the economy and would bring in new technology for other players in the industry to follow. The project is also environment friendly and suitable to carbon credits.

The Bank also extended one year corporate loan amounting to USD 35 million to Pakistan Refinery Limited in May 2010 for facilitating import of raw materials from ECO countries. This loan was repaid and the facility had contributed to development of intra-regional trade.

On the basis of the experience being gained in the country, the Bank is putting efforts to identify projects that would have maximum impact. In this respect, efforts are intensified to such projects that contribute to development of renewable energy resources and water management systems, seeking to increase the coverage and effectiveness of such projects to sustain energy supply and development of real sectors. The Bank is also looking forward to work with medium size enterprises directly in increasing and improving their access to finance and economic performance.

III. Review of Key Sectors and Investment Opportunities

The Bank will pursue its operations during 2013-2014 in order to contribute to Pakistan's development strategy and objectives established in its Vision 2030, Poverty Reduction Strategy (PRSP)-II, and New Growth Framework (2010). The Bank would also consider priorities envisaged in the Public Sector Development Program (PSDP) and the Annual Plans. The Vision 2030 has set a goal of developed, industrialized, just and prosperous Pakistan through rapid and sustainable development in a resource constrained economy by developing knowledge inputs. The efforts in Pakistan have been focused to accelerate the growth through improving productivity and competitiveness. Energy sector reforms are the vital element of the determinations in order to ensure affordable and uninterrupted energy supply and kick-start much needed momentum in the economy. Moreover, improvement of skills and entrepreneurship, innovation, creating space for private investment and construction, fostering commerce, developing cities and regional clusters, generating jobs, strengthening business environment, fostering competition, poverty reduction, strengthening health services, enhancing connectivity to people and place, improving governance and delivery of public services has been identified as the main agenda and driving force to sustain the inclusive growth. Additionally, adequate resource availability to finance development framework have been emphasized critical for growth sustainability.

The Bank will focus on providing support for the implementation of the Government program and priorities, while responding to market demand. The Bank will consider undertaking activities and providing services which may advance its purpose, paying special attention to activities promoting export of goods and services and development of infrastructure in co-operation with the private sector. In addition, through selected intermediaries, the Bank would attempt to expand its financing programs in favor of SMEs. The Bank would also put efforts to directly cater to financing needs of medium sized enterprises which would promote modernization of equipment and improvement of products and services. Promoting innovation and entrepreneurship would be the cornerstone of Bank's facilitation to private sector. Particularly, providing support to the exporting companies would help to improve competitiveness and content of value added in exports.

The Bank provides support for projects that contribute to the capacity of the country to respond to the challenges of sustainable development. Therefore, the Bank seeks to assure that projects fit within a national development program and objectives which have multisectoral development perspective. The sustainable growth would depend primarily upon strong performance in agriculture, services, and manufacturing sectors provided there are major improvements in power supply and infrastructure bottlenecks. In the coming years, the operations relevant to energy, agriculture, transport, telecommunications and infrastructure would be the most immediate beneficiaries of ETDB capital. There will also be a major focus on exploring viable projects in enhancing the competitiveness of the manufacturing sector. The Bank will also continue to seek opportunities for co-operation with a variety of other lenders including multilateral development banks, bilateral financial institutions, export-credit agencies, official lenders or guarantors, commercial banks, and other financial intermediaries.

i) Energy

Energy is a critical input for rapid socio-economic development. Pakistan's economy has been growing at an average growth rate of almost 3 percent for the last four years and demand of energy both at production and consumer end is increasing rapidly. For instance during the past four years the demand for electricity is growing at an average rate of 9.5% per annum. However, a largely stagnant power supply has created severe power shortages in the country, ranging between 4,000 to 5,000 MW. During 2011-12, energy outages in Pakistan continued to be the dominant constraint in its growth. Energy intensive industries (Petroleum, Fertilizer, Iron and Steel, Textile, Engineering Industries and Electrical) shaved off 0.2 percentage points from real GDP growth in 2010-11 and in 2011-12. Also, the estimated cost of power crises to the economy is approximately Rs.380 billion per year, around 2 percent of GDP, while the cost of subsidies given to the power sector in the last four years (2008-2012) is almost 2.5 percent of GDP, (Rs.1100 billion). The liquidity crunch in the power sector has resulted in under-utilization of installed capacity of up to 4,000 MW. It has also affected investment in power sector. Flood was one of the factors which caused electricity and gas shortage as it damaged the distribution network.

The primary energy supply registered a growth of 2.3% over the last year and amounted to 64.5 million tons of oil equivalent (TOE) during 2010-11. The availability of energy per capita in 2011 remained 0.372 TOE compared to 0.371 TOE in 2010 posting a positive growth rate of 0.16

percent. Due to population growth rate of almost 2 percent, the balance between energy supply and emerging needs was outset.

The consumption of natural gas is increasing rapidly. Natural gas is mainly used in general industry to prepare consumer items, to produce cement, fertilizer, and to generate electricity. The total consumption of gas by different users which was 825 billion cubic feet (bcf) in 2001-2 has increased to 1,241 bcf at the end of 2010-11. The average production of natural gas during 2010-11 was 4,031 million cubic feet per day (Mmcfd), which increased to 4,236 Mmcfd during July-March 2011-12. As of December 2011, the balance recoverable natural gas reserves have been estimated at 24.001 Trillion Cubic Feet. The geographical location of the country makes it a favorable potential market for the import of natural gas from its neighboring countries like Iran and Turkmenistan. The government has, therefore, taken the initiative to import gas from these countries.

The total supply of crude oil for the fiscal year 2010-11 was 75.3 million barrels, equal to 10.1 million TOE, out of which 68.1 percent was imported and 31.9 percent was locally extracted. The balance recoverable reserves of crude oil in the country as on December 31st, 2011 have been estimated at 247.53 million barrels in the country. During 2010-11, the overall consumption of petroleum products was decreased to 18.8 million tons compared to 19.1 million tons in previous year. During the first three quarters of 2011-12 the overall consumption of petroleum products was 13.8 million tons. During 2010-2011 the total production of petroleum products decreased to 9.4 million tons compared to 9.5 million tons during 2009-10. The total import of petroleum products were 12.3 million tons while total export of petroleum products were 1.5 million tons in 2010-11.

During 2010-11, electricity generation was 94,653 GWh. The contribution of hydel in electricity generation increased to 33.6 percent in 2010-11 as compared to 29.4 percent in 2009-10. Since oil became an expensive input, its share in electricity generation in 2010-11 declined to 35.1 percent as compared to almost 38 percent last year. The same was the case for gas. Its share was 27.3 percent as compared to 29.4 percent of last year. The share of coal remained stagnant at 0.1 percent.

Pakistan has huge coal resources estimated at over 185 billion tons; including 175 billion tons, identified at Thar coalfields in the Sindh province. The major users of coal are the cement sector and brick kilns; about 60 percent of total coal was consumed by cement while 39 percent was consumed by the brick kiln industry during the period 2010-11. The reason for the high share of consumption of coal in the cement industry is due to switching over to coal from furnace oil which has increased the utilization of indigenous as well as imported coal. Pakistan is endeavoring to harness the huge coal resources of the country for power generation.

Power generation is provided by three sources thermal, hydel and nuclear. There are 13 hydroelectric facilities with installed capacity 6,481 MW are owned and operated by the Water and Development Authority (WAPDA) while thermal power plants are owned by both public and private companies. During 2010-11, the WAPDA remained the main contributor to electricity generation with 48.7 percent coming from this source. The public sector operates 13 thermal plants with installed capacity of 4,990 MW. About one third of power generation (5,987 MW) is provided by private sector companies (Independent Power Producers IPPs). Also, KESC operates plants with total capacity of 1,955 MW. Out of the total 19,252 MW of the national installed generation capacity, dependable generation is about 17,523 MW in the summer and about 14,640 in the winter, depending on the annual hydrology. The installed power generating capacity is planned to increase to 24,822 MW in June 2013. In this regard, Pakistan has also decided to construct five multi-purpose water storages in the country during the next 10 -12 years. The Diamer Basha Dam Project - the world's highest Roller Compacted Concrete Dam - is the most mentionable achievement. Also Pakistan is one of the beneficiaries of Tetra-partner power import project under the head of Central Asia-South Asia (CASA- 1000) electricity trade.

Pakistan is currently operating three nuclear power plants i.e. Karachi Nuclear Power Plant (KANUPP) and Chashma Nuclear Power Plant Unit-1 and 2 (C-1 & C-2). The construction of two more units C-3 and C-4 of being 340 MW each is in progress. The electricity sent to grid by the current plants was about 3,597 million KWh during July-March 2011-12.

Pakistan possesses huge power generation potential in hydro and coal resources as well as renewable wind and solar resources. The demand and supply forecasts for the next two decades, based on official estimates, are as follows:

Fiscal years		**2009**	**2010**	**2015**	**2020**	**2025**	**2030**
Net Dependable Capability	MW	17008	19477	27000	40000	70000	90000
	Growth Rate	9%	15%	9%	10%	8%	8%
Peak Demand	MW	20594	22353	32704	48843	72169	101478
	Growth Rate	7%	9%	8%	9%	8%	7%
Surplus/ Deficits		-3586	-2876	324	4066	4031	5087

Source: WAPDA

In the medium and long term, the demand is expected to grow by about 8% resulting in a total demand of nearly 33,000 MW by 2015 and 110,000 MW by 2030 respectively. Pakistan has huge hydro-power potential of around 40,000 MW that has not been tapped fully. Pakistan has a huge reservoir of renewable sources of energy including biomass, wind energy, solar energy and ocean tidal power in the vast coastal areas of Sindh and Balochistan. For windmills, potential areas of Karachi, Thatta, Jiwani, Hyderabad and other areas on the coastlines of Sindh and Balochistan are very suitable. Pakistan's wind power potential is estimated at 20,000 MW and various initiatives have already been ensured to pave the way for optimal utilization of this potential. Accordingly, the first industrial scale wind power project of a local business conglomerate has already started operations, while another one, where ETDB has also committed its funds is expected to start operating very shortly.

Pakistan is making all possible efforts to diversify its energy mix and address the challenges of rising energy demand. In this the regard due attention has been given to fast track the development of Alternative / Renewable Energy (ARE) resources in the country. The country is providing attractive financial and fiscal incentives to both local and foreign investors for development of relevant potentials and technologies. In addition, power sector reforms covering governance, pricing and legal areas are necessary for sustainable, affordable and reliable power supply. The country has invoked various technical and administrative measures to improve operational and managerial efficiency to reduce power losses. The measures have given positive signs resulting in the reduction of power losses and increase in revenue. It is expected that the energy situation in the country will improve significantly in near future. Overall, in order to meet the pressing energy demand in the country, the Bank will put maximum efforts to contribute energy security and efficiency plans of Pakistan. The Bank would seek to finance viable projects targeted to exploit the indigenous resources and renewable including hydro, wind, solar and clean coal-based sub-sectors.

ii) Agriculture

The agriculture sector continues to be an essential component of Pakistan's economy. It currently contributes 21.1 percent to GDP. Within this, crop sector contributes 41.7% and livestock 55%. The share of fisheries and forestry remains 1.8% and 1.1% respectively. Along with structural transformation of economy, the relative contribution within agriculture is tilting towards livestock because of its resilience against vagaries of the weather and being source of livelihood for large landless rural peasantry. Agriculture generates productive employment opportunities for 45 percent of the country's labor force and 60 percent of the rural population depends upon this sector for its livelihood. Recognizing the vital role the sector plays in ensuring food security, generating overall economic growth, reducing poverty and the transforming towards industrialization, the country envisages growth in agriculture by enhanced agricultural productivity, improved sector governance, sustainability of the system, reduction of volatility and augmenting competitiveness in agricultural marketing and trade, and improvement of the investment climate in the sector.

The overall performance of agriculture sector exhibited a growth of 3.1 percent during 2011-12. The rains damaged agriculture sector badly in lower Sindh but good harvest in Punjab has more than off-set the damages to the major crops. The losses of trading activities and minor crops due to delayed water receding could not be fully compensated. Pakistan has two crop seasons, "Kharif" being the first sowing season from April-June and it is harvested during October-December. Rice, sugarcane, cotton, maize, mung, mash, bajra and jowar are "Kharif" crops. "Rabi", the second sowing season, begins October-December and is harvested in April-May. Wheat, gram, lentil (masoor), tobacco, rapeseed, barley and mustard are "Rabi" crops. These crops make Pakistan an agricultural country and its performance is dependent upon timely availability of irrigation water. Major crops such as wheat, rice, cotton and sugarcane which accounted for 32 percent of agricultural value added and 6.7 percent to GDP experienced a growth of 3.2 percent in fiscal year 2011-12. The Fishery sector grew by 1.8 percent as against last year's growth of 1.9 percent.

Pakistan is the world's fourth largest producer and consumer of cotton. The economy of Pakistan depends heavily on cotton production. With the output of 13.6 million bales in 2011-12, it is expected that textile industry will not only meet its requirements but also export over a million bales of raw cotton in international market. Keeping in view the impact of high tech. Bt. Technology, a production of 14.5 million bales of cotton can be anticipated in year 2012-13 subject to escape from any natural calamity. The production of sugarcane for the year 2011-12 was around 58,038 thousand tons, 4.1% high compared to last year mainly because of 5.2% increase in area sown. From this crop size, production of about 4.67 million tons white sugar has been estimated. Keeping in view the domestic demand of about 4.5 million tons, production and stocks, a better supply is expected in future.

At the present level of production about 27 million tons wheat would become available in the country with the carryover stocks of 3.4 million tons. The wheat outlook appears comfortable from the food security point of view as the domestic demand has been around 24.3 million tons. It provides sufficient exportable surplus stock to explore any international market including wheat deficit neighboring countries like Iran. After wheat, rice is an essential food commodity for masses in Pakistan and important export item. During 2011-12 the production of rice was recorded as 6,160 thousand tons compared to 4,823 thousand tons for the year 2010-11.

According to Rice Exporters Association of Pakistan, 3.025 million tons (0.7 million tons Basmati and million tons coarse rice) has been exported from July 2011 to March 2012. It is expected that the target will be achieved with estimated foreign exchange earnings of USD 3 billion.

Pakistan has sufficient capacity for urea production. However due to energy crisis, less supply of gas was available to the urea plants resulting in underutilization of plant capacity and less production. To fill the supply demand gap about 1.5 million tons of urea was imported during 2011-12. There is a big gap (almost 77 percent) between requirements and distribution of seed for all crops in Pakistan. The country needs to put efforts in bridging the gap through involvement of private sector. In Pakistan, generally farmers don't possess modern farm implements like Disc Plough, Rootavator and Laser Land Leveler. Concerted efforts would be required to produce high quality agricultural machinery in Pakistan. Agricultural credit disbursement by banks surged by 17 % on year-to-year basis to Rs 197.4 billion in the first nine months of 2011-12. In absolute terms, disbursement of credit to the agriculture sector need to be increased considering the estimated credit requirements of Rs 750 billion for 2011-12.

The contribution of livestock including poultry in total GDP at 11.6% and in agriculture GDP 55% is quite significant. When farmers lose their expected income from crops due to floods and other epidemics, livestock proves itself a sustainable source of income to the poor masses. For the past many years livestock has emerged a largest single contributor to the agriculture. The need of the hour is to pay more attention to this sector, especially by facilitating the farmers with new innovations to make it competitive. Pakistan is one of the five largest milk producing (38.6 million tons in 2011-12) countries of the world but faces post-production losses of milk at 15% causing annual loss of around Rs 169 billion. The lack of infrastructure such as cooling facilities at farm or collection points as well as transportation of milk is the prime cause, which need to be addressed through various development projects. Pakistan is also one of the leading exporters of fish and its products and fish processing plants are gradually increasing to contributor to employment generation. However, the sector is challenged by acute shortage of infrastructure. The socioeconomic conditions of fishermen community need to be improved including technical and logistic support to improve production as well as processing.

Pakistan annually produces about 13.7 million tons of fruits and vegetables. Citrus fruit has taken the lead in term of production followed by mango, dates and guava. Pakistan is also losing millions of dollars annually in citrus exports because of the absence of basic infrastructure, transportation facilities, deficiencies in storage, credit systems, gaps in the cold chain and limited cold storage capacity. Only 10% of Pakistan‘s produce, in case of fruits, is exported due to inadequate cold storage facilities. Pakistan also needs to invest in the irrigation infrastructure placing emphasis on farmer organizations to ensure efficient use of water and adequate maintenance.

The Bank would support investments in infrastructure development, water management and productivity. Also the Bank will focus on mechanization, packing, certification, building storage facilities, cold chain infrastructure, and other ventures to support value addition in the agriculture sector. It would actively seek to finance industrial projects that use agriculture produce as raw materials.

iii) Infrastructure

Pakistan's physical infrastructure is inadequate in comparison with other rapidly developing emerging economies and has been cited as one of the major reasons holding back rapid economic growth in the country. It is estimated the infrastructure bottlenecks may be costing around USD 3.5 bln to the economy every year. According to the World Economic Forum Survey, Pakistan is ranked 67th out of 125 countries in basic infrastructure. Pakistan's total requirements for infrastructure development over the medium-term are in the range of USD 45 bln, but would be much higher at about USD 65 bln if the planned large water storage dams are also included.

This state of affairs demonstrates that the government requires heavy investment in physical infrastructure in order to improve delivery of social services and to enhance its domestic and global competitiveness. It has been estimated that if a country wants to attain a 7% GDP growth rate, then it has to invest at least 7% of its GDP in infrastructure development. Given this scenario, the government needs to upscale both its own and private sector investment in the infrastructure field.

Public sector has traditionally been the main provider of basic infrastructure in Pakistan. However, in view of the needs of large backlog and government's limited financial resources its capacity to address the infrastructure deficit is severely constrained. There is a dire need of a well-designed long-term strategy to enhance infrastructure investment and expand private sector participation in infrastructure development.

The potential of the private sector to meet Pakistan's pressing infrastructure needs is largely untapped. So far the policies and incentives have focused on attracting private investment in power and telecommunications sector where it can claim some success as power generation capacity increased in 1990s and a great deal of private investment came into the telecom sector in 2000s. The government is now keen to attract private sector participation in other sub-sectors as well.

The recent floods have added to the daunting infrastructure challenge facing the country as more than 5,000 miles of roads and railways have been washed away, along with some 7,000 schools and more than 400 health facilities. Estimates have put the total cost of the flood damage at around USD 9.5 bln. This comes to around 20% of Pakistan's annual budget and exceeds the total cost of US aid package to Pakistan spread over five year.

Irrigation network is a vital part of agriculture infrastructure in Pakistan. The total irrigated area is 18 million ha. The irrigated land accounts for 84% of the total 23.39 million ha of total area under cultivation. Currently, the available water falls short of the existing irrigation requirements, leaving no scope for bringing further 3.8 million ha rain-fed and 8.33 million ha waste lands under irrigation. This water scarce situation can turn worse if the water coming down from glaciers decreases because of climatic change. Snow and glacial melt contributes more than 80% to Indus River System Flows. Most of the glaciers in Northern Pakistan are retreating which has been causing increased flooding in Indus and Kabul rivers during the month of June (2001-2005). As per International Panel on Climate Change, the glacial melt in the Himalayas is projected to increase flooding within next two to three decades to be followed by decreased river flows as the glaciers recede.

To offset existing and future shortages, water resources should be managed properly through modern irrigation techniques based on scientific research and institutional collaboration at federal, provincial and international levels.

Federal and provincial governments are undertaking projects to remodel, rehabilitate, and repair canals and barrages. These are typically large projects; however, the Bank would look for possibilities to finance appropriate project(s) in this field.

iv) Transport

The transportation sector accounts for about 10.5% of the country's GDP. It provides over 6% of employment in the country and claims 23% of the annual Federal Public Sector Development Program (PSDP). In addition to public investment and reforms, effort needs to be made to promote PPPs and leverage higher investment from the private sector to accelerate growth in the shortest possible time. This will further enhance productivity, competitiveness, efficiency, innovation and entrepreneurship in the economy. Roads, railways, and other infrastructure is developed and maintained by the public sector; whereas, most of the logistics and transportation services are provided by the private sector. The latter is also developing and managing facilities at some of the country's major ports.

To support sustained growth and increase competitiveness, the government is taking a strategic and holistic approach to the transport sector. The broad objectives are to provide safe, reliable, effective, efficient, affordable, accessible, sustainable and fully integrated transport system that will meet the needs of freight & passenger mobility requirements, improved service in a cost effective fashion that supports governments goal of increasing public welfare through economic growth, social improvement, poverty reduction and infrastructure development while being environmentally and economically sustainable and energy efficient. In this respect, the National Trade Corridor Improvement Program (NTCIP) is being implemented in order to reduce the cost of trade and transport logistics and bring the services to international standards, which will eventually reduce the cost of doing business in Pakistan.

Roads are the most important segment of Pakistan's transport sector. Roads carry over 96 percent of inland freight and 92 percent of passenger traffic and are undoubtedly the backbone of the economy. The current road network is about 260,000 km catering to eleven million vehicles of all types. The NHA (National Highway Authority), a federal government agency, road network is around 12,000 km, which is merely 4.6 percent of the overall road network but it takes 80 percent of Pakistan's commercial traffic.

Pakistan Railways' (PR) network consists of the main North – South corridor, connecting the Karachi ports to the primary production and population centers in the north. The track is generally in good condition with an axle-load of 23 tons and maximum permitted speeds of 100/110 kph but it needs repair and rehabilitation at certain points. Over decades, railways level of service has declined and its share of inland traffic has reduced from a high of 41% to 10% for passenger and 73% to 4% for freight traffic.

However, in the last nine years (2000-2009), Pakistan Railways has shown improving trend in both passenger and traffic registering an average increase of 3.2% and 4.0% per annum, respectively. However 2010-11 saw a decrease in passenger traffic as well as freight traffic, which decreased by almost 13%, over last year's figure. The fall in growth rates for freight traffic during this period has been attributed to the less availability of locomotives for freight traffic because of non-procurement of spares. The productivity of PR's freight services is about 1/3 of Indian Railways (IR) and half of Thai Railways. In addition, PR continues to cross-subsidize passenger services from freight services, resulting in non-competitive freight rates over road transport. As a result, the PR has a very low and stagnant market share, carrying less than 10% of passenger traffic and 5% of freight.

Pakistan Railway is trying to bring in private sector investment into railway operations by offering certain sections of the network for running of passenger and freight trains by paying track access charges. It has also planned to procure around 200 new coaches and induct over 500 new wagons into the system. Railway track is also being doubled from Khanewal-Raiwind (246 km). Possibility of extending rail link to China, Afghanistan and Turkey (via Iran) is being seriously looked at. Particularly, development of Islamabad-Tehran-Istanbul road and railway networks will boost intra-regional trade and create a crucial corridor for East-West business linkage.

There are 36 operational airports in the country. While Karachi is Pakistan's main airport significant levels of both domestic and international cargo are also handled at Islamabad and Lahore. Pakistan International Airlines (PIA), the major public sector airline, though facing competition from a few private airlines, carries approximately 70% of domestic passengers and almost all domestic freight traffic. New airports have been planned at Mirpur and Gwadar and facilities and infrastructure at current airports in Muzaffarabad & Rawalkot are being expanded. At the same time, a large airport project of international standards is being undertaken by the Civil Aviation Authority (CAA) of the country in Islamabad, the capital city, which will completely takeover domestic and international air traffic from existing Chaklala Airport.

Port traffic in Pakistan has grown at 8% annually in recent years. Two major ports, Karachi and Port Qasim, handle 95% of all international trade. Port Gwadar, which was inaugurated in March 2007 and is being operated by Singapore Port Authority, is aiming to develop into a central energy port in the region. The government has decided to import all bulk cargo comprising of Urea, Wheat and Coal through Gwadar Port.

Port Qasim caters to around 40 percent shipping requirements of the country. Port Qasim Authority (PQA) handled a cargo volume of 19.7 million tons during July-March 2011-12. The PQA that initially had handling capacity of 40 million tonnes per annum has partnered with the private sector and undertaken capacity expansion projects in container handling, grain and fertilizer terminal, coal, cement, and LNG handling. These projects would result in increasing PQA’s capacity to 86 million tons per annum; an increase of 115% over initial capacity. PQA also plans to invest in developing the infrastructure in nearby industrial estates.

The Bank would maintain its focus to support investments aimed to improve transport mainly via the National Trade Corridor program. The Bank would like to support both the public and the private sector entities in undertaking infrastructure projects that demonstrate clear development impact. It would be interested in supporting private sector participants in public-private-partnership transactions.

v) Manufacturing Sector

Manufacturing is considered the main source of economic growth. In Pakistan, it contributes 18.6% to GDP and 13% to total employment large scale manufacturing (LSM), having a share of 11.9% in GDP, dominates the overall sector. Sustaining a growth momentum in the manufacturing is a prime objective of growth strategy. The country needs to focus on innovation and efficiency, capacity building, technological up-gradation, infrastructure development and research and development activities. Further efforts are needed to create conducive environment to foster private sector investment. During 2011-12, industrial sector grew at the rate of 3.4%, manufacturing sector by 3.6%, LSM by 1.8% while SME grew at the rate of 7.5%. Over the last few years, however LSM is showing low growth mainly due to shortage of energy, low skills of workers, obsolete technology, rise in the cost of raw material in the international market, rise in the cost of doing business due to oil prices, high unit cost of electricity & gas and transport, insufficient investment and competiveness.

The targeted growth rate for industrial sector in 2012-13 has been set at 4.1% as a whole, for manufacturing sector 4.4%, while 3.0% and 7.5% growth rates have been fixed for LSM and Small Scale manufacturing respectively. The main growing industries in 2012-13 would be chemicals, automobile, pharmaceuticals, electronics, leather products, paper & boards, cement and non-metallic minerals. Similarly textile sector is expected to grow at a higher pace in 2012-13 as it is hoped that its products would be exported in huge quantity to European Union after approval of concessions by WTO to Pakistani textile products in February 2012. Overall, future growth will largely depend upon recovery in the large-scale manufacturing sector which can capitalize upon its existing idle capacity.

The textile industry plays a pivotal role in Pakistan's economy. The contribution of the textile industry in total exports is around 56 percent of the total export earnings of the country. The total textile exports were USD 14 billion in 2010-11. The textile and clothing industry accounts for 46 percent of the total manufacturing and provides employment to 38 percent of the manufacturing labour force. The textile industry of Pakistan has the potential to perform better both in production as well as in export by virtue of its inherent competitiveness on account of its conventional products. However, to sustain its position and increase its share and to move into high value added products, large investments in machinery equipment and new technology are essential. The training of workers, improvement in labour productivity, research and development, product diversification and branding are the immediate areas to focus on. The government is focusing its energies on development of common facility centres such as advanced computer aided design and manufacturing training centres, agro food processing facilities, and export processing zones. It is also supporting projects to develop surgical sector, ceramics, gem and jewelry, and marble and granite sector, textile and garment.

As per Pakistan Automotive Manufacturers Association there are 21 automobile manufactures / assemblers working in Pakistan producing passenger cars, light commercial vehicles, trucks, buses, tractors and 2/3 wheelers. The vendor industry comprising of 600 players is supplying parts to automobile sector. The total direct employment in the sector is over 0.2 million with a total investment of over (Rs.98 bln) USD 1.15 billion. Production of cars in 2011-12 (July-March) which was 110, 059 units increased by 9.1 percent compared to same period of previous year. A larger decline was witnessed in tractors and Jeeps production which showed dismal performance by registering negative growth of 48 percent and 44 percent respectively. The potential demand for vehicles in the economy is helping to grow the industry but it is highly dependent on the long term policy commitments.

The cement production capacity in Pakistan has increased to 44 million tons in 2011-12 from 30 million tons in 2006-07 due to the establishment of new cement plants. In addition, a number of companies launched capacity enhancement projects in the past few years and after completion of these projects the capacity of the domestic cement industry is expected to be around 51 million metric tons annually. Pakistan's cement is being exported to Afghanistan, India, Africa, and Middle East. The key factors hindering the overall production capacity of cement industry are the energy crises and demand and supply mechanism.

The present capacity of steel production is 4 million tons as against demand of over 6 million tons per annum, showing a gap of 2 million tons which is being met through imports. The steel production units are functioning below capacity because of raw material shortage. The scenario of the steel sector in Pakistan indicates that this industry has a vibrant growth potential. Further development and expansion on the steel production capacity requires security of investment, technical expertise, continuous availability of raw materials at reasonable prices, uninterrupted supply of electricity in order to achieve the production targets estimated at 10 million tons for 2015 and 15 million tons for 2020.

Pakistan is rich with all type of mineral resources but development of these has been limited due to lack of financial and technical resources. Besides oil and gas, some industrial minerals such as chromite limestone, rock salt, marble, gypsum and a modest amount of coal for power generation are also mined. Pakistan possesses a large number of industrial rocks, metallic and non-metallic minerals which need further field and laboratory studies for their physiochemical characteristics and industrial uses. There is urgent need for the development of technologies for processing different indigenous ores to extract products of high commercial value that can play a dominant role in economic uplift, employment generation and exports. During 2011-12, Mining and Quarrying sector has shown a growth of 4.4% compared with -1.28% in 2010-11. This increase is mainly due to the higher production of gas and coal. The growth rate of mining for 2012-13 is set at 3%. Focus of the mineral policy is on oil, gas, coal, iron ore, copper, and chromite to reduce import dependence.

The Bank would support capacity enhancement and modernization projects in manufacturing sector. It would like to partner with other financial institutions in undertaking large projects.

vi) SMEs

SMEs play a very significant role in the economy of Pakistan. In Pakistan, nearly 99 percent of economic establishments are SMEs; absorbing 80 percent of unskilled labor. These SMEs are collectively providing undeniable support to economic growth by contributing 40 percent to GDP and 30 percent to the exports from the manufacturing sector. The size of the SMEs is generally small in the country with 5 or less people are working in 87% SMEs. In terms of business sectors, cotton and textile (spinning, weaving processing, garments, sportswear and apparel), are the leading sectors, followed by wood and furniture, auto parts, electric fans, fabricated metal products, beverages, carpets, art silk, and jewelry. The sector as a whole faces numerous challenges that include limited access to finance as well as limited support in improving business practices.

International Labor Organization projects that economically active population in Pakistan is projected to increase from 63 million in 2008 to 93 million in 2020. SMEs will be the main source of employment and poverty reduction in Pakistan that will create the value and innovation for the country in the days to come. Government could achieve its goal for poverty reduction, economic progress and above all the value creation by promoting SMEs. Pakistan needs to invest in its SMEs to improve the value addition component of its products. It has been pointed out that Pakistan was converting one million bales of cotton for USD 1 billion, while India was converting one million bales into USD 2 billion, and China USD 4 billion.

To further boost its significance in the economic development process, Pakistan has introduced various initiatives to promote SME-led economic growth with the dual aim to accelerate industrial development and export diversification. Most important of these initiatives include approval of the first SME Policy of Pakistan and Infrastructural Development through Public Sector Development Program. In addition to these, SMEDA as a government agency for SME development has been involved in various activities such as providing over the counter services to SMEs, helpdesk facilitation, human resource development, technological up gradation and infrastructural support.

The factors that impede development of the SMEs in Pakistan are well-known. According to business leaders, the biggest hurdle being faced by SMEs is limited access to finance. The Bank would continue to support SME sector through its products that are offered through FIs. It would extend the coverage of its products by engaging mid-tier banks.

vii) Telecom and IT

Information and Communication Technologies (ICT) is now considered a necessity for delivering solutions for provision of economic and social services which could result in sustained growth and help in reduction of poverty. Hence it fosters innovation and entrepreneurship. In Pakistan, the difficult economic situation during the last few years coupled with continuing security concerns have also affected the IT sector. Pakistan is not able to keep pace with the transformation taking place worldwide as a result of inclusiveness of ICT. In the overall Network Readiness Index, ranking of Pakistan has dropped to 102 in 2012 as compared to 88 in 2011. Pakistan still ranks much lower than its regional competitors. Strategic objectives of the ICT sector include developing human resource for universities, research institutions, industry and agriculture sectors to bring about significant improvement in these sectors, effectively produce high quality software and enhance the software export of Pakistan and to provide access to information through internet to the remotest corners of the country, so that world knowledge can bring value addition in all sectors of the society. The country earmarked emphasis on human resource development, IT industry development, strengthening e-Government and infrastructure development. The focus on quality IT education is to meet both the domestic demand of IT industry as well as cater to the international requirements and tap excellent source of foreign remittances in the future. Internet needs to be extended to farthest corners of the country so that students, businesses, research institutions and commerce can benefit from the information technology.

In Pakistan, overall IT exports have been consistently low in terms of value compared to the potential in the country. Software exports have increase manifolds in last ten years (reaching USD 250 million). In order to safeguard the interest of smaller software developer, the government needs to move them into viable clusters in Software Parks where these small development companies can manage larger IT development projects mutually. Moreover, development of incubators may be encouraged to provide academia-industry-research linkages and thus inculcating spirit of entrepreneurship in the country Telecommunication sector in

The country has seen a phenomenal growth during the last decade and has reached tele-density of 71.6% as of March, 2012. Presently, there are 5 private cellular companies operating in the country. The number of mobile subscribers was 118.32 million as of March 2012, which increased by 8.6 percent over a year. A slow down seen in the previous two years is now over, and the telecommunication sector is all set to once again pick up speed. With plans of auctioning of 3G licenses in the near future, the telecom sector will enter into the next phase of its growth. For services and infrastructure providers, this will bring even bigger challenges and opportunities. Mobile banking services has been helpful in providing a platform to operators and banks to interconnect with mobile users and thus lowering the cost of services to their consumers as well as reaching out to un-served population. The broadband subscribers have doubled in the last two years, which is encouraging the broadband service providers to bring better and affordable packages for customers.

Pakistan envisages telecom sector to become a major contributor in the economic growth of the country. The roadmap forecasts that mobile telephone subscribers will cross 160 million mark and broadband subscribers 19.5 million by 2020, while fixed line subscribers will remain in the range of 5 million. Broadband will be the main medium of personalized communication from which users will be able to effectively and affordably access any service from any device or network. In the next ten years, 4G technology will usher into usage of new applications such as IPTV and Web-TV. In future, Pakistan will be concentrating on re-farming of spectrum in order to cater to the increased demand of broadband and wireless technologies. It envisions telecom to become the communication highway for sharing of knowledge as well as reaching out to a large segment of population in education and health services delivery. The sector offers attractive investment avenues to build on the investments made by telecom operators.

viii) Retail Sector

Pakistan has been experiencing a transition from small retail clusters to large wholesalers and shopping malls in the recent past. It has undergone a massive retail revolution in becoming home to a wide array of international brands and famous international wholesale chains. Global retail giants are expressing interest in establishing operations in Pakistan. The retail sector in Pakistan is unique and although mostly unorganized, enjoys being the third largest following agriculture and manufacturing. The share of wholesale and retail trade in GDP averaged around a steady 18% in the past decade and that in services, around 34%. It is also the country's second largest employer, employing around 16% of its total labor force. As it appears, Pakistan's wholesale and retail trade bears potential to steer the country's overall economic growth by possessing a strong influence over contraction and expansion of services and GDP growth.

Wholesale and retail sector has shown a growth of 2.1% in 2011-12. Pakistan's retail market is estimated at USD 42 billion with expected annual sales in excess of USD 105 billion by the end of 2011-12. Additionally, it is expected to grow by another USD 30 billion in a short span of just 3 years. Innumerate retail investment opportunities exist in a range of sectors in Pakistan like food, apparel, footwear, health & beauty, consumer electronics and home furnishings. Important contributing factors for prospective growth of the sector include easy availability of merchandize and human resources, a young population (%73 under 35 years), growing middle income class, increasing trend of enjoying the convenience of shopping under single roof, growing population; expanding cities and overall globalization and liberalization of trade. Pakistan has a growing population and amongst the South Asian nations it's the most urbanized country with 33% of the population living in cities. Given the agricultural and industrial base of the country, Pakistan offers a wide variety of grocery merchandise that is available in wholesale markets. The contemporary retail sector in Pakistan is well reflected in major cities like Karachi, Lahore, Islamabad and Faisalabad in the form of sprawling shopping centers and complexes. Ushering the shopping revolution, local and foreign large scale real estate investments in these cities have remained crucial in developing the required infrastructure and buildings for such shopping areas.

Generally the Pakistani market is dominated by small ‘general stores’ and local market superstores. However, recently there has been a new trend whereby large investment has been made in super store by few multinational companies these include Metro, Macro, and Carrefour. There is evidence that despite some initial apprehensions the consumers have liked this concept due to the availability of all basic utilities under one roof which saves their time and also makes grocery shopping a whole family affair. With more than 500 manufacturing units spread across the country, Pakistan’s footwear industry produces over 120 million pairs annually for domestic consumption and over 2 million pairs for export, on average. The local apparel market is ever expanding, being an inevitable consequence of increased demand stemming from growing awareness of the general public. Pakistan’s consumer electronics market is expected to grow by an annualized average of about 14% to around USD 3.5 billion by 2016. The most booming subsector within the electronics market, however, is telecommunications and computers. The emphasis on home furnishings retail in Pakistan has grown tremendously in recent years. Pakistan’s wood industry, too, is well developed and captures 95% of the country’s total market for furniture.

The retail business in Pakistan is contributing to the job creation in agribusiness and supply chain sector. Moreover, with more stringent quality standards in place the supermarket sector would lead to better practices in agriculture production, marketing, and product packaging leading to increase the value addition in this sector. This would offer greater variety and better quality to the consumers as well. The consumers are steadily shifting towards buying packaged/branded products. Companies are striving to come up with better quality products.

The challenges faced by these businesses in the sector are heavy taxes in the form of sales tax and income tax; high competition from small neighborhood shops; less likelihood of suppliers giving credit to newly entrants; and competition from initial entrants into the market.

The Bank would seek to finance projects that aim to develop retail infrastructure as well as strengthen the supply chain of agriculture and industrial merchandise to organized retailers.

V. Conclusion

Pakistan holds enormous potential for economic growth. The Bank will keep on working to assist the country to meet the growing needs and achieving sustainable economic growth and prosperity. The country is making efforts to bring its macroeconomic situation under control. Expenditures are being reduced to cut deficit financing, keeping inflation in check, and measures are being taken to increase taxation revenues. Infrastructure deficit and bottlenecks add to the costs of production and transportation in Pakistan. A crippling power crisis resulting in frequent outages is the most serious manifestation of the infrastructure deficit in Pakistan. Traffic congestion in commercial centers and ports as well as non-availability of adequate water supply and sewage facilities in expanding urban centers are negatively impacting individuals and businesses. Urgent investment is needed to remove these impediments opening up growth opportunities for small and large scale enterprises. Improving transport and logistics facilities is a pre-requisite for reducing cost of doing business and accelerating growth in Pakistan. Recognizing its vital role, the agriculture sector needs to be supported for ensuring food security, generating overall economic growth, reducing poverty and the transforming towards industrialization. It is the strategy of the Bank to contribute concerted efforts which would provide the environment necessary for growth and investment to take place in the country. In addition, Bank's focus on improving access of the targeted segments to financial services would be critical to supporting economic transformation and sustainable growth. The current country program document has been developed in view of the development strategy and objectives established in its Vision 2030 document and the relevant priorities envisaged in the development programs/plans of Pakistan. In the coming years, the major components of the country program would include:

Energy. Promoting integrated energy development to increase energy security and efficiency. Support development of hydropower, clean coal-based power plants and renewable energy potentials. Promotion of energy efficiency across selected sectors of the economy particularly in manufacturing sector. Development of storage and transport facilities with emphasis on cross-border interconnections.

Infrastructure. Investments to improve transportation, education, health, technological research and communication technologies. Enhance public–private partnerships. Engage in development of efficient transport system particularly through the National Trade Corridor program.

Manufacturing. The Bank will support local corporations to fund their needs with a focus on development of entrepreneurship, productivity, innovation, efficiency, capacity building, technological up-gradation and R&D leading to higher competitiveness.

Agriculture. The operations will focus to infrastructure development, water management and productivity. Emphasis will be given to utilization of advanced technologies, improved input availability and use efficiency would result in high crop and animal productivity, increased production of high value horticulture, fisheries, and dairy products. Promoting mechanization, storage facilities, packing, certification and marketing system would ensure food security and higher exportable surplus.

Trade. Support expansion & diversification of trade in terms of markets and products with an aim to contribute the target of Pakistan to boost exports above USD 30 billion by the end of 2015.

Financial sector. Support growth in financial access and assist development of services and products of local financial institutions in SMEs finance, trade finance, microfinance, Islamic finance and leasing.

Support to public sector programs aimed to improve delivery of basic services, natural disaster recovery and poverty reduction