SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Islamic Republic of Pakistan	Program Title:	Sustainable Energy Sector Reform Program
Lending/Financing Modality:	Policy-Based Programmatic Approach	Department/ Division:	Central and West Asia Department Energy Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Targeting classification: General Intervention

A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

The program follows the Asian Development Bank (ADB) country partnership strategy (CPS), 2009–2013 for Pakistan, with investment and reforms in energy and infrastructure as one of three strategic focal areas.[a] The strategic investment goal of the CPS is to increase energy security and efficiency through a focus on energy supply and through assistance from public and private funding sources. The Government of Pakistan's current Poverty Reduction Strategy Paper (PRSP) covers the 3-year PRSP–II,[b] FY2009–FY2011, and provides a framework for thinking well beyond this timeframe. The PRSP–II draws on lessons learned during the implementation of PRSP-I. The poverty reduction strategy is built on nine pillars: (i) macroeconomic stability and real sector growth; (ii) protecting the poor and the vulnerable; (iii) increasing productivity and value addition in agriculture; (iv) integrated energy development program; (v) making industry internationally competitive; (vi) human development for the 21st century; (vii) removing infrastructure bottlenecks through public–private partnerships; (viii) capital and finance for development; and (ix) governance for a just and fair system. The proposed program directly supports pillars (iv) and (ix) and indirectly supports pillars (i) and (v), while being proactive and vigilant in the application of pillar (ii) through social due diligence, public communication, application of lifeline tariffs, and cross-subsidies for vulnerable people. Ensuring energy security and efficiency is among the government's top priorities in tackling the current energy crisis and enabling sufficient supply of energy for domestic and commercial use. Environmental sustainability, a key cross-cutting theme, also formed an integral part of the PRSP-II. The program focuses on two of the three pillars of ADB's Poverty Reduction Strategy PRS—pro-poor sustainable economic growth and good governance—and two of its five thematic priorities: capacity development and private sector development. It directly addresses two focal areas in the CPS results framework. First, sustained growth and poverty reduction through reforms and investments in energy and infrastructure, where key constraints include institutional and regulatory bottlenecks in effective management, and where CPS outcomes include better quality of services from utilities and broader access to electricity. Second, reforms to strengthen governance, where key constraints include distortions in the agriculture and energy markets, and where CPS outcomes include increased market-based adjustment to reduce the distortions in the energy market. Major interventions in the energy sector are designed to achieve economic progress through better service delivery. The program loan is expected to result in greater quality and more reliable delivery of services to customers in Pakistan, particularly commercial, residential, and agricultural customers. Long hours of load shedding, especially unscheduled ones, have had a dire impact on employment. The manufacturing sector has been hardest hit. An estimated 400,000 people have become unemployed or underemployed because of lack of electricity, and the unreliable power supply is an impediment to private sector investment and the development of small and medium-sized enterprises (SMEs).

B. Results from the Poverty and Social Analysis during Project Preparation or Due Diligence

1. **Key Poverty and Social Issues.** Pakistan is suffering from an acute energy crisis caused by (i) insufficient supply capacity, (ii) poor sector performance, (iii) increasing demand, and (iv) inefficient use of energy resources. The persistent energy shortage—which reached a peak of 5,000 megawatts in fiscal year (FY) 2012—represents about 30% of total demand and has made life difficult for all Pakistanis. Many urban areas experience power interruptions for over 10 hours a day; some rural areas have interruptions of 20 hours per day. The manufacturing sector, especially SMEs that usually cannot afford backup generators, is the hardest hit. Estimates from the Planning Commission suggest that losses arising from power and gas shortages have reduced gross domestic product growth by 3%–4% in both FY2011 and FY2012. Poor and vulnerable consumers, including social utilities such as hospitals and schools, suffer badly from inadequate power supply, load shedding, and poor quality of power. They will benefit directly from more reliable power supply. Small industries will be able to operate with greater certainty, for more hours per day, thereby increasing agricultural and industrial productivity. The increased energy supply will also result in more work opportunities and higher incomes for the poor. Increases in the Human Development Index are strongly correlated with access to commercial electricity supply.[c] The indirect benefits of more reliable power supply will include reduced time poverty (more time available for productive activities) and improved health of all household dwellers, but particularly women and children who tend to spend more time in the home by reducing fume-related indoor pollution and water- and food-borne diseases by enabling appropriate boiling of water and food. Fume-related indoor pollution is a result of diesel- or kerosene-fueled cooking and heating, and that more reliable electricity or gas supply would enable their replacement with safer appliances.

2. **Beneficiaries.** Impacts of the program on beneficiaries are generalized and indirect. Power will be evacuated to the national grid, with no localized impact. The cumulative effects of an increase in power supply and a reduction in the current power outages will benefit all consumers (urban, rural, industrial, agricultural, commercial, and domestic) and will increase employment and benefit the poor.

3. **Impact Channels.** The SME sector is hardest hit because SMEs do not generally have backup sources of power. SMEs collectively employ the largest number of people. An increase in electricity supply can thus lead to more jobs and re-hiring of staff laid off due to insufficient power. For households, a more reliable power supply may have a positive effect on family health, as refrigeration will become more reliable and less exposed to long outages when food and medicines can spoil. Education among the poor may also benefit if poor households have access to reliable lighting because schoolchildren will be better able to study. Other positive economic and social benefits will include employment and livelihoods: most poor people in Pakistan are wage laborers or are self-employed. Around 40% of the rural population is landless and is mainly employed as agricultural and off-farm wage workers. Increased power generation will positively impact wage rates, the growth of rural agribusiness, and agro-industrial sector development, and contribute significantly to rural poverty reduction.

C. Poverty Impact Analysis for Policy-Based Lending

The government has already begun subsidy reform through its October 2013 tariff notification. In addition to significantly raising tariffs on consumption above 200 kilowatt-hours (kWh) per month, the government changed the tariff structure to a "previous-slab benefit" or two-rate structure. The Economic Coordination Committee (ECC) has approved tariff and subsidy policy guidelines covering subsidies for low-income residential customers, multiyear tariffs, and guidance for tariff setting as envisaged in the National Electric Power Regulatory Authority (NEPRA) Act. Welfare analysis suggests that sector reform will be more politically viable if the poor are protected from negative impacts.[d] Two potential measures are to:

(i) extend the lifeline to more consumers (cutoff could be 100 kWh) and avoid surcharges and tariff increases for that bracket (i.e., targeting more subsidies to the poor, but not fully protecting them); and

(ii) provide temporary cash compensation to offset the negative welfare impact of a higher cost of living (higher tariffs significantly increase tax revenue, freeing up more than enough fiscal space for cash compensation).

The analysis found that the correlation between consumption and electricity expenditure is relatively low in Pakistan, in that many poor households do not qualify for the lifeline while many richer households do. The analysis recommends to pair tariff design with temporary cash compensation to further mitigate the impacts of reform adjustment on the poor. In the long term, replacing tariff-based subsidies with a cash transfer or differentiating tariffs based on poverty status (rather than lifeline tariffs) may be advisable. For now, the ECC has approved the tariff and subsidy policy guidelines outlined above, but further investigation of reform adjustments will be undertaken as part of World Bank-funded technical assistance.

II. PARTICIPATION AND EMPOWERING THE POOR

1. *Summarize the participatory approaches and the proposed project activities that strengthen inclusiveness and empowerment of the poor and vulnerable in project implementation.* Mainly affected are public sector power companies, regulatory authorities, ministries, independent power producers, and fuel exploration companies. All these stakeholders have been consulted. Urban and rural consumers—industrial, agricultural, commercial, and domestic—are all potential beneficiaries from a sustainable energy sector.

2. *If civil society has a specific role in the project, summarize the actions taken to ensure their participation.* Because the social benefits of the program are primarily indirect, civil society organizations (CSOs) that focus on social impact and development have not had a specific role in the program.

3. *Explain how the project ensures adequate participation of CSOs in project implementation.* CSOs relevant to social impact and development will continue to have a limited role in the program during implementation; if any such CSOs express interest in being involved, the program will ensure that information flows are fully transparent and will seek their advice as appropriate.

4. What forms of civil society organization participation is envisaged during project implementation

☒ Information gathering and sharing ☒ Consultation ☐ Collaboration ☐ Partnership

5. *Will a project-level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons particularly the poor and vulnerable?* – No. The chambers of commerce and the Independent Power Producers Forum are active in sector organizations. Consumer protection is under NEPRA's purview and public consultations are held for each tariff determination. Consumer protection organizations will be consulted during program design.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: no gender elements (NGE)

A. Key issues.

The key gender issues arising from prolonged power outages relate to employment and livelihoods, the burden of household tasks, health, education, and quality of life. At least 30% of textile manufacturing employees are women.[e] Laying off employees because of energy shortages disproportionately affects women, and destroys their single source of livelihood. At household and community levels, women are the main household managers, responsible for both reproductive and food preparation tasks. More, and more reliable, energy supply can be of great benefit to women and girls, e.g., by reducing the labor required to obtain and use other fuels, enabling income-generating activities in the home, allowing easier study for school or other training, and generally improving the health and quality of life. However, the program aims at systemic improvement, and the benefits will be generalized and indirect, leaving very little opportunity for gender design features.

B. Key actions. The gender mainstreaming category is NGE. The nature of the program precludes meaningful contributions to promotion of gender equity and women's empowerment. Benefits are indirect, so gender design features are not possible. However, the possibility of raising women's awareness of energy efficiency and maximizing its benefits will be investigated. Systemic reform of the energy sector will benefit the population as a whole in a generalized manner, but will not have a direct gender impact or widen gender inequality.

☐ Gender action plan ☐ Other actions or measures ☒ No action or measure

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement **Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. – There will be no land acquisition or involuntary resettlement.

2. Strategy to address the impacts. – Not applicable.

3. Plan or other Actions.

☐ Resettlement plan ☐ Resettlement framework ☐ Combined resettlement and indigenous peoples plan
☐ Environmental and social management system arrangement ☐ Combined resettlement framework and indigenous peoples planning framework ☐ Social impact matrix ☒ No action

B. Indigenous Peoples **Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. – No impact on indigenous people will occur as a result of the development.

Is broad community support triggered? ☐ Yes ☒ No

2. Strategy to address the impacts. Not Applicable

3. Plan or other actions.

☐ Indigenous peoples plan
☐ Indigenous peoples planning framework
☐ Environmental and social management system arrangement
☐ Social impact matrix
☒ No action
☐ Combined resettlement plan and indigenous peoples plan
☐ Combined resettlement framework and indigenous peoples planning framework
☐ Indigenous peoples plan elements integrated in project with a summary

V. ADDRESSING OTHER SOCIAL RISKS

A. Risks in the Labor Market

1. Relevance of the project for the country's or region's or sector's labor market.

M unemployment L underemployment L retrenchment L core labor standards

2. Labor market impact. – The proposed policy reforms under the program will contribute to the national economy through more investment and production activities, and additional employment as a result of greater electricity reliability. The reforms will accelerate economic growth and help create jobs. Factories will be able to operate with greater certainty, for more hours per day, thereby increasing productivity.

B. Affordability. The program will have limited direct impact on affordability. Lifeline tariffs will apply and cross-subsidies will be considered. According to a survey, willingness to pay was estimated at PRs21 per kWh. For the poor, the alternative sources of lighting, such as candles and kerosene lamps, will cost more than the lifeline tariff, which applies to consumption of no more than 0–50 kWh per month and which, even if increased to the tariff determined by NEPRA, is PRs4 per kWh because the rates are cross-subsidized by customers from other categories. A poverty impact assessment by the World Bank, which is cofinancing the program, will also analyze the effect on the poor of a decrease in power tariff subsidies and the government's plans to move toward direct cash transfer. Least-cost planning for power generation and energy production will include consideration of potentially affected people.

C. Communicable Diseases and Other Social Risks

1. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA):

Communicable diseases (L) Human trafficking (NA) Others (NA)

2. Describe the related risks of the project on people in project area. – No health risks.

VI. MONITORING AND EVALUATION

1. Targets and indicators: No direct targets and indicators.
2. Required human resources: Limited human resources required. The executing agency will ensure compliance by contractors with contractual requirements.
3. Information in PAM: There are no direct social monitoring and evaluation provisions in the technical memorandum.
4. Monitoring tools: There are no monitoring tools for poverty and social dimensions in the loan agreement or in the technical memorandum.

[a] ADB. 2009. *Country Partnership Strategy: Pakistan, 2009–2013*. Manila.
[b] Government of Pakistan, Finance Division. 2008. *Poverty Reduction Strategy Paper (PRSP) II.* Islamabad.
[c] United States Agency for International Development. 2007. *Energy Sector Assessment for Pakistan.* Washington.
[d] K. Mayer et al: Welfare Analysis of Pakistan Subsidy Reduction, 29 January 2014
[e] S. Khan and F. Khan. 2011. *Public/Private Sector Policies Pertaining to Female Employment in Textile Sector of Pakistan. A Case Study of Karachi Textile Factories.* http://www.tasa.org.au/uploads/2011/11/Khan-Khan-R0050-Final.pdf