

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:

Islamic Republic of Pakistan

 Project Title:

Public Sector Enterprise Reforms Project
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Lending/Financing Modality:

Technical Assistance Loan

 Department/ Division:

Central and West Asia Department / Public Management, Financial Sector and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: General intervention

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

The government's strategy to reduce poverty and economic vulnerability is to create employment opportunities, more equitable access to employment and other economic opportunities, and expand social protection programs. The government's objective is to create by 2025 a globally competitive and prosperous country providing a high quality of life for all of its citizens.^a The project is linked with three of the strategy's seven pillars: (i) governance, institutional reforms, and modernization of the public sector; (ii) energy, water, and food security; and (iii) private sector-led growth.

Public sector enterprises (PSEs) contribute about 10% to Pakistan's gross domestic product (GDP) by providing infrastructure services and other public goods (e.g., energy distribution and air transportation), but some PSEs also deliver private goods.^b PSEs' service delivery is poor and inefficient, with some PSEs systematically running losses, imposing a major burden on public finances and limiting value added for the economy. Inefficiencies in the energy sector have particular negative effects on Pakistan's real sector growth. Long hours of load shedding, especially if unscheduled, have had a damaging impact on production and employment, particularly in the manufacturing sector. 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.^c

The project is expected to strengthen inclusive economic growth by supporting the government in privatizing and restructuring selected PSEs. Private management and improved governance of PSEs can increase their economic efficiency and financial feasibility, and thus increase the government's fiscal space for greater delivery of public services such as health, education and social protection.

The Pakistan country partnership strategy, 2015–2019 is under preparation. This assistance is aligned with the interim country partnership strategy for Pakistan and is included in the country operations business plan (COBP), 2014–2016.^d The COBP also includes two programmatic assistance loans (budget support) to help address the adjustment costs of reforms, of which the Sustainable Energy Sector Reform Program has already been approved.^e The project will finance the required technical assistance to implement the related policy actions and thus will contribute to, and benefit from, implementation of the two programmatic assistance loans.

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

1. Key poverty and social issues. Pakistan PSEs provide infrastructure services and other public goods that are used by all segments of the population, including lower-income households. But service delivery is poor in general, and economically disadvantaged groups are not able to substitute inefficient services provided by PSEs with private sector alternatives. The power sector is one example of how the inefficiency of PSEs has redistributive effects—the urban poor are affected by frequent load shedding, while wealthier groups install alternative sources of power. Subsidies in the sector, which could bring major benefits to poorer communities, currently are untargeted and primarily benefit the wealthy.

The government's efforts to restructure PSEs may involve an upward revision of fee and tariff structures to reach cost recovery levels. The project will ensure that the government monitors and considers affordability issues in a systematic manner throughout the PSE reform program. The government is also strengthening its social protection systems, so that mitigation measures can be effective in targeting and delivery. The project will assist the government in developing and implementing a mitigation framework for possible labor retrenchment in PSEs restructured under the government's reform program.

2. Beneficiaries. The beneficiaries will primarily be the domestic, industrial, agricultural, and commercial clients of public goods and services provided by PSEs, who will gain from improved service delivery. Taxpayers and recipients of government services will indirectly benefit from the reduced fiscal costs of PSEs. Workers in PSEs are expected to benefit from a consistent and fair approach to labor retrenchment to be provided through the mitigation framework for labor-related matters to be developed under the project, which are expected to include options for voluntary separation schemes, training, coaching, and redeployment.

<p>3. Impact channels. The project will help the government reduce the economic and fiscal costs that Pakistan's PSEs are imposing on consumers, taxpayers, and beneficiaries of social services. The project will maximize the benefits that private management and improved corporate and sector governance can bring to PSEs' economic efficiency and financial feasibility. This is expected to improve access to basic services such as electricity. Demand for unskilled and semiskilled labor by PSEs being restructured and privatized may decline. The mitigation framework for labor issues will aim to soften this potential impact. The poor are not expected to be affected by potential increases in tariffs to cost recovery levels (e.g., electricity tariffs) if government subsidies are better targeted to low-income households.</p> <p>4. Other social and poverty issues. PSEs provide non-salary benefits such as housing and free transport to their employees. The new management of these enterprises may reduce or monetize these benefits following restructuring or privatization.</p> <p>5. Design features. The project includes the design and implementation of a mitigation framework for labor issues that will assist the government in identifying and mitigating all relevant dimensions of possible labor retrenchment. The project will prepare a public communications strategy to improve transparency, understanding, and public support for PSE reforms. It will also finance customer surveys to monitor price variations after restructuring and privatization of PSEs.</p>
II. PARTICIPATION AND EMPOWERING THE POOR
<p>1. Participatory approaches and project activities. The main stakeholders are PSE management and staff, regulatory authorities, and ministries. The public communications strategy will improve transparency, understanding, and public support for PSE reforms by all stakeholders. The customer surveys to be financed by the project will monitor the service delivery and tariff structures of PSEs throughout project implementation, with specific consideration of poor consumers. Participation of the poor and excluded in decision making on specific PSE or related sector reforms is not feasible, given the complexity and specificities of PSE restructuring. However, the project will support consultation processes for labor that may be affected by retrenchment.</p> <p>2. If civil society has a specific role in the project, summarize the actions taken to ensure their participation. The project will promote dialogue between the government, management of PSEs, and labor organizations to ensure that labor issues are properly addressed and that workers' rights are suitably protected.</p> <p>3. Explain how the project ensures adequate participation of civil society organizations in project implementation. Under the mitigation framework for labor-related issues, the government is expected to consult labor unions on a regular basis to ensure that workers' rights are respected during restructuring and privatization.</p> <p>4. What forms of civil society organization participation is envisaged during project implementation? <input checked="" type="checkbox"/> Information gathering and sharing (L) <input checked="" type="checkbox"/> Consultation (L) <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>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 project will involve labor associations and consult with consumer protection organizations during project implementation.</p>
III. GENDER AND DEVELOPMENT
Gender mainstreaming category: No gender elements
<p>A. Key issues. Employment opportunities in PSEs are not equally balanced between men and women. In the relevant occupational groups for PSEs, a majority of men are employed: technicians (88%), clerks (97%), plant and machine operators (99%), and elementary occupations (79%). In the relevant industries—electricity, gas, water, transport, storage, and communication—over 90% of employees are men. Retrenchment of excess workers during privatization of PSEs might disproportionately affect men and their families.^e</p> <p>B. Key actions. The mitigation framework for labor issues and the customer surveys will take gender issues into consideration. PSE reforms will benefit the population as a whole and are not expected to have a direct gender impact or widen gender inequality. The nature of the project thus precludes any meaningful direct contribution to promotion of gender equity.</p> <p><input type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input checked="" type="checkbox"/> No action or measure</p>
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES
<p>A. Involuntary Resettlement Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Key impacts. – There will be no land acquisition or involuntary resettlement.</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other Actions</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Combined resettlement and indigenous peoples plan</p> <p><input type="checkbox"/> Resettlement framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p>

<p>B. Indigenous Peoples Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Key impacts. The project is not expected to have any impact on indigenous people. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other actions.</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"><input type="checkbox"/> Indigenous peoples plan</td> <td style="width: 50%; border: none;"><input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Indigenous peoples planning framework</td> <td style="border: none;"><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Environmental and social management system arrangement</td> <td style="border: none;"><input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Social impact matrix</td> <td style="border: none;"></td> </tr> <tr> <td style="border: none;"><input checked="" type="checkbox"/> No action</td> <td style="border: none;"></td> </tr> </table>	<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan	<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework	<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary	<input type="checkbox"/> Social impact matrix		<input checked="" type="checkbox"/> No action	
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V. ADDRESSING OTHER SOCIAL RISKS										
<p>A. Risks in the Labor Market</p> <p>1. Relevance of the project for the country's or region's or sector's labor market. <input checked="" type="checkbox"/> unemployment (L) <input type="checkbox"/> underemployment <input checked="" type="checkbox"/> retrenchment (H) <input checked="" type="checkbox"/> core labor standards (L)</p> <p>2. Labor market impact. In the short term, excess workers in PSEs may be subject to retrenchment during and after privatization. In previous privatizations, the government opted for retrenchment through voluntary separation schemes before privatization and in some cases for protection of jobs up to 1 year after privatization. The direct impact on unemployment is likely to be negligible in a labor market of about 60 million people (footnote ^f).</p> <p>The mitigation framework for labor issues to be prepared under the project will assess existing and required skills, identify possible new sectors for employment, assess training needs for such employment, and explore options for self-employment. The project will also develop a communication plan to improve transparency of the privatization and restructuring processes and thus reduce uncertainty among current employees.</p>										
<p>B. Affordability. The project will have a limited direct effect on affordability. Some PSEs are subsidized and offer tariffs below cost recovery levels. Restructuring and privatization of PSEs might lead to the adjustment of tariffs and fees. The regulation of selected sectors, such as energy, will be strengthened through the project and avoid monopolistic behavior of privatized PSEs. The expected efficiency gains from restructuring PSEs will also create room for lower prices and an improved quality of goods and services in the long term. Customer surveys will monitor the effects on the poor of potentially higher fees and tariffs.</p>										
<p>C. Communicable Diseases and Other Social Risks</p> <p>1. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA): <input type="checkbox"/> Communicable diseases (NA) <input type="checkbox"/> Human trafficking (NA) <input type="checkbox"/> Others (please specify) _____</p> <p>2. Risks to people in project area. Not applicable. The project does not have a specific site.</p>										
VI. MONITORING AND EVALUATION										
<p>1. Targets and indicators. The project will monitor the impact on the price and quality of goods and services provided by PSEs through regular customer surveys. Preparation of the mitigation framework for labor issues is an indicator in the design and monitoring framework.</p> <p>2. Required human resources. Targets and indicators will be monitored by the project management unit and the consulting (communications) firm. Asian Development Bank (ADB) staff will review the indicators on a regular basis.</p> <p>3. Information in project administration manual. The project administration manual describes the terms of reference of the labor relations expert and the communications firm.</p> <p>4. Monitoring tools. The government and ADB will use the design and monitoring framework as a monitoring tool.</p>										

^a Government of Pakistan, Ministry of Planning, Development & Reform. 2014. *Pakistan 2025 – One Nation, One Vision*. Islamabad. Accessible through <http://pakistan2025.org/>

^b The federal government of Pakistan has equity in more than 200 commercial and semicommercial organizations.

^c Beaconhouse National University, Institute of Public Policy. 2009. *State of the Economy: Emerging from the Crisis. Second Annual Report*. Lahore.

^d ADB. 2014. Islamic Republic of Pakistan: Interim Country Partnership Strategy, 2014-2015. Manila; ADB. 2014. Country Operations Business Plan: Pakistan, 2014-2016. Manila.

^e ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan to the Islamic Republic of Pakistan for Subprogram 1 of the Sustainable Energy Sector Reform Program*. Manila.

^f Government of Pakistan, Pakistan Bureau of Statistics. 2013. *Labour Force Survey 2012-13 (Annual Report)*. Islamabad.