



# Initial Poverty and Social Analysis

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September 2018

## Pakistan: Trade and Competitiveness Program

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**Asian Development Bank**

## **CURRENCY EQUIVALENTS**

(as of 1 July 2018)

Currency unit	–	Pakistan rupee/s (PRs/PRs)
PRs1.00	=	\$0.00823
\$1.00	=	PRs121.55

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
GDP	–	gross domestic product

## **NOTES**

- (i) The fiscal year (FY) of the Government of Pakistan ends on 30 June. "FY" before a calendar year denotes the years in which the fiscal year ends, e.g., FY2017 ends on 30 June 2017.
- (ii) In this report, "\$" refers to United States dollars.

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## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Pakistan	Project Title:	Trade and Competitiveness Program
Lending/Financing Modality:	Policy-based Loan	Department/ Division:	Central and West Asia Department / Public Management, Financial Sector, and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS	
A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy	
<p>The proposed Trade and Competitiveness Program aims to improve competitiveness of domestic industries and increase the value of exports, thereby reducing the current account deficit, increasing foreign exchange reserves, and enhancing macroeconomic stability. The program is aligned with Vision 2025,<sup>a</sup> which seeks to achieve rapid sustainable growth by enabling competitiveness, and gain economic benefits from trade and regional opportunities and institutional strengthening. It is also consistent with two of the pillars from the second <i>Pakistan Poverty Reduction Strategy Paper</i>: (i) macroeconomic stability and real sector growth, and (ii) making industry internationally competitive. The strategy paper envisions increased GDP growth; adequate employment opportunities; improved income distribution; and increased global competitiveness through economic and trade liberalization, deregulation, upgrade of the country's technological capacity, and increased focus on skills development.<sup>b</sup></p> <p>Pakistan has experienced stable and increasing economic growth, with average GDP growth of 4.1% per annum during 2010–2017, which has led to an increase in gross national income per capita from \$1,080 to \$1,580. There has been an increase of the Gini index from 29.8 in 2010 to 30.7 in 2013, suggesting a marginal increase in inequality.<sup>c</sup> The program is included in the ADB country operations business plan, 2018–2020. It is also consistent with the ADB country partnership strategy, 2015–2019,<sup>d</sup> which supports the government's objective of higher, inclusive, and sustained growth to create productive employment opportunities and reduce poverty through improving connectivity, productivity, and access to markets and public services.</p>	
B. Poverty Targeting	
<input checked="" type="checkbox"/> General Intervention <input type="checkbox"/> Individual or Household (TI-H) <input type="checkbox"/> Geographic (TI-G) <input type="checkbox"/> Non-Income MDGs (TI-M1, M2, etc.)	
<p>The program aims to increase competitiveness and the value of exports to sustain macroeconomic stability and growth by implementing government reforms such as (i) rationalization of tariffs and taxes; (ii) institutional strengthening; and (iii) sector-specific reforms (including the textile, clothing, and leather sectors). Successful implementation of these outputs and the policy actions under the program will facilitate greater competitiveness and exports from domestic industries (including textiles, clothing, and leather). This will increase the derived demand for high- and low-skilled jobs<sup>e</sup> in these export sectors, thereby having a positive impact on employment and incomes. Thus, the program is expected to have significant indirect benefits for the poor and vulnerable sections of the population through employment generation, classifying the program as a general intervention.</p>	
C. Poverty and Social Analysis	
<p><b>1. Key issues and potential beneficiaries.</b> Using the government's poverty lines for Pakistan's total, rural, and urban populations, the percentage of the population living in poverty increased from 1999 to 2002 but declined through 2011, with faster rates of decline in the urban population. The Pakistan panel household survey provides estimates of total (20.7%), urban (16.6%), and rural (22.4%) poverty incidence in 2010. The percentage of the urban population below the national poverty line has declined more rapidly than the rural population. The potential beneficiaries will be the population of Pakistan, particularly SMEs, entrepreneurs, and employees working in the manufacture of products for export, which are mostly in the textile, clothing, and leather sectors. Increased competitiveness of export industries from reforms implemented under the program will help to increase income and employment. Reduction of regressive taxes (e.g., value-added and diesel fuel taxes) will provide proportionally greater benefits to poorer segments of the population.</p> <p><b>2. Impact channels and expected systemic changes.</b> Pakistan's total value of exports and complexity of export products have lagged behind neighboring and competitor countries (see main text of concept paper para. 7), and the stagnating export sector has constrained opportunities for the population to gain from good jobs. Increased employment opportunities with rising labor productivity are crucial for sustained poverty reduction. Recent labor market trends indicate that Pakistan's labor productivity (output per worker) in nonagricultural sectors declined by 1.6% during FY2006–FY2011, as employment increased by 7.6% (footnote d). This suggests an increase in the number of working poor and these factors point to the need to create higher-quality jobs with increased investment in skills and training. The living situation of poor and excluded people are expected to improve with the program by</p>	

developing the export industries' competitiveness and output, thereby enabling better opportunities for beneficiaries to raise their income and increasing sustainable formal employment for the poor.

**3. Focus of (and resources allocated in) the transaction TA or due diligence.** Poverty, gender, and social issues related to the labor force employed in the targeted export sectors (including textiles and leather) will be carefully reviewed during program preparation and due diligence, including potential components and measures that should be considered. A summary poverty reduction and social strategy analysis will be undertaken during program preparation.

**4. Specific analysis for policy-based lending.** SMEs, which account for much of the country's employment, are hardest hit by the high domestic tax and import tariff regime. The high cost of business is creating a disincentive to greater investment and job creation. The policy-based loan will address reforms to tariffs and taxes to improve (i) the country's competitiveness and exports and (ii) services to exporters to facilitate trade. Since the textile and garment industries are labor-intensive, they have the potential to generate significant economic growth and employment. The industry consists of many SMEs alongside a few large textile firms that sell yarn and raw fabric, as well as mega-sized retailers that buy the finished products. Garment manufacturing requires skilled labor, and many workers receive training on the job.

## II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?

Pakistan has an estimated population of 207 million, with a ratio of 48.6% female and 51.4% male in 2016. Pakistan's score on the Gender Gap Index has not shown consistent improvement from 2008 to 2014 and in 2014 Pakistan ranked second poorest in the index (141 out of 142 countries). Similarly, Pakistan ranked 108 out of 133 countries in 2010 in the Women's Economic Opportunity Index, lower than Bangladesh (104) and India (84). Employed females (aged over 15 years)-to-population ratios doubled from 11.8% in 1995 to 24.3% in 2015. The ratios increased as much as or more rapidly than rates of economic growth from 2003 to 2006 and after 2009. Employed males-to-population ratios remained almost constant during the same period at about 87%. Increases in female employment were not absorbed equally by all sectors of the economy, and most women are employed in the agriculture sector (87% of agriculture sector workers in 2013). The share of employed female workers in the industrial sector increased from 11% in 1995 to 15% in 2005 (during Pakistan's period of rapid economic growth) but declined to 11% by 2011.<sup>f</sup>

While a higher proportion of women have become employed, the proportion of women employed in paid jobs declined after 2000. In 2014, 24.4% of females were in paid employment compared to 43.0% of males. Pakistan has established many labor-related policies and strategies, such as the Labour Protection Policy 2006, Labour Inspection Policy 2006, National Employment Policy 2008, National Skills Strategy 2009–2013, Labour Policy 2010, and a Home-Based Worker Policy 2011. Most of these labor-related policies and strategies do not set out many provisions that distinguish between female and male employees; rather, they indicate or imply that labor policies are to be applied equally. The gender impact of the proposed program will be examined carefully so that some gender elements are incorporated in the program design, including export growth for female entrepreneurs and increased female employment from growth in export of textiles, clothing and leather products.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

☒ Yes ☐ No

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

☐ Yes ☒ No

4. Indicate the intended gender mainstreaming category:

☐ GEN (gender equity theme) ☐ EGM (effective gender mainstreaming)

☒ SGE (some gender elements) ☐ NGE (no gender elements)

## III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The project stakeholders include the Ministry of Finance, the Federal Board of Revenue, and the Ministry of Commerce and Textiles.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded? Not applicable.
3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design? <input checked="" type="checkbox"/> Information generation and sharing (M) <input type="checkbox"/> Consultation (M) <input type="checkbox"/> Collaboration (N) <input type="checkbox"/> Partnership (N)
4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>IV. SOCIAL SAFEGUARDS</b>
<b>A. Involuntary Resettlement Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None
<b>B. Indigenous Peoples Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None
<b>V. OTHER SOCIAL ISSUES AND RISKS</b>
1. What other social issues and risks should be considered in the project design? <input checked="" type="checkbox"/> Creating decent jobs and employment (Medium) <input type="checkbox"/> Adhering to core labor standards <input checked="" type="checkbox"/> Labor retrenchment (Low) <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____
2. How are these additional social issues and risks going to be addressed in the project design? The proposed program outcome (improved competitiveness and increased exports) will facilitate the creation of additional jobs.
<b>VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>
1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact; (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis and participation plan during the transaction TA or due diligence? Staff consultants will be used to carry out these analyses.

ADB = Asian Development Bank, GDP = gross domestic product, SMEs = small and medium-sized enterprises, TA = technical assistance.

<sup>a</sup> Government of Pakistan, Ministry of Planning, Development and Reform. 2014. *Pakistan 2025: One Nation–One Vision*. Islamabad.

<sup>b</sup> Government of Pakistan, Ministry of Finance, Finance Division. 2008. *Poverty Reduction Strategy Paper–II*. Islamabad.

<sup>c</sup> World Bank. World Development Indicators Database.

<sup>d</sup> ADB. 2015. *Country Partnership Strategy: Pakistan, 2015–2019*. Manila.

<sup>e</sup> For example in the garment-manufacturing subsector, low-skilled occupations include helpers, storekeepers, and guards. High-skilled occupations include cutters, machine operators, packers, pressers, stitchers, and technicians. An ADB survey in 2016 found that in the garment subsector, 77.1% were high-skilled, and 9.8% were low-skilled.

<sup>f</sup> ADB. 2015. *Pakistan Country Gender Assessment*. Manila.

Source: Asian Development Bank.