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), 2015–2019 for Pakistan, with reforms in energy as one of three strategic focal areas.[a] The CPS' strategic goal is to increase energy security and efficiency by a focus on energy supply and assistance from public and private funding sources. The Government of Pakistan's Second Poverty Reduction Strategy Paper (PRSP-II) covers a 3-year period—fiscal year (FY) 2009–FY2011—and provides a planning framework well beyond this time frame.[b] PRSP-II draws on lessons from the implementation of PRSP-I. The poverty reduction strategy is built on nine pillars: (i) macroeconomic stability and real growth, (ii) protecting the poor and the vulnerable, (iii) increasing productivity 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 4 (integrated program) and 9 (governance); indirectly supports pillars 1 (stability and growth) and 5 (competitiveness); and is proactive and vigilant in protecting the poor and the vulnerable (pillar 2) through social due diligence, public communication, application of lifeline tariffs, and cross-subsidies for vulnerable people. Ensuring energy security and efficiency are among the government's top priorities in tackling the current energy crisis. Environmental sustainability, a key cross-cutting theme, also forms an integral part of the PRSP-II. The program supports ADB's Poverty Reduction Strategy[c] goals of pro-poor sustainable economic growth and good governance, and its priorities of capacity development and private sector development. It directly addresses two focal areas in the CPS results framework: (i) sustained growth and poverty reduction by 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; and (ii) reforms to strengthen governance, where key constraints include distortions in the agriculture and energy markets, with CPS outcomes that include increased market-based adjustment to reduce the distortions in the energy market. Energy sector's major interventions are designed to achieve economic progress by 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. Load shedding has a dire impact on employment, especially in manufacturing. An estimated 400,000 people are unemployed or underemployed due to lack or unreliable power supply, which 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 remains 5,500 megawatts, represents about 25% of total demand and has made life difficult for all Pakistanis. Many urban areas experience power interruptions for over 6 hours a day; some rural areas have interruptions of 18 hours per day. Some manufacturing industry, especially SMEs that usually cannot afford backup generators, is the hardest hit. The Planning Commission estimates suggest that losses arising from power and gas shortages reduced gross domestic product growth by 2% in FY2015. Vulnerable consumers, including social utilities such as hospitals and schools, suffer badly from inadequate power supply, load shedding, and poor power quality and will benefit directly from a more reliable power supply. Small industries will be able to operate with greater certainty and for more hours per day, thus increasing agricultural and industrial productivity. The increased energy supply will also result in more work opportunities and higher incomes for the poor. Improvements in overall well-being (as measured by increased Human Development Index scores) are strongly correlated with access to a commercial electricity supply.[d] The indirect benefits of more reliable power supply will include better health of all household dwellers by reducing fume-related indoor pollution and water- and food-borne diseases by enabling appropriate boiling of water and food. Fume-related indoor pollutions is a result of cooking and heating using diesel- or kerosene-fueled stoves and heaters, which could be replaced with safer appliances if a reliable electricity or gas supply was available.

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**. SMEs are hit the hardest because they generally lack backup power sources. SMEs collectively employ the largest number of people, and an increase in the electricity supply could lead to more jobs and re-hiring of staff laid off because of insufficient power. For households, a more reliable power supply may have a positive effect on family health, as refrigeration will become more reliable, with fewer long outages that cause spoilage of food and

medicines. Access by poor households to reliable lighting may benefit education, because schoolchildren will be better able to study. Other positive economic and social benefits 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 agricultural sector. Increased power generation will positively impact wage rates, the growth of rural agribusiness, and agro-industrial development, and contribute significantly to rural poverty reduction.

C. Poverty Impact Analysis for Policy-Based Lending. The government began subsidy reform with 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 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.[e] Two potential measures would: (i) extend the lifeline to more consumers (the cutoff could be 100 kWh) and avoid surcharges and tariff increases for that bracket (i.e., providing additional subsidies for 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 a relatively low correlation between consumption and electricity expenditure in Pakistan, in that many poor households do not qualify for the lifeline, while many wealthier households do. The analysis recommends pairing 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 Economic Coordination Committee has approved the tariff and subsidy policy guidelines outlined above, but further investigation of reform adjustments will be undertaken as part of the 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. – Public sector power companies, regulatory authorities, ministries, independent power producers, and fuel exploration companies are primarily affected, and have all been consulted. Urban and rural consumers—industrial, agricultural, commercial, and domestic—are 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. – The social benefits of the program are primarily indirect, and civil society organizations (CSOs) that focus on social impact and development have therefore 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 CSO participation are envisaged during project implementation

[L] Information gathering and sharing [L] 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. Each tariff determination includes public consultation. Consumer protection organizations were consulted during the 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 and affect health, education, and quality of life. Rural households use biomass fuels to address their energy needs, resulting in women having to spend more time collecting fuel and caring for household members who fall sick from constant inhalation of fumes from inefficient biomass fuels. Power outages also affect women's livelihoods. At least 30% of textile manufacturing employees are women.[f] Laying off employees because of energy shortages disproportionately affects women, and eliminates their source of livelihood. At household and community levels, women are the main household managers, responsible for both reproductive and food preparation tasks. More reliable energy supply can be of great benefit to women e.g., by reducing the labor required to obtain other fuels, enabling income-generating activities in the home, allowing easier study for school or other training, and generally improving health and quality of life. There is also the issue of lack of women's involvement in the energy sector, with women making up as little as 0.7% of distribution company employees, and less than 10% of employees in the Ministry of Water and Power and NEPRA. 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. Gender benefits are indirect, such as instituting tariffs to target low-income households, and reducing power outages, which eases the household burdens of women. 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. – No land acquisition or involuntary resettlement will take place.
2. Strategy to address the impacts.– Not applicable.

3. Plan or other Actions.
☐ Resettlement plan
☐ Resettlement framework
☐ Environmental and social management system arrangement
☒ No action
☐ Combined resettlement and indigenous peoples plan
☐ Combined resettlement framework and indigenous peoples planning framework
☐ Social impact matrix

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

1. Key impacts. – No impact on indigenous people will occur due to 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 by more investment and production activities, and additional employment due to 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 apply and cross-subsidies are considered. Based on a survey, willingness-to-pay was estimated at PRs21 per kilowatt-hour (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. If the lifeline tariff is increased to the tariff determined by NEPRA, it will still equal only PRs4 per kWh, because the rates are cross-subsidized by customers from other categories. A poverty impact assessment by the World Bank analyzed the effect on the poor of a decrease in power tariff subsidies, and the government's plans to move toward a direct cash transfer.

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.
3. **Information in project administration manual**. No direct social monitoring and evaluation provisions in the technical memorandum.
4. **Monitoring tools**. No monitoring tools for poverty and social dimensions in the loan agreement or in the technical memorandum.

[a] ADB. 2015. *Country Partnership Strategy: Pakistan, 2015–2019*. Manila.
[b] Government of Pakistan, Finance Division. 2008. *Poverty Reduction Strategy Paper (PRSP) II.* Islamabad.
[c] ADB. 2004. Enhancing the Fight Against Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank. Manila.
[d] United States Agency for International Development. 2007. *Energy Sector Assessment for Pakistan.* Washington, DC.
[e] K. Mayer et al: Welfare Analysis of Pakistan Subsidy Reduction, 29 January 2014.
[f] 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.* https://www.tasa.org.au/wp-content/uploads/2011/11/Khan-Khan-R0050-Final.pdf.