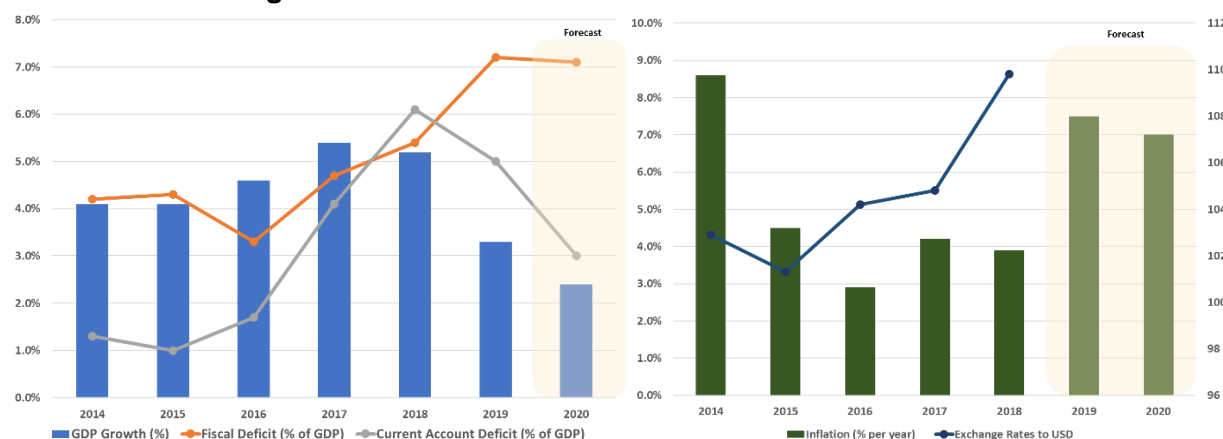


## DETAILED SECTOR ASSESSMENT: BISP AND PAKISTAN'S SOCIAL PROTECTION AGENDA

### 1.1 BACKGROUND

**1.1.1 Economic Context.** The economy of Pakistan is facing a challenging economic environment. Even though Pakistan's economic growth has improved over the last five years, the fiscal year 2018–2019 witnessed a muted growth of 3.3% against the ambitious government target of 6.2%. The recent relatively high growth until the fiscal year 2017–2018 was due to procyclical economic policies with expansionary fiscal policy but at the expense of rising vulnerabilities. Pakistan maintains the high level of current and fiscal deficits due to a lack of competitiveness and weak external position. Average consumer price inflation accelerated in recent months due to strong domestic demand, rising global commodity prices, and a lagged effect of exchange rate adjustment.

**Figure 1: Selected Pakistan Macroeconomic Indicators**



Note: GDP = gross domestic product, USD = the U.S. Dollar

Source: Asian Development Outlook 2019, Budget Brief 2019–2020 (for fiscal balance forecast), and the Government of Pakistan. 2019. Pakistan Economic Survey 2018–2019 (for gross domestic product growth in 2019 and the growth forecast in 2020).

The economy continues to exhibit an episodic pattern of growth characterized by ‘boom and bust’ due to lack of fundamental growth dynamics for a sustainable and inclusive economic development. The main roots of the lower growth cycles are significant saving and investment gap, low competitiveness, and limited productive capacity. As the domestic demand grows above the economic capacity, it builds up pressures that result in fiscal and external imbalances leading to twin deficits in the fiscal and current accounts. This ultimately causes balance of payments problems and the economy to overheat.

Pakistan is facing severe poverty challenges. According to data based on 2013–2014 data, 29.5% of the population was living below the national poverty line, which translates to approximately 55 million people.<sup>1</sup> The Government of Pakistan reckons that 24.3% of the population lives below the national poverty line in 2015.<sup>2</sup> For every 1,000 babies born in Pakistan in 2017, 75 die before their fifth birthday. Even though the unemployment rate is 3.0% in 2018, the proportion of employed

<sup>1</sup> The Government of Pakistan. December 2016. "National Assembly Secretariat (34th Session)" Islamabad. Accessed on 13 June 2019.

<sup>2</sup> The Government of Pakistan. 2019. Pakistan Economic Survey 2018–2019. Islamabad.

population below \$1.90 purchasing power parity a day in 2015 is 3.9%. Hence, the underemployment is prevailing.<sup>3</sup>

**1.1.2 IMF Program.** On 12 May 2019, a staff level agreement for a 39-month Extended Fund Arrangement (EFA) for \$6 billion was reached between the International Monetary Fund (IMF) and the Government of Pakistan. There were early fears that the EFA could include significant cuts to social protection expenditure and, in particular, to the Benazir Income Support Program (BISP), Pakistan's flagship social protection program, which receives around \$1.2 billion annually. However, in a subsequent press release the IMF emphasized the importance of BISP and added: "The forthcoming budget for FY2019/20 is a first critical step in the authorities' fiscal strategy. The budget will aim for a primary deficit of 0.6% of gross domestic product (GDP) supported by tax policy revenue mobilization measures to eliminate exemptions, curtail special treatments, and improve tax administration. This will be accompanied by prudent spending growth aimed at preserving essential development spending, scaling up the Benazir Income Support Program and improve targeted subsidies, with the goal of protecting the most vulnerable segments of society.

The FY2019/20 national budget announced on 11 June, incorporates fiscal measures of the IMF program. In the budget, the primary deficit is slightly higher compared to FY2018/19. While this would ordinarily mean there is limited room for new policies, there is a 52% increase in expenditure for social protection and poverty reduction under the umbrella of Government's new Ehsaas Program (including BISP). Social protection expenditure under BISP has been moved from the 'Other Development Expenditure' category to 'Current Expenditure' under the functional head of social protection in the FY 2019–2020 budget. This is expected to benefit the poor and help cushion the poor from shocks and the short-term impact of economic reforms. Overall expenditures will increase by 30% with a significant share allocated to increased interest payments (with little benefit to the poor). On the revenue side, the 34.8% increase in net revenue for the federal Government includes increases in Federal Board of Revenue and other revenues (e.g. SBP profits, royalties, dividends, etc.), reductions in tax expenditure (concessions and incentives), and improved tax administration and compliance. There are no planned increases in indirect taxes that could adversely affect the poor and near poor (i.e. sales tax will remain at 17%, which is a regressive tax). Some of the customs duties are being reduced in the budget which will benefit poorer households that consume imported goods. Differentiated income tax thresholds for salaried and non-salaried persons are also being introduced, which is considered a pro-poor tax policy in nature.

The IMF program is also expected to result in a more flexible exchange rate regime and further depreciation of the rupee to protect falling foreign reserves (approximately 15% depreciation expected for FY2019–2020). This will have an upward effect on inflation, which will have a detrimental effect on the poor and reduce their purchasing power. To reduce future expenditures, it is expected the government will have to present a comprehensive plan for cost-recovery in the energy sector and privatization of state-owned enterprises, as measures under the IMF program. Reduction of energy subsidies would lead to an increase in electricity tariffs, which will adversely impact the poor

*Adjustment policies will require a strong social compensation mechanism*

IMF maintains that improved public finances and reduced public debt would create fiscal space for a substantial increase in social spending to strengthen social protection as well as infrastructure and human capital development. However, the CWRD economic team expects that the fiscal space would not be widened as much given the 17.5% cut in development spending

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<sup>3</sup> ADB. 2019. Poverty in Pakistan. <https://www.adb.org/countries/pakistan/poverty>. Accessed on 13 June 2019.

announced in the new budget. The expectation for poverty reduction remains subdued in the coming years.

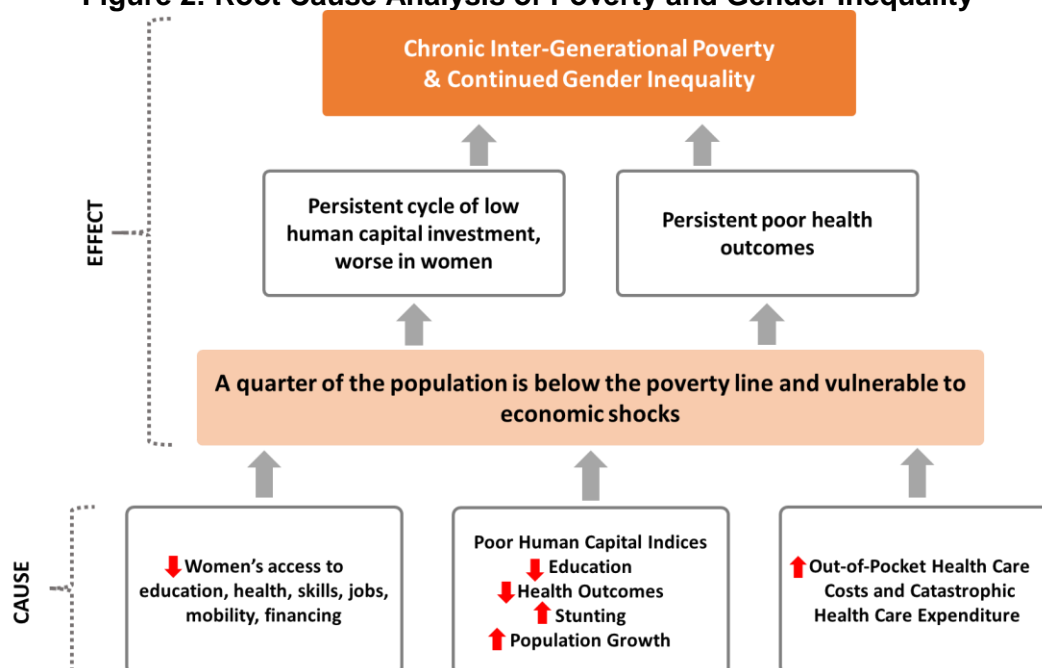
**Cash transfers under the BISP can and should be quickly stepped up to mitigate adverse social consequences.** Asian Development Bank (ADB) is working on additional financing for BISP, and will continue to support conditional cash transfers (UCT) and conditional cash transfers (CCT). BISP's focus is on the poorest of the poor. Ehsaas provides an opportunity to expand the social protection initiatives including BISP to cover the vulnerable segments beyond the poorest of the poor who could easily fall into poverty.

## 2.1 RATIONALE FOR ADB SUPPORT FOR SOCIAL PROTECTION

**2.1.1 Rationale for ADB support.** Rationale for ADB to support these programs, includes; (i) need for mitigating negative impacts of reforms and to help create popular support for successful implementation of IMF Program and our PBLs, (ii) our need to stay relevant in Pakistan, especially if government is to substantially cut down its development program in infrastructure, and (iii) social protection's linkages to Strategy 2030. ADB's Country Partnership Strategy 2015–2019 promotes inclusive growth and engagement with the social sectors, and this focus continues in the new Strategy, currently under development.

The government is prioritizing poverty alleviation and social safety support. The figure below shows the root causes of poverty and gender inequality in Pakistan, highlighting areas that need investment and support.

**Figure 2: Root Cause Analysis of Poverty and Gender Inequality**



Source: Asian Development Bank.

Low investment in human capital in Pakistan and the rapid population growth rate counteract, to a large extent, any advances in macroeconomic recovery and poverty reduction. Pakistan's population is projected to increase to over 227 million by 2025. The population will also comprise

a much larger proportion of younger people (63% below the age of 30).<sup>4</sup> This demographic dividend could create an opportunity for the country if balanced by declining fertility rates and corresponding investment in human development, especially education, training, and health. However, Pakistan's situation today—where almost half of under-five children are stunted and almost 23 million children are out of school—suggests that it will not be able to generate a demographic dividend. To absorb the rapidly expanding labor force, and create jobs, the economy will have to grow at a rate of around 7%.<sup>5</sup>

With the weak economic forecast, the activities under SPDP and the additional financing aim to provide immediate and long-term relief to beneficiaries. Direct cash transfers, supported by both SPDP and additional financing, provide a financial cushion to the poorest sections of society, helping to increase their household consumption and improve their nutritional intake. They also lead to increased women's economic and political empowerment.

### 3.1 BENAZIR INCOME SUPPORT PROGRAM

**3.1.1 Background.** The Benazir Income Support Program (BISP) was launched in 2008 as the country's primary social protection program and is one of the largest social protection programs in South Asia. The program has three primary objectives: a) enhance financial capacity of the poor and their dependents, b) formulate and implement comprehensive policies and targeted programs for the poor and vulnerable, and c) reduce poverty and promote equitable distribution of wealth, especially for low income groups. The program was supervised by the Ministry of Finance at inception and is now under the administrative domain of the newly set up Division of Poverty Alleviation and Social Safety (for further details, see section below on *Ehsaas Policy*).

**3.1.2 Unconditional Cash Transfers are main modality.** BISP's primary operation is the UCT modality, which is paid exclusively to eligible women and, as of January 2019, it had disbursed PKR 563.57 billion to over 5.6 million beneficiary families (17% of the population). The UCT is meant to provide a financial cushion to mitigate negative effects of food and fuel inflation. BISP also conducts the poverty targeting survey and is the custodian of the National Socio-Economic Registry (NSER) developed as a result of the survey. BISP also implements an education-related CCT - *Waseela-e-Taleem* - and has developed a graduation program to lift beneficiaries out of poverty.

**3.1.3. National Socio-Economic Registry.** BISP created the National Socio-economic Registry (NSER) as a targeting system. It was developed between 2009–2011 through a door-to-door survey and identified beneficiaries using a Proxy Means Test-based Poverty Score Card. The NSER contains information on more than 27 million households (approximately 167 million people) and is currently being updated to re-certify beneficiaries and identify new beneficiaries. The beneficiaries' enrolment in the program is based on eligibility verification from the NSER and verification with the country's National ID database, maintained by the National Database and Registration Authority (NADRA).

**3.1.4 Successes of BISP.** BISP has been able to establish an efficient, transparent and innovative payment delivery system also by implementing a biometric payment and a grievance redressal system. Its impact has been evaluated in several independent impact assessment studies confirming that BISP UCTs and CCTs achieved positive impact on:

<sup>4</sup> Planning Commission, Ministry of Planning, Development & Reform. Pakistan 2025: One Nation – One Vision

<sup>5</sup> State Bank of Pakistan, 2019. The State of Pakistan's Economy, Third Quarterly Report for the Year 2018–2019. <http://www.sbp.org.pk/reports/quarterly/fy19/Third/Complete.pdf> (accessed 16 July 2019).

- reduction in poverty gap of 3%<sup>6</sup>;
- improvement in savings and household incomes, expenditure and food consumption;
- women's empowerment;
- increase in school enrolment of children 5 - 12 years of age by 10%.

BISP's role remains crucial given the current difficult macroeconomic forecast and inflation in the country.

**3.1.5 Lessons learned.** Overall lessons learned from ADB's engagement with BISP as well as from several impact studies are:<sup>7</sup>

- Targeting needs to be updated periodically to cater for demographic and economic changes and to avoid inclusion/exclusion errors;
- Benefit levels need to be reviewed periodically to ensure they have impact;
- CCTs can cause behavior change *when properly designed*;
- Strong capacity and skills are required to design, implement, and expand CCT and graduation programs;
- UCTs will continue playing an important role in the future as a safety net for poor households, including those that will not qualify for education or nutrition CCTs;
- Graduation programs are costly, time consuming and need careful targeting of eligible and suitable beneficiaries, and
- Coordination and cooperation with the provincial governments are important given the devolution of social services.

### **3.1.6 Need to integrate social protection programs with human capital development.**

Pakistan is facing a severe human development and child nutrition crisis with critically high rates of stunting, wasting and underweight among children. It ranks the highest in South Asia and the third highest globally in stunting and wasting rates, with almost half of under-five children being stunted.<sup>8</sup> The WHO classifies rates of stunting above 30% and rates of wasting above 15% as a child nutrition emergency. Oxford Policy Management's (OPM) recent evaluation of BISP beneficiaries found stunting and wasting rates of 44% and 18% among children under 5. The evaluation also found no impact of BISP on stunting rates among children or on other health indicators such as child immunization or diarrhea (though modest impacts on proportion of girls wasted were observed). In contrast, successful cash transfer programs such as Peru's *Juntos* conditional cash transfer program reduced childhood stunting in half in just 8 years, from 28% in 2008 to 13% in 2016. Appendix A highlights key features of successful CCTs that improved health and nutritional outcomes including the role of conditionalities, benefit levels, coverage and length of exposure, messaging and complementary investments in health and nutrition services.

Similarly, Pakistan has the world's second-highest number of out-of-school children (OOSC) with an estimated 22.8 million children aged 5-16 not attending school, representing 44% of the total population of this age group. There are also significantly high rates of dropout after primary school, going from 10.7 million boys and 8.6 million girls enrolled at the primary level, down to 3.6 million boys and 2.8 million girls at the lower secondary level (UNICEF, 2019). BISP's UCT component has not led to any significant increase in school enrollment rates among beneficiaries (OPM, 2016). When asked why children were not attending school, BISP beneficiaries highlighted the high cost of schooling as a key barrier to education access. Lessons from international experiences suggest that well-designed CCTs can induce behavior change and increase both

<sup>6</sup> An Oxford Policy Management review reported reduction in poverty gap by 3 percentage points, but without a significant impact on poverty rate. <https://www.opml.co.uk/projects/evaluating-benazir-income-support-programme>.

<sup>7</sup> OPM impact evaluations

<sup>8</sup> Pakistan's Growth Story. Understanding and Responding to Disadvantage in Education. Dec 2016.

primary and secondary school enrollment and attendance rates when transfer amounts sufficiently cover education expenses and conditionalities are properly implemented.

Ultimately, if human capital development is a priority for the Government, it will be important to improve education, health and nutrition indicators through a combination of well-designed and targeted CCTs that provide adequate transfers conditional on for example, school attendance, health and nutrition counselling, and child malnutrition screening/growth monitoring check-ups using the existing BISP infrastructure and registry database. These should be complemented with simultaneous investments in health and education to improve the quality and coverage of services.

BISP capacity to design nutrition, health and education CCTs is currently weak. With a large percentage of the poor dependent on UCTs, a shift to CCTs will need to be managed well with CCTs designed - based on local and global evidence - to be cost effective and impactful. BISP capacity to develop evidence-based interventions needs to be increased, and pilot programs can be designed to first test the impact of a health and education CCTs before scaling up nationally. Lessons from global social protection programs that significantly improved human development outcomes are highlighted in Appendix A.

**3.1.7 Future challenges and direction for BISP.** Despite its endurance and overall good performance BISP faces significant challenges. Scope and coverage of programs remain limited. Spending on social protection is relatively low with programs collectively covering just 2% of GDP.<sup>9</sup> Unconditional transfers help smoothen consumption especially for the ultra-poor, however, they do not break the intergenerational poverty cycle. The government is well aware that its social protection agenda will therefore need to move beyond UCTs in order to have a significant impact on poverty reduction and is looking at alternate modalities that target the improvement of human capital, such as CCTs for health (including nutrition and family planning) and education based on global best practices. Improvement of human capital of children through improved health, education and nutrition has shown to be the key driver for breaking the intergenerational poverty cycle. CCTs, however, introduce program complexities and require more partnerships, expertise and coordination especially with the provinces that BISP will need to address. The same applies for the graduation programs to lift people out of poverty, which BISP is currently exploring. These programs will require even more financial and technical capacity resources.

The government has also recognized that institutional strengthening of BISP is critical and protection of payments against the risk of Error, Fraud and Corruption (EFC) needs to be further improved. International experience shows that all cash transfer programs are vulnerable to EFC and therefore it is vital to have a robust framework in place that ensures strong EFC counter measures and minimizes the risk of losses due to EFC. BISP is currently developing such a framework with the support of World Bank and Department for International Development (DFID).

**3.1.8 ADB support to BISP.** The ADB Pakistan Social Protection Development Project (SPDP - \$395 million, Oct 2013–June 2020) has supported the enrollment of 0.85 million eligible families. The project is also supporting the implementation of the BISP Graduation Program through pilot interventions and evaluations of the Business Incubation for Self-Employment (BISE), Inclusive Business and Direct Cash components of the graduation program.

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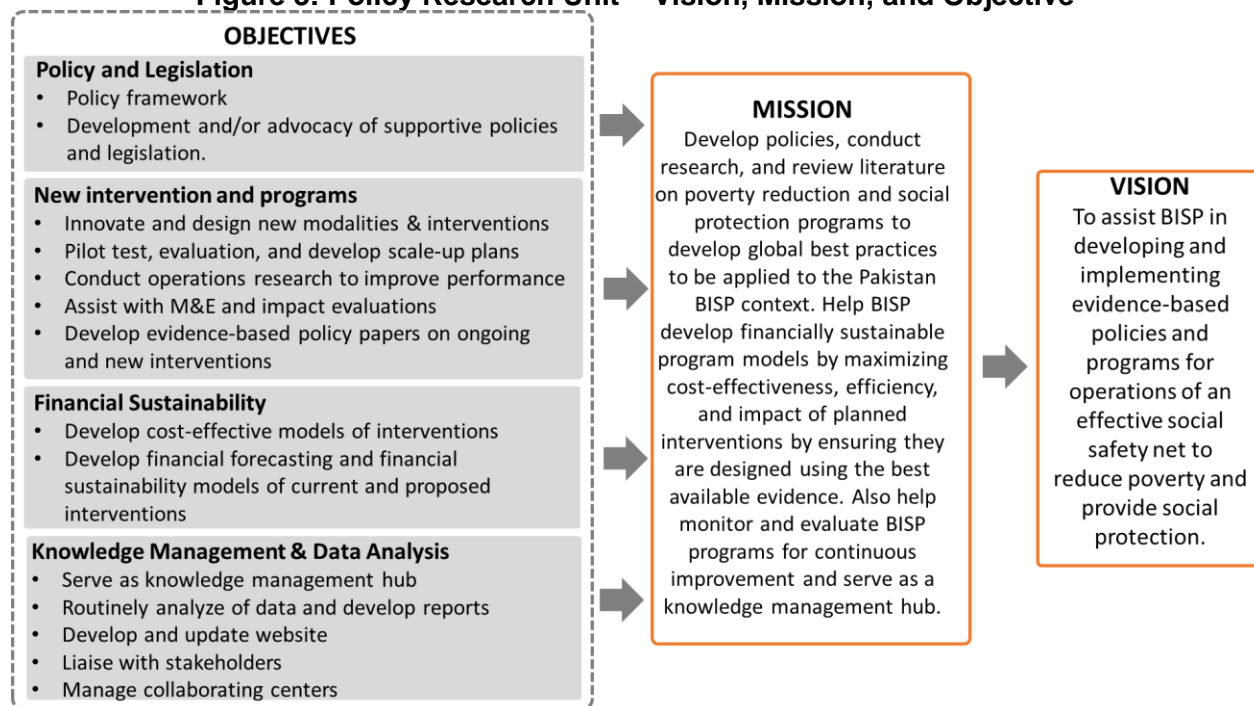
<sup>9</sup> Pakistan spends the least within South Asian on social protection. Accessed from: [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/--publ/documents/publication/wcms\\_604882.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/--publ/documents/publication/wcms_604882.pdf)

The Government of Pakistan has requested additional financing of \$200 million for the SPDP. The government intends to utilize the additional financing to (i) continue UCT payments; (ii) to strengthen policy research functions (by developing a policy research unit) to support evidence based policy decisions for its ongoing operations as well as for development of new programs and social protection interventions with a focus on CCTs; and (iii) to support institutional strengthening measures for the financial management, internal controls' systems and the recently developed "error, fraud and corruption (EFC) framework" to support cash transfers.

The Policy Research Unit is considered a critical component in identifying the future direction of BISP. The Policy Research Unit will: (i) develop a policy framework for BISP and support policy and legislation development; (ii) help monitor and improve performance of ongoing programs while developing new evidence-based initiatives to effectively address intergenerational poverty; (iii) study cost-effectiveness, financial feasibility, and scalability of new interventions; and (iv) serve as a knowledge management and data analytics hub for BISP.



**Figure 3: Policy Research Unit – Vision, Mission, and Objective**

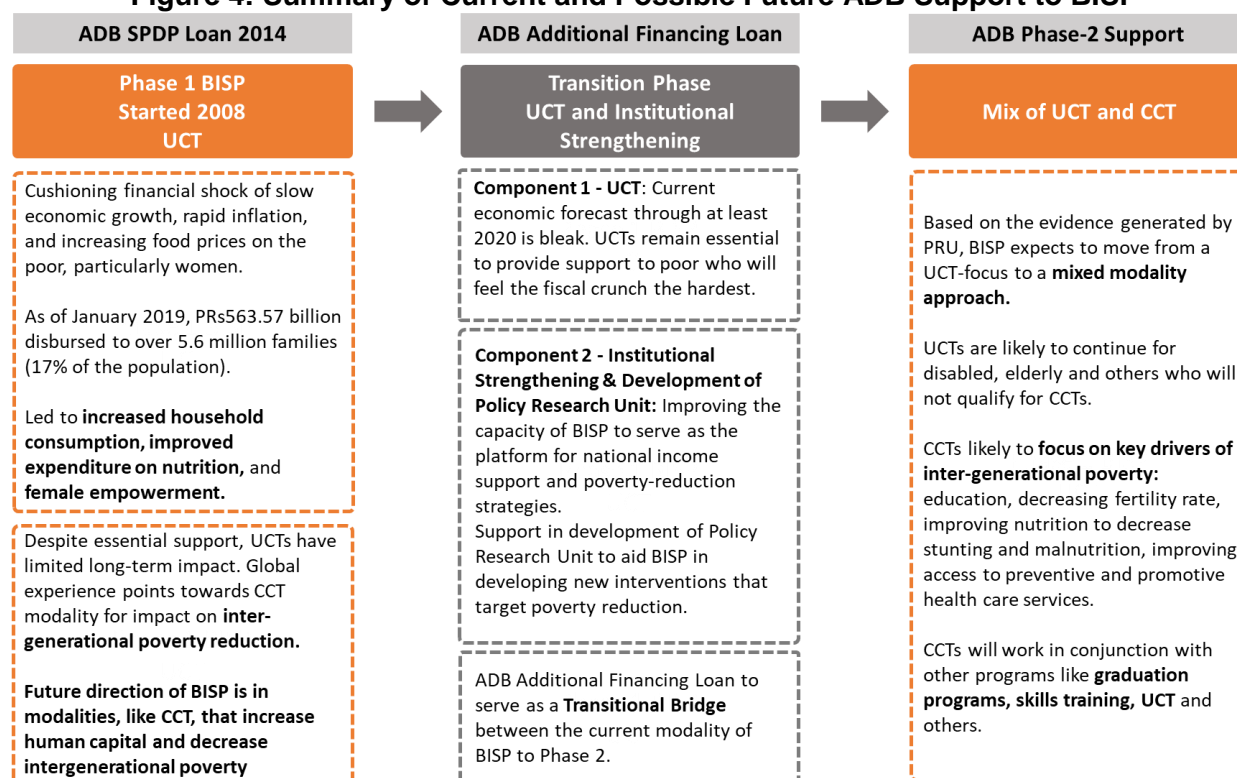


Source: Benazir Income Support Program.

The scope of the next phase of ADB support to social protection in Pakistan is currently being discussed. See the figure below to see how the requested Additional Financing builds on the SPDP loan and would contribute to the second phase of ADB support.



**Figure 4: Summary of Current and Possible Future ADB Support to BISP**



Source: Asian Development Bank.

### 3.1.9 World Bank and DFID support to BISP. BISP is also receiving support from World Bank and DFID:

- In 2017, World Bank approved a \$100 million in loans for the National Social Protection Program, of which \$90 million is linked to DLIs and \$10 million is allocated to TA, with support ending in 2021. This program focuses on updating the NSER for beneficiary identification, provision of targeted subsidies, development of modern payment delivery systems, consolidation of federal and provincial partnerships for equitable service delivery, expansion of the Waseela-e-Taleem, or WeT (education) program, and refinement of complementary initiatives for helping the poor to exit poverty.<sup>10</sup>
- In September 2012, DFID approved a £300 million project (including £21 million for technical assistance), providing parallel financing to the World Bank project using the same DLI results framework. This project ends in March 2020 but may be extended for another year on a no-cost extension basis. In Phase I of this program, DFID supported systems reforms, the expansion of the UCT program, the NSER, and the CCTs for education program (Waseela-e-Taleem). In Phase II, DFID no longer supports UCTs and is focusing on NSER update completion, improvement in biometric verification processes, communications and development of call centers, financial management, training of field officers, and expansion of the WeT education CCT.

Neither partner is currently able to clarify which areas it will continue supporting in their new funding cycles. However, BISP remains a priority program for the government, which is expanding its support for both BISP and for broader social sector support under the Ehsaas Policy.

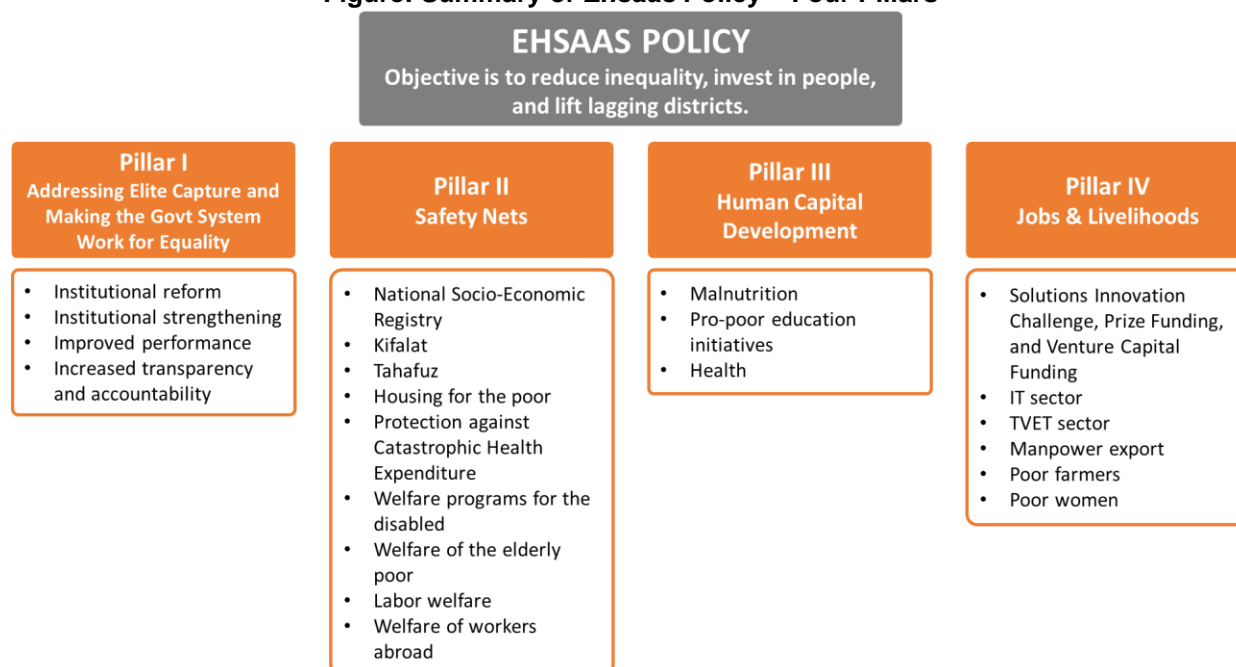
<sup>10</sup> World Bank Project documents. Available at <http://projects.worldbank.org/P158643?lang=en> Accessed July 2019.

## 3.2 EHSAAS POLICY

**3.2.1 Social protection remains an integral part of the government's poverty reduction strategy.** A new government, formed in August 2018, established the Poverty Alleviation Coordination Council in January 2019 under the Prime Minister's Office, headed by the Chairperson of BISP. The purpose of this council is to align and coordinate the various social protection institutions to increase their efficiency and impact. In March 2019, the Prime Minister released the *Ehsaas* policy statement, the objective of which is to "reduce inequality, invest in people, and lift lagging districts." (*Ehsaas Policy*, 2019)

**3.2.2 *Ehsaas* Policy: Analysis and translating into action.** The *Ehsaas* policy is articulated in four pillars and currently embodies 115 policy actions (which may be expanded). The four pillars include: (i) addressing elite capture and making the government system work to create equality; (ii) safety nets for disadvantaged segments of the population; (iii) jobs and livelihoods; and (iv) human capital development.

**Figure: Summary of *Ehsaas* Policy – Four Pillars**



Source: Government of Pakistan.

*The Ehsaas Policy needs to be translated into comprehensive strategy*

The *Ehsaas* policy provides an overarching vision and cements the intention of the government to address poverty and inequality. It will help mobilize technical and financial resources for these areas. However, the document needs to be translated into a comprehensive evidence-based strategic approach. Currently, it includes both high level strategic and policy actions along with downstream piecemeal activities under the same pillar. (For example, pillar I includes policy action 1 on a new constitutional amendment as well as policy action 21 on hunting permits).

*Stock-take of past and current interventions to develop evidence-based interventions*

Many of the policy actions are based on ongoing programs. For example, the Benazir Income Support Program is currently working on the *Kifalat* and *Tahafuz* programs under pillar II. (*Kifalat*

focuses on providing cash transfers to the poor and on graduation programs; *Tahafuz* focuses on providing a precision safety net to the poor). This allows for the government to show rapid action in key areas, with some necessary quick wins. However, at the same time, a stock-take exercise is needed to review current and past programs, to understand what worked, did not work, and how to restructure current programs and design new ones for maximum impact and efficiency. An evidence-based, comprehensive approach needs to be developed for each of the pillars, with lessons learnt from Pakistan and with global best practices.

*Current strong focus on demand-side interventions need to be complemented with supply side interventions*

The current policy actions, in the sectors of health and education, focus more on demand-side incentives instead of supply-side interventions to improve availability and quality. As government entities, like BISP, adopt conditional cash transfer mechanisms, the need to focus on the supply side is critical to ensure success. Missing the supply side in the *Ehsaas* policy, which serves as an overarching vision document, also risks these sectors missing out on resulting resource mobilization, and weakens provincial-level coordination.

*Address fragmentation, efficiency, effectiveness and sustainability of social protection programs*

While *Ehsaas* reflects the policy objectives of the government and looks to address critical governance, social and human development, and employment/livelihoods issues facing the country, several important considerations deserve attention. First, in the context of social protection, it will be important to improve the efficiency of social protection programs, address issues of fragmentation, consolidate inefficient and poorly targeted programs into more effective and well-targeted programs, and create the fiscal space to implement sustainable social protection systems. To this end, it will be critical to avoid parallel programs and ensure synergies across the various initiatives.

*Federal and provincial coordination.*

The focus should be on complementarities and avoiding duplication of programs between the federal government and the provinces. Stepped up coordination will be key for the success of these programs in a cost-efficient manner. For example, in this context, there is a need to assess how the expansion and financing of the *Sehat Sahulat* health insurance cards is proceeding, since implementation is happening both at provincial and federal level.

*Ensure coordination and complementarity between social protection and human development*

It will also be important to ensure coordination and complementarity between various policy initiatives and strengthen the links between social protection and human capital development. Given Pakistan's challenges with maternal and child nutrition, education access and quality, and health services coverage and quality, new initiatives proposed under the *Ehsaas* program should not be standalone reforms and actions implemented in isolation. Instead, there should be a concerted effort to target districts and areas facing particularly acute challenges with health and education, identify gaps in coverage and quality, and complement sound social protection measures such as conditional cash transfers targeted to vulnerable households with necessary improvements in the coverage and quality of education, health and nutrition services in those areas. Complementary initiatives should also include efforts to upgrade water, sanitation and hygiene infrastructure given the high rates of bacterial contamination of surface and ground water due to inadequate treatment of human waste – a problem that exposes children to high rates of

intestinal infections and diarrhea. Various policy and program design lessons from international experiences with integrated social protection programs are highlighted in Appendix A, including important prerequisites that led to greater impacts on poverty and human development.

*Review priorities, timelines, resources, capacity and implementation mechanisms for Ehsaas*

The Ehsaas program would benefit from a comprehensive assessment and review of what is feasible in the short, medium and longer-term as well as detailed cost estimates and implementation mechanisms for the various initiatives proposed. This may require a prioritization exercise, particularly in light of upcoming austerity measures and reforms proposed under the IMF program. For example, strengthening and improving existing social protection programs including the introduction and expansion of well-designed CCTs through BISP may offer more immediate returns in terms of poverty-alleviation and human development, while new programs and initiatives are likely to deliver returns in the medium to longer-term. Nevertheless, an integrated and coherent approach is warranted, one which provides adequate protection and support to vulnerable households, identifies lagging districts objectively, utilizes global evidence to inform new initiatives and strengthen existing programs, and leverages the comparative advantage of federal and provincial governments to deliver social services.

*Developing institutional mapping of implementing partners, and mapping of policy and legislative landscape*

The *Ehsaas* policy actions range from local government responsibility to high level policy actions that require constitutional or legislative changes. The actions also span multiple sectors (agriculture, education, housing, IT etc.) as well as the private sector. Given this wide range, implementation will require articulation of the institutional arrangements, including implementing partners and agencies, and how to coordinate and link with provinces. It will also be important to define how the sectors will collaborate with the private sector, which will be essential for many of the policy actions. The *Ehsaas* policy needs to be linked to a mapping of existing policies and legislation, with an identification of policy and legislative gaps.

*Fiscal implications of proposed expansion of existing programs and new ones.*

The *Ehsaas* policy rightly emphasizes the need to scale up existing programs and design new programs to support the most vulnerable. A comprehensive and transparent assessment of the fiscal implications of these measures is needed to better prioritize policies and spending. At the moment no proper costing has been completed. For example, what is the full cost, both immediate and over the medium-term, of the health insurance scheme now being introduced across the country? ADB together with other donors can help.

*Ownership of Ehsaas*

The ownership and monitoring of the Policy is a critical issue. It needs to be owned, housed and monitored at a high level to allow for sustained high level political commitment and advocacy, the ability to monitor across sectors and areas, and the ability to provide a high-level platform for coordination.

**3.2.3 Division of Poverty Alleviation and Social Safety.** In April 2019, the government announced the establishment of the Division of Poverty Alleviation and Social Safety. The establishment of this Division was one of the policy actions in the *Ehsaas* Policy.

This Division is responsible for: (i) developing policies for and mainstreaming of social protection and poverty alleviation, and for designing innovative initiatives for poverty alleviation; (ii) coordinating with relevant stakeholders across sectors at federal and provincial levels, including other ministries as well as non-government actors; (iii) administration of six poverty reduction and social safety initiatives (BISP, Bait-ul-Mal, Trust for Voluntary Organizations, Pakistan Poverty Alleviation Fund, Center for Social Entrepreneurship, and Center for Rural Economy); and (iv) collection and disbursement of *Zakat* and *Usher* to provinces.

Given this mandate of the Division, it is the most suitable agency to house the coordination and monitoring functions for implementation of *Ehsaas*. This will also ensure high level support and progress monitoring and reporting to the Prime Minister's Office.

#### 4.1 RECOMMENDATIONS GOING FORWARD

Pakistan government is increasing interest and investment in social sector, especially in light of the current economic outlook and the IMF program implications. ADB is actively supporting social protection in Pakistan through BISP, which is a core implementing agency for social safety. ADB is in a strong position to be able to provide direction and support to the new Division and to the *Ehsaas* policy. ADB can support the Division in the following areas:

- Development of Strategic Plan and Policy Framework for the Division, linked to *Ehsaas* Policy, with clear prioritization and timelines for key activities
- Development of mapping of all implementing partners of *Ehsaas* Policy at federal and provincial levels
- Development of Operational Plans of new Division, including budget and M&E framework
- Development of Investment Plan for Division, and identification of financial and technical gaps (for government, ADB, and other financing)
- Provide capacity development and institutional strengthening
- Development of policy research entity to assist with evidence-based research and policy making in poverty reduction at national and provincial level, and across various entities, including those being managed by the Division
- High level policy dialogues and advocacy events.

#### APPENDIX A: A.1 Lessons for Pakistan from Social Protection Systems Around the World

*\* This appendix is part of a briefing paper for ADB Management that was prepared by an interdepartmental team comprising CWRD and SARD.*

Pakistan has witnessed a gradual decline in monetary poverty since 2004 when nearly half the population fell below the poverty line. Much of this has been due to an effective cash transfer program (BISP), improved law and order situation, and modest GDP growth since 2010. Despite this progress, nearly a quarter of the country's booming population was still living below the poverty line in 2015. Pakistan has also not scored well on the multidimensional poverty index (MPI), which recognizes poverty as being a more complex, multidimensional problem than limited income alone. That is, there are various facets of deprivation that can affect people's well-being including inability to attain a good education, lack of access to healthcare and proper nutrition, poor housing and an unsafe living environment. The MPI therefore complements consumption-based poverty measures by reflecting deprivations that individuals face in other dimensions such as education, health and standard of living. In Pakistan, nearly 39% of the population was living in multidimensional poverty in 2015, with the rates significantly higher in rural areas, FATA and Baluchistan.

Well-designed, well-targeted, and transparently implemented social protection systems offer one viable solution for lifting incomes and consumption, improving social inclusion and promoting human development. This brief policy note draws lessons from international experiences with social protection programs, highlighting the impacts that can be realized if programs are well designed, coordinated and targeted.

## **A.2 Spending on Social Safety Nets**

On average, developing countries spend 1.5% of GDP on social safety net (SSN) programs. However, there is little to no correlation between a country's income level and spending on SSNs, and even countries with similar GDP per capita choose different levels of spending, reflecting different policy preferences rather than economic conditions. Within South Asia, the regional average has been nearly 1% of GDP, with India and Nepal allocating closer to 1.5% of GDP to social assistance programs. Pakistan, in contrast, spent 0.6% of GDP on social safety nets in recent years. The most common SSN instrument remains cash transfers (conditional, unconditional, and social pension programs), though public works, in-kind (such as the Public Distribution System in India) and school feeding programs are also popular in some countries. Although there are no standard rules to set benefit levels, the most effective cash transfer programs have set transfer levels equivalent to 20% of monthly household consumption.<sup>11</sup>

## **A.3 Consumption, Poverty and Resilience against Shocks**

There is robust evidence highlighting the poverty reduction impact of cash transfer programs, from Latin America and Africa to East and South Asia. The majority of targeted safety net programs (both conditional and unconditional) find an increase in total household expenditure, with impacts ranging from a 5.3 percentage point change in total per capita expenditure (Brazil's Bolsa Familia) to a 33 percentage point increase in total expenditure (Peru's Juntos conditional cash transfer program). Similarly, many programs have had strong poverty reduction impacts (both poverty headcount and the poverty gap), particularly when consumption impacts were also strong. The poverty impacts range from a 4 percentage point reduction in the poverty headcount (Zambia's Child Grant) to 14 percentage points in Peru and 22 percentage points in Pakistan.<sup>12</sup> A recent evaluation of Egypt's national, targeted safety net program, Takaful and Karama, found that the program had a significant impact on both consumption and poverty levels, raising household total consumption (driven by an increase in food consumption) by 8.4% and reducing the probability of a household falling below the poverty line by nearly 11%. This is significant, particularly given that the poverty rate in Egypt was 27.8% in 2015 and high inflation was disproportionately affecting the welfare of the most vulnerable.<sup>13</sup>

Significant evidence also confirms that SSNs help improve resilience to external shocks and that beneficiaries of transfer programs are more likely to save, as seen in Ghana's Livelihood Empowerment against Poverty (LEAP), Kenya's Hunger Safety Net Program, and Zambia's Child Grant Program. The integrated Graduation Approach, where targeted cash transfers are combined with asset transfers, training, access to finance, and coaching, has similarly found consistent and lasting impacts across diverse contexts on consumption, poverty, and resilience.

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<sup>11</sup> World Bank. 2018. The State of Social Safety Nets. Washington DC. World Bank.

<sup>12</sup> Bastagli, F., Hagen-Zanker, J., Harman, L., Barca, V., Sturge, G., Schmidt, T., and Pellerano, L. 2016. *Cash Transfers: what does the evidence say? A rigorous review of programme impact and of the role of design and implementation features*. ODI.

<sup>13</sup> Breisinger, C., Gilligan, D., Karachiwalla, N., Kurdi, S., Jilani, A., El-Enbaby, H., and Thai, G. 2018. *Impact Evaluation Study for Egypt's Takaful and Karama Cash Transfer Program*. Working Paper 14. Washington DC, IFPRI.

Though not all programs with positive impacts on consumption see similar improvements in poverty, evidence suggests that higher transfer amounts are associated with stronger impacts on expenditure and poverty levels. This means that, in some cases, while a transfer is sufficient to increase expenditure, it is not enough to lift households above the poverty line. In Egypt, the transfer amounts were approximately 23% of monthly household expenditure. Similarly, programs where benefit levels are inflation-adjusted, and payments are timely, predictable and easy to access (through preloaded smart cards for example), the impacts on consumption and poverty have generally been stronger and longer-lasting.

Adaptive safety net programs are those with greater flexibility and scalability in program design, helping to build household resilience both *before* shocks occur through timely and predictable transfers and *after* a shock occurs through rapid and effective increases in benefit amounts to existing beneficiaries (horizontal expansion) or “scaling out” to new beneficiaries (vertical expansion). Recently, the governments of Fiji and the Philippines leveraged the existing database of cash transfer beneficiaries to rapidly inject assistance to pre-targeted and enrolled poor households affected by disasters.

#### A.4 Education

Overall, the evidence of cash transfer programs, particularly those with conditionalities such as school enrollment and attendance, on educational outcomes reveals the strong impact these programs have on improving access to education by removing the direct and indirect financial barriers to education. The impacts on learning outcomes are less clear-cut (as measured by test scores), partly because learning results from a dynamic interaction between biological, social and environmental factors, including the quality of services provided. Nevertheless, getting children into school is an important first step in addressing the educational puzzle and both CCTs and UCTs have demonstrated lowering the financial and opportunity cost of sending children to school, particularly girls. Many studies reveal the significant increase in school attendance for girls owing to cash transfer programs, with some programs also improving test scores (Malawi’s Zomba Cash Transfer Program) and cognitive development (Ecuador) for girls. Thus, in contexts where the cost of schooling (including uniforms, books, supplies, transport and other school-related expenses) remains high as it does for poor households in Pakistan, cash transfers can be one effective tool for improving enrollment and attendance at the primary and secondary level.

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First, conditionality appears to have an important role in mediating impacts for access outcomes (increasing effects for enrollment and attendance), but only to the extent it is perceived as such by recipients. For example, cash transfer programs where conditions were only applied on paper, but not monitored, enforced or understood by recipients ultimately had lower marginal effects than equivalent UCTs that were strongly labelled as being aimed at human development improvements. Moreover, the type of conditionality can also play a role, with one programme evaluation in Colombia suggesting that incentives for graduation and matriculation can be more effective in increasing enrollment and attendance than the widely adopted conditionality on “attendance” alone.<sup>14</sup>

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<sup>14</sup> Barrera-Orsorio, F., Bertrand, M., Linden, L., and Perez-Calle, F. 2008. *Conditional cash transfers in education design features, peer and sibling effects evidence from a randomized experiment in Colombia*. Working Paper 13890. National Bureau of Economic Research.



Second, marginal effects on schooling outcomes are often highest when baseline rates of attendance and enrollment are low. This has implications for targeting design, whereby a program aiming to have a strong impact on attendance or enrollment, for example, may choose to target specific areas or categories of children least likely to be in school or most likely to drop out. Finally, recognizing that cash transfer programs are not a silver-bullet for improvements in learning, international best practices have been to complement cash transfer delivery with a wider range of targeted interventions such as nutritional support, greater community engagement in children's learning, teaching at the right level, use of village report-cards on teacher and school quality etc.

## A.5 Health and Nutrition

Growing evidence from a range of studies finds that social cash transfer programs can be extremely effective in improving nutrition, access to health care, and health status among beneficiaries. Children who receive insufficient micronutrients during the first 1,000 days of life are at risk of stunting and long-term lowered human capital.<sup>15</sup> Cash transfer programs have been promising in this regard—observational studies suggest that cash transfer programs are associated with greater dietary diversity than direct food distribution.<sup>16</sup> Recent studies examining impacts on health and nutrition have found an increase in health care utilization including use of preventative health services as a result of *conditional* cash transfers (in Peru, children of beneficiary households were 69 percentage points more likely to have received health check-ups in the 3 months prior to the interview compared to control households). Similar positive impacts have been observed on dietary diversity as well as stunting, wasting, and underweight measures for children. Of all the anthropometric measures considered, stunting is the one for which there is the strongest evidence of positive and statistically significant impacts.

Yemen's Cash for Nutrition program is an example of a recent successful conditional cash transfer program that provides monthly cash transfers (equivalent to 25% of monthly food expenditure) to beneficiaries with children under 2 years or pregnant mothers, conditional on attending nutrition education sessions run by trained community health educators and malnutrition screening for children. The program found a range of positive impacts including higher maternal and child dietary diversity, improved children's weight-for-height, and height-for-age, increased probability of exclusive breastfeeding and early initiation of breastfeeding, and significantly reduced probability of children being diagnosed with moderate and severe acute malnutrition.<sup>17</sup>

In one of the most successful examples of improving child nutrition in the world, Peru used the *Juntos* cash transfer program to address chronic malnutrition, reducing the childhood stunting rate in half in just 8 years, from 28% in 2008 to 13% in 2016. The program provided cash to poor mothers in exchange for regularly taking all children under 5 years to health, growth and nutrition check-ups and ensuring regular school attendance. The greatest impacts were observed among children exposed to the program within the first 3 years of life. Alongside the cash transfer

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<sup>15</sup> S. Grantham-McGregor, L. Fernald, and K. Sethuraman, "The Effects of Health and Nutrition on Cognitive and Behavioral Development in Children in the First Three Years of Life," *Food Nutrition Bulletin* 20, no. 1 (1999): 53–75; M. Arimond and M. T. Ruel, "Dietary Diversity Is Associated with Child Nutritional Status: Evidence from 11 Demographic and Health Surveys," *Journal of Nutrition* 134, no. 10 (2004): 2579–2585; R. E. Black et al., "Maternal and Child Undernutrition and Overweight in Low-Income and Middle-Income Countries," *Lancet* 382, no. 9890 (2013): 427–451.

<sup>16</sup> Bailey, S. and Hedlund, K. 2012. *Impact of Cash Transfers on Nutrition in Emergency and Transitional Contexts*, ODI.

<sup>17</sup> Kurdi, S., Breisinger, C., Ibrahim, H., Ghorpade, Y., and Al-Ahmadi, A. 2019. *Responding to Conflict: Does "Cash Plus" Work for Preventing Malnutrition?* IFPRI Policy Brief. April 2019.

program, the government stimulated improvements in the coverage and quality of health and nutrition services in selected geographic areas where malnutrition was particularly severe.<sup>18</sup>

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While cash transfer programs, particularly CCTs, have been successful in bringing about improvements in health care utilization and dietary diversity, improving nutritional outcomes particularly for children requires a deliberate and concerted effort to ensure program design, implementation and the local health care infrastructure and delivery system is supportive of improvements in nutrition. The most important prerequisites for success have included: (i) regular and reliable transfers of sufficient value to allow for year-round health coverage and consumption of nutritious foods; (ii) sufficient duration of the transfer and targeting children in the first 1,000 day window to attain positive and lasting effects on child growth; (iii) local availability of affordable quality health services; (iv) local availability of, and access to a range of nutritious foods, or fortified supplements in their absence; (v) communications and messaging around the importance of specific health behaviors (e.g. use of preventative health services and providing information and behavior change communication on nutrition and child growth). Finally, programs with health conditions attached which were regularly monitored and tracked, and combined with effective communications and messaging on positive health behaviors including regular growth monitoring, importance of adequate and nutritious diets, and specific messages for pregnant and lactating mothers were the most effective in improving both health care utilization and health outcomes.

### **A.6 Employment and Labor Market Participation**

A traditional criticism of cash transfer programs has been that they disincentivize work and adult labor participation. Overall, the recent evidence does not support the idea that cash transfers lead to a withdrawal from labor activities or a reduction in overall labor intensity. The notable exception, understandably, is the case of certain social pensions provided to the elderly which would allow them to reduce time in paid work or cash transfers provided to those caring for sick dependents.<sup>19</sup> The clearest and most consistent finding, however, is the evidence of the role cash transfers play in reducing the prevalence and intensity of child labor. This may not be surprising, given the strong impacts cash transfer programs have had on increasing time spent in school. Though not all programs which have been evaluated have found statistically significant results, the effect across all of them has been a reduction in child labor, and particularly a significant reduction in overall child labor intensity. Colombia, for example, observed a 15 percentage point decrease in labor participation of urban children aged 14–17, and Nicaragua, Brazil and Honduras too observed reductions in child labor owing to their conditional cash transfer programs.

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Although not all cash transfer programs have found significant impacts (either an increase or decrease) on adult labor participation and labor intensity, those that did find statistically significant results observed an increase in labor participation among *working-age* adults. Some programs have also reduced the need for vulnerable elderly individuals to engage in paid work, allowing them instead to dedicate time to, for example their own farm, non-farm business or health, and allow other household members to either increase or decrease labor force participation given that they no longer need to financially support their elderly relatives. It is nevertheless reassuring that

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<sup>18</sup> World Bank. 2018. Fighting Malnutrition in Peru: Enhancing the Demand for and Supply and Governance of Health and Nutrition Services in Three Regions. <https://www.worldbank.org/en/results/2018/04/18/fighting-malnutrition-in-peru>.

<sup>19</sup> Bastagli et al. 2016.

cash transfer programs which have consumption-smoothing or poverty reduction goals are not leading to significant reductions in employment and labor intensity among working-age adults.

In terms of reducing child labor, conditionalities have played an important role. In Colombia, when transfers were made conditional on students graduating and tertiary enrollment, the impacts on school attendance and reductions in child labor were greater than when the condition was school attendance alone. This suggests the type of conditionality should be an important consideration when designing new or modifying existing social assistance programs.

## **A.7 Women's Empowerment**

The impact of cash transfer programs on women's empowerment is perhaps one of the most promising areas of research in recent years, highlighting that cash transfer programs can improve women's empowerment, self-esteem, financial security and intra-household decision making power, reduce physical abuse and intimate-partner violence (IPV), delay marriage and pregnancy, and reduce the likelihood of unsafe sex (when certain conditions are put in place). In Ecuador for example, a recent evaluation of a WFP-funded transfer program conditional on women attending nutrition trainings found that irrespective of the modality of the transfer (food, cash or voucher), the transfer program led to significant reductions of 25-35% in physical violence against women.<sup>20</sup> In Bangladesh, a similar WFP-funded transfer program (TMRI) when combined with nutrition behavior change communication (BCC) led to a 26% reduction in physical violence against women even 6 to 10 months after the program had ended – though BCC was required to sustain impacts as the “transfer only” group did not see similar impacts on IPV.<sup>21</sup> The mechanisms driving these impacts include an increase in economic security and emotional well-being, whereby cash improves a household's financial situation and reduces poverty-related stress, which reduces men's triggers for perpetrating IPV. Other mechanisms include a decrease in intra-household conflict due to fewer arguments over money as well as improvements in women's empowerment with evidence of increased control over money, agency and social capital.

In Pakistan, the Female School Stipend Program had the effect of delaying marriage by one and a half years on average and fewer children among young women during the study period primarily due to the attendance conditionalities. Similar results on marriage and pregnancy were observed in recent evaluations from transfer programs in Malawi, Turkey and Nicaragua. Egypt's recently launched targeted safety net program, Takaful and Karama, has also had impressive effects on women's empowerment and economic inclusion including: (i) an increase in intra-household decision making power as the transfer is targeted to women; (ii) an increase in women's self-esteem and confidence; (iii) increased financial inclusion through Smart Cards which have encouraged women to open bank accounts and save; (iv) fewer arguments induced by financial stress and accordingly less domestic violence; and (v) improvements in decision-making regarding children's health, nutrition and schooling.

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While the research and evidence looking at impacts of cash transfer programs on women's empowerment is growing and promising, there is a need for more studies testing the role of

<sup>20</sup> Hidrobo, M, A Peterman and L Heise. 2016. "The effect of cash, vouchers, and food transfers on intimate partner violence: Evidence from a randomised experiment in Northern Ecuador", *American Economic Journal: Applied Economics*, 8(3),

<sup>21</sup> Roy, S, M Hidrobo, J Hoddinott and A Ahmed. 2018. "Transfers, behaviour change communication, and intimate partner violence: Post-programme evidence from rural Bangladesh", *Review of Economics and Statistics*, In press.

different design and implementation features in shaping empowerment outcomes. Results from recent studies indicate that cash transfer programs can be more effective in improving empowerment outcomes when combined with parallel or complementary initiatives such as nutrition behavior change communication or business training for women, and/or when transfers are directed towards women. A recently completed evaluation of the impact of Pakistan's unconditional cash transfer program, the Benazir Income Support Program (BISP), found that transfers directed to women can not only induce an increase in household consumption and investment in children, but also have substantial, positive impacts on various measures of women's decision-making power and empowerment.<sup>22</sup>

## **A.8 Conclusion**

This policy note draws lessons from recent rigorous evaluations of cash transfer programs, highlighting the impacts that can be realized across a range of economic, human development and empowerment outcomes. The lessons indicate the importance of having clearly defined goals and objectives for any social protection program, sound program design and implementation features including effective targeting, flexibility and adequate benefit levels, sufficient coverage and exposure to the program, and complementary initiatives such as investments in local health and education facilities that can create an enabling environment where social protection not only builds resilience and protection against shocks, but also allows vulnerable households to affordably access quality public services and move out of multidimensional poverty.

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<sup>22</sup> Ambler, Kate; De Brauw, Alan. 2017. "The Impacts of Cash Transfers on Women's Empowerment : Learning from Pakistan's BISP Program. Social Protection and Labor Discussion Paper", No. 1702. World Bank, Washington, DC.