SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country: Islamic Republic of Pakistan  
Project Title: Energy Sector Reforms and Financial Sustainability Program: Subprogram 2

Lending/Financing Modality: Policy-based lending  
Department/Division: Central and West Asia Department/ Energy Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy. The Energy Sector Reforms and Financial Sustainability Program aims to address current fiscal, governance, technical, and policy deficits in Pakistan’s energy sector. Ensuring energy security and efficiency is among the government’s top priorities in tackling the current energy crisis and enabling sufficient supply of energy for domestic as well as commercial use. In FY2020, impacts from the coronavirus disease (COVID-19) caused losses of large state-owned enterprises (SOE) to grow rapidly, constraining the government’s fiscal position. Energy SOEs, which comprise about 60% of total SOE assets, were a major driver of these losses. The impact on the country’s energy sector circular debt arising from these losses remains a key constraint to renewing economic growth. Subprogram 2 will support the country’s financial and economic stability, which is crucial for the continuation of the government’s social protection program being implemented under the post-COVID-19 Ehsaas Strategy—focused on post-COVID-19 relief and recovery while addressing rising inequality and poverty amid the pandemic.

The program aligns itself with the priorities of Strategy 2030 of the Asian Development Bank (ADB). Subprogram 2 will be focusing on three key areas of reforms which include: (i) addressing inefficient tariffs and subsidies, high generation costs, system losses, and the lack of integrated planning resulting from inefficient generation dispatch; (ii) professionalize management to improve the operational and financial performance of sector entities; (iii) improve energy infrastructure by focusing on reduction plans for unaccounted for gas (UFG); and formulating an off-grid plan for conservation, energy efficiency, and renewables that includes technical training for women in off-grid technology and domestic energy efficiency. Subprogram 2 is aligned with the priorities of ADB’s country partnership strategy, 2021–2025 for Pakistan—improving economic management through energy sector reform and boosting competitiveness and private sector development through renewable energy and energy efficiency. It is also included in Pakistan’s country operations business plan, 2021–2023.

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

1. Key poverty and social issues. Poverty incidence, measured at $3.2/day, has risen from 35.4% in 2019 to 39.1% in 2020; it is projected to remain around 31.9% even in 2021. Compared with urban areas, rural poverty is high, accounting for four out of five poor individuals. Nearly half of the population’s livelihoods are directly or indirectly associated with the agriculture sector. Pakistan has a large informal sector. The Labor Force Survey, 2018–2019 estimates that the informal sector accounts for 72.4% of the employment in non-agriculture jobs. The current energy crisis in the country has adversely affected export growth, squeezing the limited employment opportunities in formal labor markets for both men and women. The budget deficit, deteriorating current account deficit, suspended or reduced economic activity resulting from the government’s intermittent lockdown measures during COVID-19, and increased fuel prices have exacerbated the vulnerabilities for poor segments of the population. Pakistan’s energy sector has multiple structural weaknesses. In 2014, the supply–demand gap peaked at 7,000 megawatts and led to 12–16 hours of load-shedding per day. According to the World Bank, Pakistan’s energy sector inefficiencies cost the economy $18 billion (6.5% of gross domestic product) in 2015 and constrain the country’s growth. Sustained growth is critical for job creation and poverty reduction, which remains a key challenge for the country. The growth target has been substantially reduced from 5.2% in FY2018 to 3.9% in FY2019.

2. Beneficiaries. The program is expected to improve the quality and reliability of power supply while benefiting commercial, domestic, urban, and rural consumers. It will have indirect benefits for the public, including poor segments of the population, by increasing job opportunities and thus improving the well-being of all, reducing indirect taxes, lowering costs, and increasing outreach and access of energy services to remote districts.

3. Impact channels. The program will have the following impact channels: (i) with improved and reliable power supply, it will indirectly benefit small and medium-sized enterprises, which employ more than 70% of the country’s workforce; (ii) more reliable power supply will reduce time poverty for women and increase their ability to engage in productive and paid work; and (iii) about 40% of the rural population is landless and is mainly associated with the agriculture sector, so improved power generation will positively impact wage rates, the growth of agribusiness, and agro-industrial development, contributing significantly to rural poverty reduction.

4. Other social and poverty issues. The government is implementing the Ehsaas Program as a holistic social protection program to reach out to the poor and marginalized communities. The program includes easy access to credit, a livelihood skills development program, nutrition, health insurance, and labor wage program for informal workers. Under the Ehsaas Program, ADB is also supporting the country’s largest social safety net program, the Benazir Income Support Program, which has outreach to about 5.4 million poor households.

5. Design features. Policy reforms will reduce generation costs through low-carbon solutions and lower system losses. Encouraging private sector participation in hydrocarbons exploration will increase job opportunities. Further, the policy reforms will help establishing a Plan Development Unit to lead formulation, coordination, implementation and monitoring of the national electricity plan that includes conservation, energy efficiency, and renewable options for off- and on-grid consumers (including technical training for women in off-grid technology and domestic energy efficiency). This will reduce the time poverty of rural communities particularly women who comprise more than 50% of the workforce and will allow longer hours for study and skills training programs with improved quality of life.

C. Poverty Impact Analysis for Policy-Based Lending

1. Impact channels of the policy reform(s). The program will address sector inefficiencies, strengthen sector governance, and eliminate quasi-fiscal losses. Reducing circular debt in the energy sector will improve sector liquidity, protect funds for infrastructure expansion, finance technological improvements, phase out subsidies, and reduce consumer tariffs. Reducing transmission and distribution losses, introducing automatic adjustment mechanisms for tariff determination and notification, and an optimum fuel mix and market-oriented commercial system will lower costs and ease the burden on customers. On the downside, implementing cost-reflective tariffs will require continued insulation of lifeline consumers through subsidies, the autonomy of sector entities will challenge government intervention and control, and unskilled workers will lose their jobs. However, the improved fiscal capacity through budgetary support and incentives in the service structure will help the government to mitigate the negative impacts of reforms.

2. Impacts of policy reform(s) on vulnerable groups. The program will help the government to increase the access of marginalized and excluded segments of the population to reliable electricity while developing a 5-year rural and off-grid electrification plan for remote areas.

3. Systemic changes expected from policy reform(s). Policy reforms under the program will encourage sustained and reliable exploration in the hydrocarbon segment (oil and gas), increasing direct and indirect job opportunities for skilled, semiskilled, and unskilled workers in the energy sector.

II. PARTICIPATION AND EMPOWERING THE POOR

Gender mainstreaming category: some gender elements

A. Key issues. Women make up only 10% of Pakistan’s professionals in science, technology, engineering, and mathematics (STEM). According to the United Nations Educational, Scientific and Cultural Organization (UNESCO), in Pakistan, the highest percentage of female researchers are engaged in health and welfare (49.3%), followed by natural sciences (44.2%), social sciences and humanities (42.3%) and engineering and technology (22%). Women’s participation in nontraditional sectors, such as energy, is negligible. According to a baseline study (2018) conducted by Pakistan’s Women in Energy network, of the total staff of nine power utilities (both public and private, including distribution, transmission, and generation), women make only about 4%. Women’s lack of access to technical and employable skills, low literacy levels, limited mobility, and lack of landownership and assets push them to informal labor markets in hazardous and vulnerable occupations. Amid COVID-19, women’s livelihoods have been disproportionately affected. Available, affordable, and sustainable energy supply will benefit women and girls by reducing the labor required to obtain and use other fuels, enabling them to access energy-based income-generating opportunities, allowing more hours to study and participate in vocational and skills training programs, and generally improving their health and quality of life.

B. Key actions. The program has one key gender policy action: Ministry of Energy established a Plan Development Unit to lead formulation, coordination, implementation and monitoring of the national electricity plan that includes conservation, energy efficiency, and renewable options for off- and on-grid consumers (including technical training for women in off-grid technology and domestic energy efficiency). Additionally, a

10 UNESCO. 2021. Science Report. To Be Smart, The Digital Revolution will need to Be Inclusive
parallel cluster transaction technical assistance subproject support both the preparation and implementation of the gender actions of subprograms 2 and 3. The transaction technical assistance subproject will (i) produce a gender diagnostic of the energy sector while establishing a baseline on women’s participation in the energy sector value chain as employees in sector organizations, service providers, entrepreneurs, and consumers; (ii) develop a gender policy to be mainstreamed in the Alternative and Renewable Energy Policy 2019; (iii) demonstrate a replicable model of technical training for women as certified master trainers in solar technology; and (iv) design and implement leadership training for women staff and gender sensitization training for men and women staff of selected energy sector organizations such as the National Transmission and Dispatch Company, Water and Power Development Authority, National Energy Efficiency and Conservation Authority, Alternative Energy Development Board, and utility companies. The leadership training will help prepare female employees to take on managerial positions.


12 Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).