

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Pakistan	Project Title:	Building Resilience with Active Countercyclical Expenditures Program
Lending/Financing Modality:	Countercyclical Support Facility	Department/ Division	Central and West Asia Department/ Public Management, Financial Sector, and Trade Division

### I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

**Poverty targeting:** general intervention

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

The Government of Pakistan is faced with unprecedented challenges from a series of exogenous shocks to the economy including the coronavirus disease pandemic (2020), the surge in global commodity prices caused by disruption in global supply chains (2021), and the Russian Federation's invasion of Ukraine (February 2022). These shocks are having a profound adverse impact on businesses and households, especially the poor and vulnerable.<sup>a</sup> Increased inflation and a deteriorating balance of payments position, coupled with monetary and fiscal tightening, will constrain aggregate demand, lead to a steeper decline in growth, and exacerbate the cost-of-living crisis that is affecting millions of Pakistanis.<sup>b</sup> In addition, these exogenous shocks have been compounded by domestic factors such as long-standing structural weaknesses in the economy and political uncertainty that began with the change in the federal government in April 2022.

In response, the government announced multiple relief measures in the fiscal year (FY) 2023 (ending June 2023) national budget that increased funding for social protection and food security, and enhanced support for business, especially in key export sectors. In addition, the government also adopted challenging but necessary policies to improve macroeconomic and fiscal stability in line with its commitments under the 2019 \$6.0 billion Extended Fund Facility (EFF) with the International Monetary Fund.

The proposed \$1.5 billion Building Resilience with Active Countercyclical Expenditures Program will support the government's efforts to provide immediate relief while, in conjunction with other development partners aligned to the EFF, accelerating the implementation of structural reforms to improve Pakistan's medium- to long-term macroeconomic prospects. The program is also aligned with the government's strategic priorities and the objective to promote social inclusion by strengthening the support provided to poor and vulnerable groups, and improving economic resilience.<sup>c</sup> It is also aligned with Strategy 2030 of the Asian Development Bank (ADB), particularly (i) operational priority (OP) 1: addressing remaining poverty and reducing inequalities; (ii) OP 2: accelerating progress in gender equality; (iii) OP 3: tackling climate change, building climate and disaster resilience and enhancing environmental sustainability; (iv) OP 5: promoting rural development and food security; (v) OP 6: strengthening governance and institutional capacity; and (vi) OP 7: fostering regional cooperation and integration.<sup>d</sup> Finally, the program is also aligned with ADB's country partnership strategy for Pakistan, 2021–2025, especially on reducing economic and social disparities, strengthening economic governance, and supporting private sector development.<sup>e</sup>

#### B. Results from the Poverty and Social Analysis during Transaction Technical Assistance or Due Diligence

**1. Key poverty and social issues.** Pakistan, the world's fifth-most populous nation,<sup>f</sup> is a lower middle-income country with a gross national income per capita of \$1,280 in 2020.<sup>g</sup> The poverty rate fell from 50.4% in 2006 to 24.3% (about 48 million people) in 2015. Another 19.9% of the population (about 20 million people) are near-poor and vulnerable to shocks that could pull them below the poverty line.<sup>h</sup> The country's multidimensional poverty head count ratio is estimated at 39.0%, with the greatest contribution to poverty stemming from educational deprivation (42.8%), living standards (31.5%), and health care (25.7%). The rural poverty head count ratio of 30.7% is more than double the urban ratio of 12.5%. With a large informal economy, any shocks to the economy such as a macroeconomic crisis can rapidly push the country's poor and near-poor deeper into poverty. Women, who dominate the informal labor market, and girls from poor families are disproportionately affected in times of economic crises. According to the Pakistan Economic Survey, 2020–2021, the pandemic is likely to have made 44% of the population potentially vulnerable to deeper poverty and in need of immediate support.<sup>i</sup> This challenging situation was further worsened following the post-pandemic surge in commodity prices and the negative spillovers of the Russian Federation's invasion of Ukraine. In response, the government's response comprised two parts: (i) countercyclical expenditure measures amounting to \$2.5 billion in the FY2023 national budget; and (ii) continued implementation of reform measures under the EFF program to reduce the fiscal deficit and rebuild foreign exchange reserves, including a substantial reduction in fuel subsidies, upward adjustments in electricity and gas prices, additional tax policy measures, and tightening of the monetary policy. The second part of the government's response will place additional stress on the population through a sharp and protracted increase in inflation. In addition, economic activities are expected to decelerate to 3.5% in FY2023 from 6.0% in FY2022, trimming job creation and increasing the financial hardship for poor and vulnerable groups. Simultaneously, a slowdown in remittances will affect the income of remittance-dependent households, many which are low-income, pushing several of these into poverty. More than 3

<p>million self-employed women, who are mainly engaged in agriculture, handicrafts, textile products, and housekeeping, may be affected by sluggish economic activities and reduction in household income. Without expanded social and economic support to counter high inflation, the decline in remittances, and reduced job opportunities, it is expected that lost household income, including for women, will worsen hardship and poverty in Pakistan.</p> <p>2. <b>Beneficiaries.</b> The program will directly benefit millions of households through increased funding for critical social protection, food security, and business and employment measures. The program will benefit the poor and vulnerable who depend on the Benazir Income Support Programme (BISP) and its cash transfer programs. It will also benefit the general population through supporting the monetary and policy measures to stabilize prices; sustain growth; create affordable fiscal space; and generate self-employment, particularly for youth and women.</p> <p>3. <b>Impact channels.</b> The program will help create fiscal space to implement the government's countercyclical expenditure measures to accommodate rapidly growing demand for social protection; the need for employment and income generation; and the need to stabilize domestic prices for essential food products (in particular, providing agriculture relief package to farmers and subsidized inputs [seeds and fertilizers]).</p> <p>4. <b>Other social and poverty issues.</b> Already exacerbated by existing gender disparities, exogenous shocks from sharply rising international commodity prices are likely to have a further adverse impact on women and girls, in terms of access to education, health services and nutrition supplies, employment opportunities, overall mobility, and food security.</p> <p>5. <b>Design features.</b> The program will help the government prioritize gender-responsive and targeted countercyclical expenditure measures through BISP's cash transfer and fuel subsidy programs, freight subsidies for transportation of wheat to different parts of the country through the Pakistan Agricultural Storage and Services Corporation Ltd., financial support to the Utility Stores Corporation for provision of basic commodities to the general public at prices lower than those in the open market, and provision of subsidized business loans to a targeted 2 million youths (of which 25% of must be women) for start-ups or expansion of existing businesses.</p>
<p><b>C. Poverty Impact Analysis for Policy-Based Lending</b></p> <p>1. <b>Impact channels of the policy reforms.</b> The program will support the government's countercyclical expenditure measures prioritizing social protection of low-income households, who are most vulnerable to the surge in food and fuel prices, drops in income (particularly in the informal sector), slower economic expansion, and sluggish employment generation as a result of the cumulative exogenous shocks.</p> <p>2. <b>Impacts of the policy reforms on vulnerable groups.</b> The program will have a positive impact on the elderly, women and girls, youth entrepreneurs, small and medium-sized enterprises, exporters, farmers, and low-income households.</p> <p>3. <b>Systemic changes expected from the policy reforms.</b> The program will improve social and economic inclusion.</p>
<p><b>II. PARTICIPATION AND EMPOWERING THE POOR</b></p> <p>1. <b>Participatory approaches and project activities that will strengthen inclusiveness in project implementation.</b> A range of stakeholders was consulted to identify the impacts of the exogenous shocks and align ADB's assistance with the government's needs, including the (i) Ministry of Finance, (ii) Ministry of Economic Affairs, (iii) Ministry of Industries and Production, (iv) Ministry of National Food Security and Research, (v) BISP, and (vi) International Monetary Fund and World Bank.</p> <p>2. <b>Civil society organization participation.</b> Civil society organizations will not be directly consulted during program implementation. However, an independent third-party survey of beneficiaries of the government's countercyclical expenditure measures will be conducted to assess their effectiveness, efficiency, and credibility as part of the agreed monitoring and evaluation framework between ADB and the government.</p> <p>3. <b>Approaches of civil society organization participation envisaged during project implementation.</b>  <u>Low</u> Information generation and sharing   <u>Low</u> Consultation   <u>Not applicable (NA)</u> Collaboration   <u>NA</u> Partnership</p> <p>4. <b>Participation plan.</b> No participation plan is needed as eligible beneficiaries have been identified and mechanisms to provide support well established and effective.  <input type="checkbox"/> Yes.  <input checked="" type="checkbox"/> No.  <input type="checkbox"/> Other plans and/or frameworks</p>
<p><b>III. GENDER AND DEVELOPMENT</b></p> <p><b>Gender mainstreaming category:</b> effective gender mainstreaming</p> <p>1. <b>Key issues.</b> Pakistan is ranked 145th out of 146 countries for gender equality according to the Global Gender Gap Report 2022.<sup>1</sup> Pakistan was ranked 112th in the Global Gender Gap Report 2006, with its fall from 2006 to 2022 attributable to its dismal performance in women's economic participation, educational attainment, and health and survival. While comprising almost 50% of the population, women account for less than 1.0% of the registered income</p>

taxpayers in Pakistan. A large majority of women (68%) are engaged in the agriculture sector, compared to only 28% of men.<sup>k</sup> A small share (4.5%) of women are found in senior, managerial, and legislative positions. Women's livelihoods are largely part of the informal economy, which is highly susceptible to economic shocks like the ones induced by coronavirus disease pandemic, disasters triggered by natural hazards (such as the August 2022 flooding), and the Russian Federation's invasion of Ukraine. The Pakistan Economic Survey, 2021–2022 highlights that informal jobs are more heavily impacted during periods of economic shock, with women disproportionately affected. Pakistan has the lowest rate of women's entrepreneurship—only 1% of women are entrepreneurs compared to 21% of men. Women-owned businesses are mostly part of the country's large informal economy. Lower participation of women in economic activities is mainly because of limited access to finance (particularly commercial loans), lack of gender-inclusive markets, sociocultural constraints, and limited access to training and skill development opportunities. Compared to 67.9% of men, women's share in the total workforce is only 21.4%.<sup>m</sup>

2. **Key actions.** With direct impacts on gender equality and women's empowerment, the program is categorized *effective gender mainstreaming*. The program supports targeted policy measures that safeguard women and promote enhanced access to education, health services and nutritional supplies, and finance for economic activities. The targets include the following: by July 2023, (i) unconditional cash transfers are provided to an additional 1 million female heads of poor families, with total female beneficiaries reaching 9 million; (ii) an additional 10,000 students are provided BISP undergraduate scholarships, of which at least 50% students are female; (iii) conditional cash transfers for health and nutrition are extended to 159 districts nationwide for pregnant and lactating mothers and children under 2 years of age; and (iv) commercial banks disburse loans worth PRs45 billion under the government's employment and entrepreneurship schemes to companies, of which at least 15% are led by women.

☐ 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 involuntary resettlement expected.

2. **Strategy to address the impacts.** Not applicable.

3. **Plan or other actions.**

☐ Resettlement plan ☐ Combined resettlement and indigenous peoples plan  
☐ Resettlement framework ☐ Combined resettlement framework and indigenous peoples  
☐ Environmental and social management system arrangement ☐ Social impact matrix  
☒ No action

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

1. **Key impacts.** No adverse impact on indigenous peoples expected.

Is broad community support triggered? ☐ Yes ☒ No

2. **Strategy to address the impacts.** Not applicable.

3. **Plan or other actions.**

☐ Indigenous peoples plan ☐ Combined resettlement plan and indigenous peoples plan  
☐ Indigenous peoples planning framework ☐ Combined resettlement framework and indigenous peoples planning framework  
☐ Environmental and social management system arrangement ☐ Indigenous peoples plan elements integrated in project with a summary  
☐ Social impact matrix  
☒ No action

#### 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.**

Low unemployment Low underemployment Low retrenchment Low core labor standards

2. **Labor market impact.** The government does not have a plan for labor retrenchment, and the countercyclical expenditure measures neither support nor lead to labor retrenchment. The program will help maintain and create jobs by supporting businesses and improving access to finance.

**B. Affordability**

The program targets price stability and affordability of essential food products for low-income households.

**C. Communicable Diseases and Other Social Risks**

1. The impact of the following risks is rated as high (H), medium (M), low (L), or not applicable (NA):

NA Communicable diseases NA Human trafficking

☐ Others (please specify) \_\_\_\_\_

2. **Risks to people in project area.** Not applicable.

## VI. MONITORING AND EVALUATION

1. **Targets and indicators.** Performance targets and indicators that address gender, poverty, and inclusive social development within the scope of the program are provided in the design and monitoring framework.
2. **Required human resources.** The monitoring and evaluation and gender specialists under ongoing and repurposed technical assistance will monitor program implementation, and gender and social targets.
3. **Information in the project administration manual.** Not applicable.
4. **Monitoring tools.** The Ministry of Finance will publish and submit quarterly progress reports to ADB on the execution of the social protection, food security, and business measures. In addition, the program has a gender monitoring matrix to monitor the implementation of specific gender empowerment measures, the results of which will be included in the quarterly progress reports. Finally, an independent third-party survey will be conducted to assess the effectiveness, efficiency, and credibility of the government's countercyclical expenditure measures 3 months after the program ends in June 2023.

- <sup>a</sup> Government of Pakistan, Finance Division. 2022. [Medium Term Budget Strategy Paper 2022–23 – 2024–25](#). Islamabad (June).
- <sup>b</sup> ADB. 2022. [Asian Development Outlook Supplement: Recovery Faces Diverse Challenges](#). Manila (July).
- <sup>c</sup> Government of Pakistan, Planning Commission. 2015. [Pakistan 2025: One Nation, One Vision](#). Islamabad.
- <sup>d</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.
- <sup>e</sup> ADB. 2020. [Country Partnership Strategy: Pakistan, 2021–2025—Lifting Growth, Building Resilience, Increasing Competitiveness](#). Manila.
- <sup>f</sup> Pakistan's population was 220.9 million as of 2019. [United Nations Development Programme. 2019. Pakistan: Population Growth—Implications for Human Development. Islamabad.](#)
- <sup>g</sup> World Bank. World Bank Open Data. [GNI per capita, Atlas method \(current US\\$\) – Pakistan](#) (accessed 29 April 2022).
- <sup>h</sup> Government of Pakistan, Ministry of Planning Development and Reform. 2018. [National Poverty Report 2015–2016](#). Islamabad.
- <sup>i</sup> Government of Pakistan, Finance Division. 2021. [Pakistan Economic Survey 2020–21](#). Islamabad.
- <sup>j</sup> World Economic Forum. 2022. [Global Gender Gap Report 2022](#). Geneva (July).
- <sup>k</sup> Government of Pakistan; Ministry of Planning, Development and Special Initiatives; Pakistan Bureau of Statistics. 2022. [Pakistan Labour Force Survey 2020–21](#). Islamabad.
- <sup>l</sup> Government of Pakistan, Finance Division. 2021. [Pakistan Economic Survey 2021–22](#). Islamabad.
- <sup>m</sup> Pakistan Bureau of Statistics. Government of Pakistan. [Key Findings of Labour Force Survey 2020–21](#). Source: ADB.