



Report and Recommendation of the President to the Board of Directors

Project Number: 45233-001
September 2013

Proposed Loan
Islamic Republic of Pakistan:
Social Protection Development Project

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 September 2013)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.0095
\$1.00	=	PRs105.00

ABBREVIATIONS

ADB	–	Asian Development Bank
AETP	–	Accelerating Economic Transformation Program
AGP	–	Auditor General of Pakistan
BISP	–	Benazir Income Support Program
CNIC	–	Computerized National Identity Card
DFID	–	Department for International Development of the United Kingdom
GDP	–	gross domestic product
WER	–	Waseela-e-Rozgar (skills development program)
WES	–	Waseela-e-Sehet (health insurance program)

NOTES

- (i) The fiscal year (FY) of the Government of Pakistan ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2013 ends on 30 June 2013.
- (ii) In this report, “\$” refers to US dollars.

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PROJECT AT A GLANCE

1. Project Name: Social Protection Development Project		2. Project Number: 45233-001		
3. Country: Pakistan		4. Department/Division: Central and West Asia Department/Public Management, Financial Sector, and Trade Division		
5. Sector Classification:				
	Sectors	Primary	Subsectors	
	Health and social protection	√	Social protection	
	Education		Technical education and vocational skills training	
6. Thematic Classification:				
	Themes	Primary	Subthemes	
	Gender equity	√	Gender equity in empowerment and rights	
	Gender equity		Gender equity in human capabilities	
	Governance		Economic and financial governance	
6a. Climate Change Impact No Climate Change Indicator available.		6b. Gender Mainstreaming		
		Gender equity theme (GEN)	√	
		Effective gender mainstreaming (EGM)		
		Some gender elements (SGE)		
		No gender elements (NGE)		
7. Targeting Classification:		8. Location Impact:		
General Intervention	Targeted Intervention			
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level	
			√	
9. Project Risk Categorization: Complex				
10. Safeguards Categorization:				
		Environment	C	
		Involuntary resettlement	C	
		Indigenous peoples	C	
11. ADB Financing:				
	Sovereign/Nonsovereign	Modality	Source	Amount (\$ Million)
	Sovereign	Project loan	Asian Development Fund	430.0
	Total			430.0
12. Cofinancing: No Cofinancing available.				
13. Counterpart Financing:				
	Source	Amount (\$ Million)		
	Government	148.3		
	Total	148.3		
14. Aid Effectiveness:				
Parallel project implementation unit		Yes		
Program-based approach		Yes		

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Islamic Republic of Pakistan for the Social Protection Development Project.¹

2. The project will support the Government of Pakistan's national social safety net program, the Benazir Income Support Program (BISP). The project will enable the expansion of the cash transfer program (paid to the female head of targeted poor families) by registering an additional 2.4 million eligible families and contributing to financing their cash transfers. In addition, it will support the strengthening and phased expansion of the pilot health insurance and skills development programs to increase income and good health for targeted families. The project will provide technical support and finance part of the scaling-up costs of both programs using a performance-based allocation. The substantial fiduciary risk of the project will be mitigated through the strengthening of BISP financial management systems and capacity.²

II. THE PROJECT

A. Rationale

3. The latest official estimates of poverty incidence were released in Pakistan in 2005/2006, with the headcount index for poverty reported at 22.3%.³ Since 2007, Pakistan's economy has faced difficult challenges, including external and domestic economic shocks, economic uncertainty, and security problems. Annual gross domestic product (GDP) growth rates post-2007 averaged about 3%, while inflation averaged 13.8%, resulting in lower living standards. A recent study, using district-based poverty profiles, estimated poverty incidence for all households in the country may have risen up to 33%.⁴

4. Starting in 2007, the government significantly increased its spending on social protection, established a new institutional framework, and approved the National Social Protection Strategy.⁵ In October 2008, the government launched the BISP as the national social safety net program. The immediate objective was to decrease the adverse impact of food, fuel, and financial crises on low-income families. The broader goal was to implement the government's redistributive policy by providing regular cash income support to the poor. The main BISP intervention is a cash transfer program providing PRs1,000 per month to the female head of the family.⁶ The government's social safety net spending increased from 0.3% of GDP in FY2004 to 0.9% in FY2011 after introducing the BISP.⁷

5. The BISP uses a transparent and objective methodology to select beneficiaries. It identified 7.2 million eligible poor families (23% of the total population) on the basis of a nationwide poverty scorecard survey using a proxy-means test approach. Initial evaluation findings demonstrate that it is a credible targeting system, covering a substantial number of the

¹ The design and monitoring framework is in Appendix 1.

² The Asian Development Bank (ADB) provided project preparatory technical assistance. ADB. 2013. *Technical Assistance to the Islamic Republic of Pakistan for Preparing the Social Protection Development Project*. Manila.

³ Government of Pakistan. 2009. *Pakistan Economic Survey 2008–09*. Islamabad.

⁴ A. Naveed and A. Nazim. 2012. *Clustered Deprivation—District Profile of Poverty in Pakistan*. Islamabad: Sustainable Development Policy Institute.

⁵ Government of Pakistan, Planning Commission. 2007. *A Social Protection Strategy to Reach the Poor and the Vulnerable*. Islamabad.

⁶ The family is composed of: (i) husband, wife, and unmarried children; (ii) husband and wife without any children; or (iii) a widow or a divorced woman and her unmarried children, living alone or with her parents or relatives. The woman in the family holds a computerized national identity card (CNIC) or has applied for one.

⁷ World Bank. 2012. *Pakistan. Towards an Integrated National Safety Net System*. Washington, DC.

poorest in Pakistan.⁸ However, 2.4 million eligible poor families are not yet receiving the cash transfer because the female head does not hold a CNIC, which is the key eligibility criterion (footnote 6). Pending families are the most difficult to reach and likely to be the most destitute.⁹

6. The introduction of a national safety net program and the availability of the poverty scorecard database can potentially lead to more efficient use of resources and better targeting and coordination with the provincial social safety net programs. A well-managed targeting system will enable the replacement, over time, of other inefficient social safety net programs and untargeted subsidies that are still pervasive in Pakistan.¹⁰

7. The BISP piloted several initiatives to help the poor graduate from poverty, including health insurance, skills development training, small business development loans, and primary education co-responsibility cash transfers.¹¹ These programs aim to support human development and economic opportunities for beneficiaries, and reduce the likelihood of intergenerational transfer of poverty. The first two of these graduation initiatives are of special relevance for social protection:

- (i) Almost 70% of total health expenditures are paid out-of-pocket by families, driving about 4% of the population into poverty every year.¹² Unexpected severe health problems are the most prevalent shock for families. In addition to income loss from being unable to work, medical costs alone can push households into poverty. Health insurance for the poor that covers catastrophic risks and major costs such as births can provide significant financial relief and protection to the most vulnerable families, while improving access to health facilities.
- (ii) More than 53% of the target population depends on casual labor as their major source of income—it is insecure and risky.¹³ Beneficiary family members have extremely low literacy and numeracy, affecting confidence and social participation. Rural employment opportunities (both wage employment and self-employment) could be enhanced through skills training. This will improve poor families' income-generating capacity and boost their resilience to shocks.

8. In April 2012, the BISP launched a health insurance program, Waseela-e-Sehet (WES), on a pilot basis to provide protection against catastrophic health expenditure to registered beneficiary families in Faisalabad district in Punjab Province through the State Life Insurance Corporation. The insurance package covers full hospitalization for all age groups with an annual maximum benefit cap of PRs25,000 per family. It covers preexisting conditions as well as hospitalization for maternity and child health. So far, 37,575 families have been insured and provided access to WES registered private hospitals on a cashless and paperless basis. Of these expenditures, 40% were maternity related.

⁸ BISP. 2011. *Baseline Survey Report of the Benazir Income Support Program*. Islamabad. Of the total number of eligible households, 73% are below the national poverty line; 27% are between 100% and 125% of the poverty line.

⁹ Other major achievements of the BISP are (i) creation of the National Socio-Economic Registry to manage data sharing of the poverty scorecard survey results using a data-sharing protocol; (ii) application of technology-based solutions for verification and payment to ensure efficiency and transparency; and (iii) establishment of a nationwide technology-based network of grievance redressal offices. Every process is independently monitored and results are evaluated annually.

¹⁰ For example, power subsidies were PRs464 billion (2.25% of GDP) in FY2012. The largest share of the subsidy went to the richest sections of society, and only PRs4 billion went to lifeline consumers.

¹¹ These "graduation" programs are not to be understood as following the "graduation model" being piloted in different developing economies to target the extreme poor, which follows a specific sequence of (i) nutrition support, (ii) productive asset transfer (on a grant basis), (iii) skills training and self-confidence building, (iv) financial literacy training, and (v) credit support (if needed by the targeted family, and if the family has "graduated").

¹² World Bank. 2010. *Delivering Better Health Services to Pakistan's Poor*. Washington, DC.

¹³ BISP. 2011. *Benazir Income Support Program Impact Evaluation. Baseline Survey Report*. Islamabad.

9. The Waseela-e-Rozgar (WER) was launched in July 2011 to provide center-based formal skills training to any selected family member of a beneficiary. In FY2013, 56,600 trainees graduated from both public and private training centers providing 4–6 month programs out of a list of 52 pre-selected professions, including welder, auto mechanic and receptionist. The current WER is very costly. The average cost of PRs53,000 limits outreach of the program. Most courses are taught beyond the absorptive capacity of BISP potential nominees, who are largely illiterate or semiliterate. Training delivery and competency assessment and certification have fundamental problems. While the impact of current training provision on employability is limited, the reputational risks of current training delivery arrangements and weak monitoring are high.

10. Under the 18th Constitutional Amendment (30 June 2011), several subjects—including health, education, and social welfare—became a shared responsibility of the federal government and the provinces. The federal government continues to play a critical role in ensuring that long-term poverty reduction and social protection goals are met. A centrally operated safety net program is better placed to ensure equal chances for the poor to qualify for the cash transfer program, and to coordinate consistent program standards for provincial graduation programs. The provinces play a key role to develop and implement complementary graduation programs, especially highly customized graduation interventions (footnote 11).

11. Several development partners are supporting the BISP in the design and implementation of its programs. The World Bank provided a \$60 million technical assistance (TA) credit for the development of a transparent targeting and delivery mechanism. The United States Agency for International Development provided \$160 million of budget support for the payment of cash grants to beneficiaries identified using the poverty scorecard survey. The World Bank is providing \$150 million and the Department for International Development (DFID) of the United Kingdom £300 million to support expansion of the cash transfer program coverage to up to 5.5 million beneficiary families by sharing a small part of the total cost of the cash transfer, and the introduction of a co-responsibility cash transfer program on education. GIZ is providing TA for the health insurance pilot program.

12. The Asian Development Bank (ADB) has been a BISP partner since its inception. Under the Accelerating Economic Transformation Program (AETP) Subprogram 1, ADB supported the launching of the BISP to mitigate the social impact of the food and fuel crises of 2007 and 2008.¹⁴ Under the AETP Subprogram 2, ADB allocated \$150 million equivalent in counterpart funds for the BISP to provide cash transfers to beneficiaries identified by the poverty scorecard survey.¹⁵ The Office of the Auditor General of Pakistan (AGP) audited the FY2012 financial statements for this subprogram and issued a modified audit opinion.¹⁶ The BISP contested the audit opinion and clarified the payment process through partner banks.¹⁷ In response, AGP indicated that the audit opinion could be revisited in light of any additional information provided

¹⁴ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loans for Subprogram 1 to the Islamic Republic of Pakistan for the Accelerating Economic Transformation Program*. Manila.

¹⁵ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loans for Subprogram 2 to the Islamic Republic of Pakistan for the Accelerating Economic Transformation Program*. Manila.

¹⁶ The AGP audit opinion states that approximately 16.78% of the counterpart funds were paid to ineligible beneficiaries who did not possess a CNIC or a valid CNIC.

¹⁷ Transfers to partner banks for eligible beneficiaries include a buffer sum for those who are awaiting CNIC registration. An initial review of the audit report commissioned by ADB confirmed that payments under ADB funding were made to eligible beneficiaries in line with the eligibility definition in the BISP Operations Manual. As an additional mitigating measure for the project, ADB commissioned an additional review of the payments to beneficiaries to provide further confirmation that ADB funds were released to eligible, registered, and verified beneficiaries. This review is currently ongoing.

by the BISP. The BISP provided further documentation supporting the payments in question. ADB is working closely with the Ministry of Finance and the BISP to seek AGP review of the additional supporting documentation. Resolution of this issue within a specified timeframe is a covenant for the proposed loan for the project requiring either the revision of the audit opinion or the repayment of the transfers made to the ineligible beneficiaries by the government to ADB, if any. In addition, DFID and the World Bank are providing substantial strengthening of financial management systems under their ongoing and concurrent projects, and further support will be provided by the project (see paras. 33 and 40). Strengthening of the social safety net system is included in the ADB country partnership strategy, as support for the transition from inefficient subsidy schemes to targeted cash transfer programs.¹⁸ The project is included in the country operations business plan.¹⁹

B. Impact and Outcome

13. The impact of the project will be reduced income and nonincome poverty. The outcome will be increased resilience for BISP female beneficiaries and their families.

C. Outputs

14. The project will support the full expansion of the BISP's cash transfer program to eligible families, and the improvement and expansion of two graduation programs: the health insurance program and the skills development program. Expansion of the three programs will be rigorously monitored and evaluated at regular intervals to encourage improvements based on lessons identified. BISP financial management and control systems will be strengthened.

15. **Output 1: Cash transfer program coverage expanded.** The output will support the enrollment of all traceable, female headed, eligible beneficiary families. The provision of the cash transfer through the female head and linking the benefit to possession of and understanding the CNIC empowers the role of women in the family. Currently, approximately one-third of eligible beneficiaries do not receive the cash transfer because registration is pending. The case management system and appeals process have been adding an average of 100,000 eligible beneficiaries per month to the program since September 2012. This rate of new enrollments will slow as case management teams work with eligible beneficiaries who are more difficult to locate and enroll. Eligible beneficiaries will be reevaluated and rescored as part of a recertification process by May 2016.

16. The project will finance the first 5 quarters (at PRs3,000 per quarter) of the cash transfers to all newly enrolled beneficiaries.²⁰ The project will mobilize survey teams to sensitize and complete the information on pending beneficiaries. The National Database Registration Authority will field mobile and semimobile teams to issue the CNICs. The BISP subdistrict (*tehsil*) offices will ensure clear beneficiary understanding of their CNIC and BISP rights and responsibilities. The project will closely monitor the timely delivery of the cash transfers to the new beneficiaries, using regular spot checks. The payment release for cash transfers will depend on the results of the spot checks and other financial and performance monitoring.

17. **Output 2: Health insurance program refined and rolled out.** This output will support the strengthening and expansion of the WES health insurance program in a phased manner. BISP beneficiaries in pilot districts will receive health insurance protection against catastrophic

¹⁸ ADB. 2009. *Country Partnership Strategy: Pakistan, 2009–2013*. Manila.

¹⁹ ADB. 2013. *Country Operations Business Plan: Pakistan, 2013–2014*. Manila.

²⁰ In the event there is any change to the amount of the quarterly payments, the revised amount and frequency of the payments shall be agreed between the government and ADB.

health costs, and support to access hospitals in case of reproductive or other serious health problems.

18. The WES has developed a detailed implementation plan and strategic framework for expanding the health insurance program to achieve national coverage as soon as practical. Approval of this plan is a prerequisite for ADB support and will be presented first to the BISP board. The medium-term expansion is divided into two phases. In the first phase, the WES will be expanded to 5 more districts, and information will be gathered on the actual cost of the insurance package as utilization increases. A more detailed, preparatory design will be completed by mid-2014 and the expansion will be launched to 10 more districts by late 2016. A potential third phase may be prepared at the end of the project, based on the findings of the monitoring and evaluation reports and other related studies.

19. The project will provide technical support under an ADB, GIZ and WES common detailed implementation plan. The project will finance the development and implementation of a monitoring and evaluation system for stakeholders through a web-based information technology platform. The platform will interface with the National Database Registration Authority's CNIC database and allow insurers to track claims, investigate suspicious claims, and transfer funds to providers. The project will support capacity building for the WES and its partners, and help raise awareness in the expansion districts through communication campaigns and a call center to manage complaints and contact beneficiaries after discharge. The project will provide cash payment to beneficiaries for transport upon discharge from hospital. The project will support an impact evaluation near the end of each phase. Based on the findings of the midterm review, the project may provide cofinancing for the actual premium (para. 24).

20. **Output 3: Skills development program strengthened.** This output will help implement important modifications to the WER skills development program to increase beneficiaries' employability and make the program more cost-effective, financially transparent, and accountable. The target beneficiaries will be offered improved, targeted skills training in forms that match their personal circumstances, and provide better matches to wage and self-employment opportunities that exist within their districts. The training will be provided to beneficiaries or their family members in communities, companies, and training centers, depending on the needs and abilities of trainees and skill demands in their locations.

21. During phase 1, the project will finance a survey of employment opportunities and skills needs in the 13 districts identified by the BISP for pilot programs during 2014–2016. The project will develop and implement a complete monitoring and evaluation framework (including external monitoring arrangements), with a dedicated management information system for the WER to enhance BISP oversight and control capabilities. The project will strengthen the existing center-based modality on a priority basis by addressing current contractual and delivery flaws. The project will also support training course standardization for high-demand skills, and the engagement of a social mobilization organization to match BISP nominees with training opportunities. In parallel two additional modalities, community-based and enterprise-based training, will be added to the WER. They will provide shorter and less expensive courses that are more relevant to beneficiaries' circumstances, especially female beneficiaries in rural areas.

22. Implementation of the two new modalities will start during phase 2 in 2015. The new training methods will be rolled out based on a strategic road map, which will be presented first to the BISP board. The gradual redistribution of resources will allow the training of many more beneficiaries within the existing WER budget. In phase 3, the program can be gradually expanded to cover more districts. Depending on the findings of the first impact evaluation and a midterm review, the project could provide additional cofinancing support (para. 24).

23. **Output 4: Financial management and control systems, and policy research improved.** This output will help develop transparent financial management and adequate monitoring systems in the BISP. It will strengthen the financial management wing, and introduce modern tools and practices in the area of budget preparation, cash forecasting, and financial reporting. It will support the internal audit wing by providing resources and training on modern internal audit tools and practices. It will strengthen the social policy research unit, providing support for engendered (gender focused), evidence-based policy and planning.

24. **Performance allocation for graduation programs.** This allocation will enable the project to finance the scaling-up challenges that the programs supported by outputs 2 (health insurance) and 3 (skills development) will eventually face. Resources will remain unallocated until a thorough midterm review is conducted. The performance allocation enables the project to (i) provide additional support for related procurement or fiduciary risks in the two pilots before committing to fund part of the main costs involved in scaling-up WER and WES activities (actual premium or training delivery fees); (ii) encourage good implementation performance in both components toward agreed targets; and (iii) base conditions for project financing of actual insurance and training service delivery on efficient, effective, and transparent implementation of both programs during the first part of the project.

25. **Midterm project review.** The midterm review, scheduled for the third quarter of 2016 will assess the progress of project activities, outputs, and outcomes. The performance of outputs 2 (health insurance) and 3 (skills development) will be reviewed in detail to determine achievement of quantitative targets indicated in the design and monitoring framework, and qualitative goals described in detail in the project administration manual.²¹ Based on the findings, the midterm review will recommend use of the performance allocation fund designated for the two graduation programs during the second part of the project. The \$40 million performance allocation fund will only be used after the midterm review is successfully completed; and the government, BISP, and ADB have agreed on the use of the loan for this component and its implementation arrangements.

D. Investment and Financing Plans

26. The project is estimated to cost \$578.3 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Expansion of coverage of cash transfer program	347.6
2. Refinement and rollout of health insurance program	41.5
3. Strengthening of skills development program	108.7
4. Support to financial management and control	1.5
5. Performance allocation for graduation programs	40.0
Subtotal (A)	539.3
B. Contingencies^c	14.7
C. Financing Charges During Implementation	24.3
Total (A+B+C)	578.3

^a Includes taxes and duties of \$1.8 million to be financed by government resources.

^b In mid-2013 prices.

^c Physical contingencies computed at 5% for field research and development, training, surveys, and studies. Price contingencies are determined using Asian Development Bank cost escalation factors.

Source: Asian Development Bank estimates.

²¹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

27. The government has requested a loan in various currencies equivalent to SDR283,776,000 from ADB's Special Funds resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan and project agreements.

28. The financing plan is in Table 2.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	430.0	74.4
Government ^a	148.3	25.6
Total	578.3	100.0

^a The overall program cost for the Benazir Income Support Program is much larger. For FY2014, the overall program cost is budgeted at PRs85 billion (\$850 million), and is expected to increase over time.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

29. The BISP will be the executing agency for the project. A project management unit will be shared with the World Bank. The ADB section will comprise a project manager, a financial management specialist, an internal auditor, and a procurement specialist who will be hired throughout the project period to support project implementation.

30. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (footnote 21).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2014–December 2018		
Estimated completion date	31 December 2018		
Management			
(i) Oversight body	BISP Board: chairperson and board members include the ministers of finance, foreign affairs, water and power; BISP secretary; nongovernment member; and technical experts		
(ii) Executing agency	Benazir Income Support Program		
(iii) Key implementing agencies	Benazir Income Support Program		
(iv) Implementation unit	Benazir Income Support Program, 4 staff		
Procurement	Shopping	Multiple contracts	\$75,000
Consulting services	QCBS	18 firms	\$14,895,848
	ICS	445 person-months	\$1,750,500
Advance contracting	Advance contracting is proposed for the hiring of project management unit staff, financial management specialist, and seven firms. Any proposal for advance contracting will not constitute a commitment by ADB to finance the project.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

BISP = Benazir Income Support Program, ICS = individual consulting selection, QCBS = quality- and cost-based selection.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Economic and Financial

31. All three programs supported under this project are expected to have positive impacts on the beneficiaries' family income and capacity to withstand shocks. The cash transfer program and the health insurance program smooth family consumption and mitigate the impact of health-related shocks. Cash transfers will improve the nutritional status of the family, particularly of children. Better nutrition for children is an important determinant of cognitive development, school attainment, and return to schooling. In the long term, skills training can significantly increase beneficiaries' earning potential, especially in Pakistan where the unskilled–skilled labor wage gap is significant. In the longer term, investments in social protection can yield government savings, as the poorest households become more resilient to shocks and build their human capital; they are able to improve their employment potential, thus graduating from BISP programs.

B. Governance

32. The ADB financial management assessment rates the premitigation risk *substantial* and identifies several weaknesses in the BISP financial management system. The following were found to be of direct relevance for the project: (i) weak processes for reconciliation with Pakistan Post and no regular reconciliation of beneficiary payments made through the banking system; (ii) absence of audited financial statements; (iii) weak institutional capacity; and (iv) delays in releases from the federal government. The BISP is required, through the BISP Act 2010, to have its financial statements audited on an annual basis by AGP. To date, the BISP has not prepared annual financial statements. At the request of ADB, DFID, and World Bank, the BISP is preparing its financial statements for FY2012 and FY2013. The FY2013 financial statements will be audited by AGP and provided to ADB prior to the loan being declared effective. For concerns about financial management and reporting, the corruption risk is rated *substantial*.

33. ADB, DFID, and World Bank are working closely with the BISP on an ongoing basis to identify and mitigate fiduciary risks. The BISP now processes quarterly cash payments using a management information system-based payment mechanism that avoids duplication of payments. TA provided by the World Bank (which is significantly involved in day-to-day financial management operations) helps mitigate the fiduciary risks. Ongoing ADB TA helped to resolve bank and Pakistan Post reconciliations and other issues. Initially all payments were transferred through Pakistan Post. Since 2012, the BISP has been issuing debit cards, and by the start of the project most payments will be made through private banks. This allows for management information system-based account reconciliation on a monthly basis. The project will reimburse the BISP for payments through Pakistan Post and through banks for the first quarterly payment to new beneficiaries after reconciliation. To reduce corruption risk, the BISP maintains a website where individual beneficiaries can log in and check their entitlements and payment status. The BISP is partnering with Transparency International to monitor BISP procurement processes.

34. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the BISP. The specific policy requirements and supplementary measures are described in the project administration manual (footnote 21).

C. Poverty and Social

35. **Poverty and social impacts.** The cash transfer program is highly successful in reaching the poorest families (footnote 8). The quarterly payments provide a regular income to poor

families and help smooth consumption. The transfer amounts to around 7% of monthly family expenditure, and would require an increase to substantially change consumption patterns. While the cash transfer bridges some of the gap between actual income and the amount needed to move out of poverty, the payment does not create any undesirable dependency.

36. **Gender impacts.** The project contributes to gender empowerment as the major thematic purpose of the intervention. The project design is based on gender analysis from many sources including an extensive BISP baseline evaluation study and focus group discussions. Women in each eligible household are the recipients of the cash transfers. The necessary preconditions of the CNIC and the provision of a dedicated bank account add to the empowerment potential. Women are the primary health insurance cardholders, with family member eligibility linked to them. Community-based training is more likely to draw women participants. All of these arrangements have been shown to increase the “felt worth” of women in poor households, and have the potential to improve women’s role in intrahousehold management of resources, ability to make decisions, and contribution to the household economy.

D. Safeguards

37. The project is classified as category C for environment, involuntary resettlement, and indigenous peoples in accordance with the ADB Safeguard Policy Statement (2009). The BISP is an inclusive program that does not discriminate based on indigenous status. The program beneficiaries are selected based on the results of a poverty scorecard survey using proxy means testing. No questions are included on religion, language, or ethnicity, to ensure participation and inclusion of all poor irrespective of tribe, subtribe, or minority status. Since the project will not support any physical intervention, no land acquisition will be required.

E. Risks and Mitigating Measures

38. While systems are in place to ensure transparency and funds delivery to the beneficiaries in a timely manner, institutional capacity will need to be strengthened to make payments a low-risk intervention. Major risks and mitigating measures are summarized as follows, and described in detail in the risk assessment and risk management plan.²²

39. The overall risk rating is *substantial*. The key risks are specific weaknesses in BISP financial management: (i) lack of regular reconciliation of the cash transfer program, (ii) absence of annual financial statements for the program, (iii) absence of annual audit of the program financial statements, (iv) outstanding issues arising from the audit of the project financial statements of the AETP Subprogram 2, (v) weak institutional capacity (including weaknesses in financial reporting and internal audit), and (vi) delays in releases from the federal government.

40. In consultation with DFID and World Bank, risk mitigation actions were identified to address financial management weaknesses: (i) ADB, DFID and World Bank assisted in the reconciliation of all funds transferred through FY2013 by Pakistan Post and partner banks; the BISP adopted a timely and acceptable reconciliation process for future transfers; (ii) the BISP will prepare annual financial statements for audit starting with FY2012 and FY2013; (iii) the BISP will have audited financial statements prepared from FY2013 onward; (iv) the resolution of the issue with the AETP Subprogram 2 audit opinion within a specified timeframe is a covenant for the loan; (v) ADB, DFID, and World Bank are providing support for financial management

²² Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

and internal audit, and helping to ensure a sufficient number of qualified staff for long-term risk mitigation; and (vi) the timely release of government funds is listed as a covenant.

IV. ASSURANCES AND CONDITIONS

41. The government and the BISP have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents.

42. The government and the BISP have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement and project agreement. The government and the BISP also agreed to the following conditions for effectiveness:

- (i) The BISP board will establish an audit committee of the board to oversee the financial reporting and audit of the BISP, which includes the review of internal audit reports. Such a committee will include a nongovernment member of the board, preferably with audit oversight experience.
- (ii) The BISP will provide to ADB (a) BISP's unaudited financial statements for FY2012 and FY2013 by 30 September 2013 and (b) BISP's audited financial statements for FY2013 (with the associated audit report and management letter) together with an action plan, satisfactory to ADB, to address any deficiencies identified in the audit.

V. RECOMMENDATION

43. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan in various currencies equivalent to SDR283,776,000 to the Islamic Republic of Pakistan for the Social Protection Development Project, from ADB's Special Funds resources, with an interest charge at the rate of 2% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Takehiko Nakao
President

27 September 2013

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Reduced income poverty and nonincome poverty for poor families in Pakistan	By 2023 Extreme income poverty reduced Baseline: 33% in 2012, target: 30% Maternal mortality ratio reduced (number of mothers dying per 100,000 live births) Baseline: 300 in 2011, target: 120	Pakistan social and living standards measurement survey Pakistan social and living standards measurement survey Multiple indicator cluster survey	Assumption Economic growth is sustained. Risk Fiscal policy constrains government expenditure
Outcome Increased resilience of female BISP beneficiaries and their families	Average per capita consumption expenditure of beneficiaries increased Baseline: PRs1,575 = 100 in 2012, target: 105 in 2018 Beneficiaries with health insurance using health services for catastrophic health event increased Baseline: 0.39% in 2012, midterm: 0.97%, target: 1.37% in 2018 Skilled employment rate of trained beneficiaries in pilot districts within 3 months of training increased Baseline: 34% in 2012, midterm: 37%, target: 42% in 2018, of which at least 35% are women	Household integrated economic survey BISP impact evaluation Internal monitoring Impact evaluation of health insurance program Survey on economic opportunities and skills needs Impact evaluation of skills development program	Assumption Labor market (wage and self-employment) is able to absorb skilled labor trained under the project. Risk Specific weaknesses in financial management lead to underachievement of targets, high transaction cost, and unsatisfied beneficiaries.
Outputs 1. Cash transfer program coverage expanded	Enrollment of eligible female heads of families with the CNIC increased Baseline: 70% in 2013, target: 95% in 2018 Regular cash transfers received on time by all newly registered women Baseline: 0 in 2013, target: 2.4 million in 2018	Quarterly internal monitoring reports NADRA reports BISP financial management reports Six monthly spot checks	Risk Cash management difficulties in the federal government may delay fund releases to the BISP.
2. Health insurance program refined and rolled out	Phase 1 based on revised design and using technology-based	Quarterly WES internal and external monitoring reports	Risk WES registered hospitals are unable to

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	infrastructure starting Q3 2014 implemented	Provider reports	provide quality care.
	<p>Enrollment of female heads and their families in the WES increased Baseline: 37,525 in 2013, target: 786,423 in 2018</p> <p>Admissions of WES registered families increased Baseline: 928 in 2013, midterm: 18,512, target: 69,865 in 2018, by sex of patient</p>	<p>Quarterly WES internal and external monitoring reports Provider reports</p> <p>WES internal and external monitoring reports Provider reports</p>	
3. Skills development program strengthened	<p>New organization structure with MIS and internal monitoring system in place by Q4 2014 Implementation of pilot in 13 districts based on labor survey, using standardized courses and guided by social mobilizers started by Q1 2015 Total number of beneficiaries trained increased Baseline: 56,600 in 2013, midterm: 283,118, target: 577,294 in 2018, of which at least 50% are women (baseline: 30%^a)</p>	<p>Quarterly WER internal and external monitoring reports</p> <p>Quarterly WER internal and external monitoring reports</p> <p>WER baseline and impact evaluation reports</p>	
4. Financial management and control systems, and policy research improved	<p>Detailed annual budget prepared and object level classification and chart of accounts used for expenditure from Q1 2014 onward</p> <p>Engendered research conducted in line with research framework from Q1 2015 onward</p>	<p>Quarterly financial management wing reports</p> <p>Research unit reports</p>	
<p>Activities with Milestones</p> <p>1. Cash transfer program coverage expanded</p> <p>1.1 Support catch-up effort to enroll pending beneficiaries (Q4 2014 for 5 districts; Q4 2015 nationwide)</p> <p>1.2 Provide payments for newly registered beneficiaries (quarterly until 2018)</p> <p>1.3 Monitor timely delivery of cash transfer (until Q4 2018)</p> <p>2. Health insurance program refined and rolled out</p> <p>2.1 Select providers for (i) design and deployment of technology-based infrastructure, (ii) communication and awareness, and</p>		<p>Inputs</p> <p>Loan ADB: \$430 million Government: \$148.3 million equivalent counterpart funding</p>	

Activities with Milestones	
<p>(iii) impact evaluation (Q4 2013–Q2 2014)</p> <p>2.2 Design expansion into 5 more districts (Q2 2014)</p> <p>2.3 Sign MOU with provinces (Q2 2014)</p> <p>2.4 Carry out baseline evaluation and report (Q2 2014)</p> <p>2.5 Design and deploy technology-based infrastructure (Q3 2014)</p> <p>2.6 Implement expansion in 5 districts, including gender-sensitive communication and awareness campaign (Q3 2014)</p> <p>2.7 Carry out gendered sensitive impact evaluation (Q1 2016)</p> <p>2.8 Design expansion in 10 more districts (Q2 2016)</p> <p>2.9 Launch and implement expansion in 10 districts (Q4 2016)</p> <p>2.10 Carry out engendered impact evaluation (Q1 2018)</p> <p>3. Skills development program strengthened</p> <p>3.1 Select providers for (i) economic opportunity survey and skills needs (Q4 2013), (ii) MIS and M&E system (Q4 2013), (iii) social mobilization (Q4 2013), (iv) third-party monitor (Q4 2013), (v) baseline survey (Q1 2014), and (vi) developing training courses (Q2 2014)</p> <p>3.2 Implement new organization structure, staffing, and staff development (Q1 2014)</p> <p>3.3 Continue existing contract until end of contract period, within internal and external monitoring framework</p> <p>3.4 Prepare and tender training packages (Q4 2014)</p> <p>3.5 Implement community-based, center-based, and enterprise-based training in 13 pilot districts including gender sensitive awareness campaign (Q1 2015)</p> <p>3.6 Carry out first gendered sensitive impact evaluation (Q1 2016)</p> <p>3.7 Review initial targets and prepare expansion plan (Q3 2016)</p> <p>3.8 Continue implementation within 13 districts (Q4 2016)</p> <p>3.9 Implement expansion in new districts (Q2 2017)</p> <p>3.10 Carry out final engendered impact evaluation (Q3 2018)</p> <p>4. Financial management and control systems, and policy research improved</p> <p>4.1 Advertise and recruit financial manager, internal auditor, and policy and research specialist (gender) (Q1 2014)</p> <p>4.2 Provide training for staff in finance and accounts department (Q2 2014)</p> <p>4.3 Devise, implement, and disseminate research findings of a program of gendered sensitive social research within research framework (Q1 2014–Q4 2018)</p>	

ADB = Asian Development Bank, BISP = Benazir Income Support Program, CNIC = computerized national identity card, M&E = monitoring and evaluation, MIS = management information system, MOU = memorandum of understanding, NADRA = National Database Registration Authority, WER = Waseela-e-Rozgar (skills development program), WES = Waseela-e-Sehet (health insurance program).

^a Based on WER data, 57% of the WER trainees were women. This, however, is an inflated share due to the initial design flaw in the WER. Women were registered and trained in one trade (embroidery) with limited training materials and a useless certification. Based on the male domination of skills training worldwide, the share has been reduced.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=45233-001-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Social Protection
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Financial Analysis
8. Economic Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Gender Action Plan
12. Risk Assessment and Risk Management Plan

Supplementary Documents

13. Waseela-e-Sehet: Strategic Framework and Detailed Implementation Plan
14. Waseela-e-Rozgar: Strategic Road Map