



# Report and Recommendation of the President to the Board of Directors

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Project Number: 45233-006  
Loan Number: 3049-PAK  
September 2019

## Proposed Loan for Additional Financing Islamic Republic of Pakistan: Social Protection Development Project

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 20 August 2019)

Currency unit	–	Pakistan rupee/s (PRs/PRs)
PRs1.00	=	\$0.0063
\$1.00	=	PRs158.131

## ABBREVIATIONS

ADB	–	Asian Development Bank
BISP	–	Benazir Income Support Program
CCT	–	conditional cash transfer
EFF	–	extended fund facility
FY	–	fiscal year
IMF	–	International Monetary Fund
PAM	–	project administration manual
PRU	–	policy research unit
SDR	–	special drawing right
UCT	–	unconditional cash transfer

## 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., FY2019 ends on 30 June 2018.
- (ii) In this report, “\$” refers to United States dollars.

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## PROJECT AT A GLANCE

1. Basic Data		Project Number: 45233-006	
Project Name	Social Protection Development Project (Additional Financing)	Department /Division	CWRD/CWPF
Country Borrower	Pakistan Government of Pakistan	Executing Agency	Benazir Income Support Program
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=45233-006-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=45233-006-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Social protection initiatives	100.00	
Education	Education sector development - social protection initiatives	50.00	
Health	Mother and child health care	50.00	
		Total	200.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
✓ Accelerating progress in gender equality			
✓ Strengthening governance and institutional capacity			
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.3		Gender Equity (GEN)	✓
SDG 2.2			
SDG 4.1			
SDG 5.c		Poverty Targeting	
SDG 10.4		Household Targeting	✓
4. Risk Categorization: Low			
5. Safeguard Categorization		Environment: C	Involuntary Resettlement: C Indigenous Peoples: C
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		200.00	
Sovereign Project (Regular Loan): Ordinary capital resources		200.00	
Cofinancing		0.00	
None		0.00	
Counterpart		4.50	
Government		4.50	
Total		204.50	
Currency of ADB Financing: US Dollar			



## 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 additional financing of the Social Protection Development Project.<sup>1</sup>

2. The proposed additional financing will help the Government of Pakistan continue to support the Benazir Income Support Program (BISP), the country's primary social protection program and one of the largest social protection programs in South Asia, against the backdrop of the difficult macroeconomic situation the country faces.<sup>2</sup> The support will (i) enable disbursement of unconditional cash transfer (UCT) payments to eligible BISP beneficiaries; and (ii) further improve BISP's capacity for financial management and control, and policy research, data analytics and intervention design. The additional financing modality is considered appropriate given strong links with the original project in terms of design and implementation arrangements and resultant productivity gains. This support is aligned to the government's Ehsaas poverty alleviation program<sup>3</sup> and one of the key operational priorities of Strategy 2030 of the Asian Development Bank (ADB): addressing remaining poverty and reducing inequalities, with a focus on strengthening social protection systems and service delivery for those in need.<sup>4</sup>

## II. THE PROJECT

### A. Rationale

3. **Macroeconomic challenges.** While economic growth has been relatively high—averaging close to 5% during 2014–2019—the government needs to address large budget and current account deficits, rising debt obligations, and falling foreign exchange reserves. On 12 May 2019, a \$6 billion 39-month extended fund facility (EFF) arrangement for Pakistan was reached with the International Monetary Fund (IMF).<sup>5</sup> Under the EFF, the IMF and development partners will support the government's efforts to position the economy on the path of sustainable and balanced growth and increased per capita income through a targeted fiscal consolidation program to help reduce public debt and build resilience while expanding social spending to support the most vulnerable. The EFF emphasizes the importance of the BISP, recognizing that fiscal consolidation will entail reductions in public expenditure programs that could have an adverse impact on the poor and most vulnerable. Given the weak macroeconomic backdrop, and consistent with the IMF's policy advice, the additional financing provides timely support to the government by continuing to support activities under the current project such as UCTs that provide a financial cushion to the poorest sections of society.<sup>6</sup>

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> Asian Development Bank (ADB). 2019. [\*Asian Development Outlook 2019: Strengthening Disaster Resilience\*](#). Manila.

<sup>3</sup> Government of Pakistan, Prime Minister's Office. 2019. [\*Ehsaas: Prime Minister's Policy Statement\*](#). Islamabad.

<sup>4</sup> ADB. 2018. [\*Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific\*](#). Manila.

<sup>5</sup> IMF. 2019. [\*Pakistan: Staff Report for the Request for an Extended Arrangement Under the Extended Fund Facility. IMF Staff Country Report No. 19/212\*](#). Washington, DC.

<sup>6</sup> Detailed Sector Assessment: BISP and Pakistan Social Protection Agenda (accessible from the list of linked documents in Appendix 2). Currently, Rs.5,000 (or around \$31.50) per beneficiary family is being paid each quarter. The government announced in March 2019 that this would increase to Rs.5,500 per quarter from the July-September 2019 quarter. However, the formal instructions from the Ministry of Finance are yet to be issued.

4. **Poverty and human development.** Despite substantial reductions in poverty rates during 2001–2015, a quarter of the population remains below the poverty line. Rural poverty remains more than twice as high as urban poverty, with rural areas still accounting for 80% of poor individuals, a share that is unchanged since 2001. In addition, 24.3% of the population of 200 million live under the poverty line, and a further 10% are near-poor and highly vulnerable to shocks that could pull them below the poverty line. Persistent cycles of low human capital investment, especially for women, and poor health outcomes are the main factors behind this chronic intergenerational poverty and continued gender inequality.<sup>7</sup> Despite its lower-middle-income status, Pakistan remains one of the lowest performers in human capital development in South Asia. It ranks the highest in South Asia and the third highest globally in stunting and wasting rates, with almost half of under-5 children being stunted. Almost 23 million children are out of school.<sup>8</sup> Health outcomes in Pakistan remain poor, with one of the highest maternal mortality ratios in the region at 178 per 100,000 live births. While communicable diseases continue to be a concern (Pakistan has the second highest global burden of hepatitis C and the sixth highest global burden of tuberculosis), noncommunicable chronic diseases now account for over half of all deaths.<sup>9</sup> In addition, health care expenditure remains a critical risk factor for keeping people in poverty or pulling people into poverty. Out-of-pocket health care expenditure, for example, accounts for two-thirds of all health care expenditure in Pakistan.<sup>10</sup>

5. **National social protection and poverty reduction strategy.** In April 2019, the Prime Minister launched the Ehsaas program. The program is specifically targeted at: “extreme poor, orphans, widows, the homeless, the disabled, those who risk medical impoverishment, for the jobless, for poor farmers, for laborers, for the sick and undernourished; for students from low-income backgrounds and for poor women and elderly citizens.” The Ehsaas program contains four pillars: (i) addressing elite capture and making the government system work for equality, (ii) safety nets, (iii) human capital development, and (iv) jobs and livelihoods. The BISP supports pillar 2, which provide cash transfers, poverty graduation programs, and a targeted safety net. The BISP is also expanding its support to pillar 3, with conditional cash transfers (CCTs) for education, health, and nutrition. As of January 2019, the BISP had disbursed a cumulative total of \$3.6 billion through UCTs to over 5.6 million families. The BISP plans to gradually expand this coverage to 7 million households (the poorest 20% of the population).<sup>11</sup>

6. **The current project.** The Social Protection Development Project loan was approved on 22 October 2013.<sup>12</sup> The loan agreement and the project agreement were signed on 25 November 2013, and the loan became effective on 24 June 2014. The current closing date of the loan is 30 June 2022. The current project was restructured through a minor change in scope on 8 December 2017 with three outputs: (i) cash transfer program coverage expanded (output 1), (ii) the BISP graduation program implemented (new output 2), and (iii) financial management and control systems and policy research improved (new output 3). As of June 2019, the Social Protection Development Project has enabled the enrollment of 855,052 beneficiaries (about 15% of the total 5.6 million eligible beneficiaries) that are eligible for 10 quarterly payments.<sup>13</sup>

<sup>7</sup> ADB. Forthcoming. *Islamic Republic of Pakistan: Country Diagnostic Study*. Manila.

<sup>8</sup> Government of Pakistan, Ministry of Federal Education and Professional Training, National Education Management Information System. 2017. [Pakistan Education Statistics 2015–2016](#). Islamabad.

<sup>9</sup> World Health Organization. 2018. [Noncommunicable Diseases Country Profiles 2018](#). Geneva. p. 157.

<sup>10</sup> World Bank. 2016: <https://data.worldbank.org/indicator/SH.XPD.OOPC.CH.ZS> (accessed on 16 July 2019).

<sup>11</sup> BISP. Budget documents and internal reports. Unpublished.

<sup>12</sup> ADB. 2013. [Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Islamic Republic of Pakistan for Social Protection Development Project](#). Manila.

<sup>13</sup> The current project envisaged the enrolment of 2.4 million new eligible beneficiaries for the cash transfer program. However, this number was subsequently reduced to 855,092 and the number of quarterly payments increased from



7. **Performance of current project.** The Social Protection Development Project is performing well. As of 25 June 2019, the project was assessed as (i) delivering expected outputs, (ii) showing *satisfactory* implementation progress, (iii) *on track* in ADB's project performance monitoring system, (iv) *complied with* in terms of safeguards policy compliance, and (v) *successful* in terms of management of risks. ADB allocated SDR283,776,000 (about \$394,537,000 as of 25 June 2019) to the project.<sup>14</sup> Of this amount, 84% (about \$331.4 million) was allocated for UCT; 9% (about \$37.6 million) for the BISP graduation program; and 7% (about \$25.5 million) for other costs, including interest charges. As of 25 June 2019, the total disbursed amount was \$383.9 million (about 97.3% of total available funds), with cumulative contract award of \$325.9 million. The investments in UCTs have had positive impacts through the reduction in the poverty rate by 3 percentage points. Impact evaluation studies report empowerment of women in terms of elevated household status and improved mobility outside the home, overall reduction in the dependence of beneficiary households on casual labor, and an increase in the proportion of beneficiary households that own small livestock.<sup>15</sup>

8. **Safeguard compliance.** Compliance with safeguard policy requirements is rated *satisfactory*. The current project was classified category C for environment, involuntary resettlement, and indigenous peoples in accordance with ADB's Safeguard Policy Statement (2009). There have been no project activities resulting in or leading to involuntary resettlement, or that have negatively affected indigenous peoples or the environment. Since the project did not support any physical intervention, no land acquisition was required. In addition, the project is classified with a *gender equity* theme since its beneficiaries are all women and its focus is on empowering women.

9. **Management of risks.** The current project is performing well, no integrity concerns have been raised, and the procurement risk level is rated *moderate*. The pre-mitigation financial management risk level rating remains *substantial*. BISP has implemented a number of measures during 2014–2019 to safeguard against risks of error, fraud, and corruption.<sup>16</sup> However, efforts to improve financial management, internal control and risk management need to remain a high priority given its importance to Government's social protection agenda and the level of funding it receives from the national budget (around \$1.1 billion in FY2020).<sup>17</sup> This approach is in line with operational priority 6 of ADB's Strategy 2030, which focuses on strengthening governance and institutional capacity, and emphasizes the importance of strong financial management systems and controls for successful development outcomes.

10. **Government support for BISP.** The government has renewed its commitment to the BISP against a backdrop of significant macroeconomic challenges (para. 3). The additional financing will scale up the scope of the current project to include (i) continuation of UCT payments under the BISP to cushion the impacts of these macroeconomic challenges, (ii) further improvements in financial management and control systems of the BISP to support these UCTs, and (iii) strengthening of policy research functions in line with the Ehsaas program (para. 5). The additional financing will also provide an invaluable opportunity to set the direction of ADB's

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5 to 10 as a large number of eligible beneficiaries could not be enrolled due to a discrepancy in their data—primarily the absence of a computerized national identity card or CNIC.

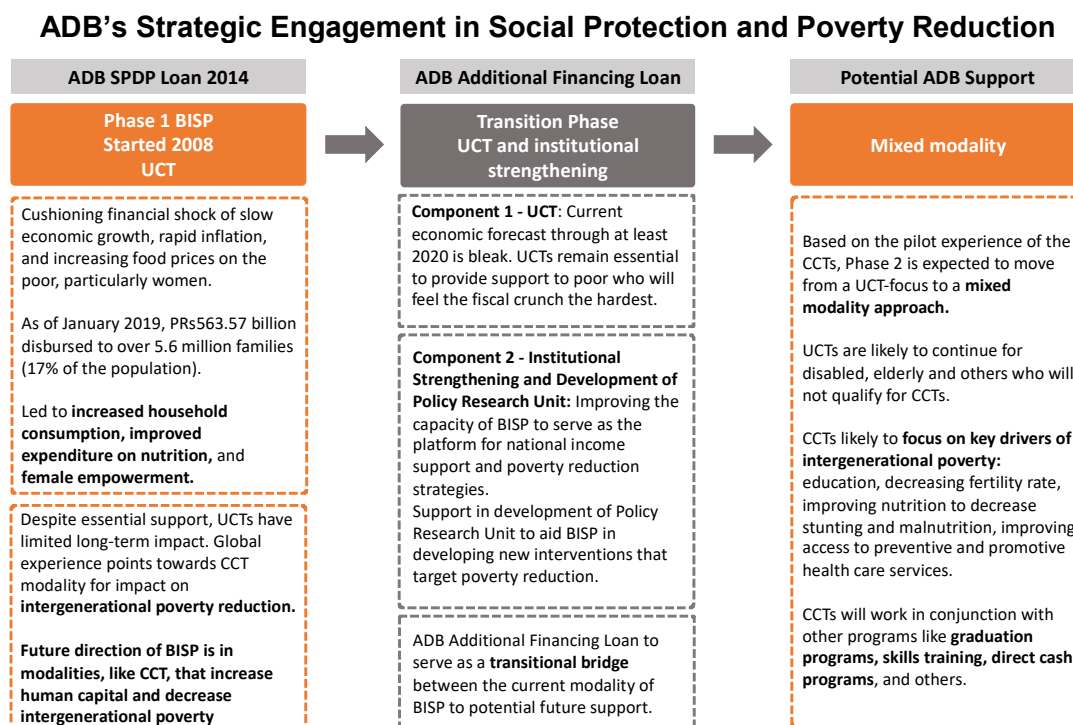
<sup>14</sup> This was 6% less than the initial ADB Board-approved project amount of \$430 million, because of changes in the SDR conversion rate.

<sup>15</sup> Oxford Policy Management. 2016. [Benazir Income Support Programme: Final Impact Evaluation Report](#). Oxford.

<sup>16</sup> DFID. 2018. *Assessment of Error, Fraud and Corruption Controls in Pakistan BISP Cash Transfer Programmes*. Islamabad. Unpublished.

<sup>17</sup> Financial Analysis (accessible from the list of linked documents in Appendix 2).

strategic engagement in social protection and poverty reduction in Pakistan, potentially through a follow-on second phase of support (figure).<sup>18</sup>



ADB = Asian Development Bank, BISP = Benazir Income Support Program, CCT = conditional cash transfer, SPDP = Social Protection Development Project, UCT = unconditional cash transfer.

Source: ADB.

11. **Social protection beyond UCTs.** The intervention highlighted in the figure is important for the government and ADB because reviews of UCT show that while they provide a financial cushion for the poor, improve household consumption, and increase women's empowerment, they have limited impact on the reduction of poverty. In light of these findings and the government's renewed commitment to poverty reduction and social protection through the Ehsaas program, the BISP is expanding its approach and is looking at alternate modalities that target the improvement of human capital, including poverty graduation programs and CCTs, based on global best practices. There is considerable international evidence that CCTs are helpful in addressing behavioral factors in the areas of elementary education and health sectors. In addition to providing a financial cushion for the poor, CCTs also aim to provide a further impact by encouraging the accumulation of human capital of children through improved health, education, and nutrition, which have been shown to be the key drivers of poverty reduction. Improved human capital leads to a decrease in intergenerational poverty.

## B. Impact and Outcome

12. The overall aggregate impact and outcome for the overall project remains the same as the current project. The project is aligned with the following impact: income poverty and non-income

<sup>18</sup> ADB. Forthcoming. *Country Operations Business Plan: Pakistan, 2020–2022*. Manila.

poverty for poor families in Pakistan reduced.<sup>19</sup> The project will have the following outcome: resilience of BISP female beneficiaries and their families increased.

### C. Outputs

13. The additional financing will scale up outputs 1 and 3 of the current project: cash transfer program coverage expanded (output 1) and financial management and control systems and policy research improved (output 3). ADB value addition is produced through diagnostic and technical support to help BISP improve its financial management and control systems and deepen its knowledge of global best practices in social protection and poverty reduction to help it move beyond UCTs to programs that improve human capital and reduce intergenerational poverty.

14. A detailed description of activities under outputs 1 and 3 that will be funded by the additional financing follows:

- (i) **Continue unconditional cash transfers (Output 1).** UCTs have been instrumental in cushioning the financial shock of slowing economic growth, rapid inflation, and increasing food prices on the poor, particularly women. The additional financing will continue to support UCT payments to eligible BISP beneficiaries for six quarterly installments from April 2019 onwards, which will thereafter be continued through the government's own resources.<sup>20</sup>
- (ii) **Institutional strengthening: addressing error, fraud, and corruption (Output 3).** The government recognizes that institutional strengthening of the BISP is critical given the large volume of public funds that it is responsible for. Based on various external reviews, including the recent recommendations of the assessment of error, fraud and corruption controls in BISP's cash transfer programs (footnote 16), the BISP has highlighted the following high-priority reforms that could be supported under the additional financing:
  - (a) working with beneficiary communities to increase their awareness of UCTs and their ability to navigate within it to minimize leakage of funds at the community level;
  - (b) introducing and publicizing reliable whistle-blowing hotlines and social media platforms;
  - (c) expanding monitoring and evaluation activities to explicitly include reporting on error, fraud, and corruption;
  - (d) developing a policy for obtaining repayment of money obtained by fraud or corruption—in addition to sanctions applied for offending employees, banks and beneficiaries; and
  - (e) develop and implement a comprehensive Risk Management Framework that strengthens financial management and improves detection of error, fraud and corruption risk.
- (iii) **Institutional strengthening: policy research (Output 3).** The BISP is keen to establish a policy research unit (PRU) to help it transition from its UCT-oriented approach to one that will have a greater impact on reducing intergenerational

<sup>19</sup> Government of Pakistan, Planning Commission. 2007. *A Social Protection Strategy to Reach the Poor and the Vulnerable*. Islamabad.

<sup>20</sup> In July 2019, ADB approval was given to reallocate funds from different categories of the current project such as consulting services and contingencies to UCTs to allow disbursement of approximately \$7 million in quarterly payments for around 55,000 of the 855,052 beneficiaries that had yet to be paid (footnote 13). The final payment for this group is scheduled for Quarter 1 2021. The additional financing will cover six quarterly UCT payments amounting to around \$166 million for the remaining 800,052 beneficiaries. These payments began in April 2019 and thereafter will continue to be paid from the government's own resources.

poverty in line with the Ehsaas program. The PRU will (i) develop a policy framework for the BISP and support policy and legislation development; (ii) help monitor and improve performance of ongoing programs while developing new evidence-based initiatives such as CCTs that impact on social protection and poverty reduction 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 the BISP.

## D. Investment and Financing Plans

15. The project is estimated to cost \$204.5 million (Table 1).

**Table 1: Project Investment Plan**  
(\$ million)

Item	Current Amount <sup>a</sup>	Additional Financing <sup>b</sup>	Total
<b>A. Base Cost<sup>c</sup></b>			
1. Cash transfer program expanded	342.6	170.3	512.9
2. BISP graduation program implemented	176.9	0	176.9
3. Financial management and control systems and policy research improved	0.1	6.2	6.3
<b>Subtotal (A)</b>	<b>519.6</b>	<b>176.5</b>	<b>696.1</b>
B. Contingencies <sup>d</sup>	0.9	16.7	17.6
C. Financing charges during implementation <sup>e</sup>	22.3	11.3	33.6
<b>Total (A+B+C)</b>	<b>542.8</b>	<b>204.5</b>	<b>747.3</b>

BISP = Benazir Income Support Program.

<sup>a</sup> Includes \$137.1 million for health insurance and a skills development program and \$11.3 million for taxes, duties, and administrative expenses financed by the government.

<sup>b</sup> Includes \$4.5 million for overhead for unconditional cash transfer payment processing, administrative expenses, office space, costs of running the BISP policy research unit, and taxes and duties financed by the government.

<sup>c</sup> In mid-2013 prices for the current project and mid-2019 prices for additional financing.

<sup>d</sup> 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.

<sup>e</sup> Includes interest charges during implementation for the Asian Development Bank loan, financed by the government.

Source: Asian Development Bank estimates.

16. The government has requested a regular loan of \$200,000,000 from ADB's ordinary capital resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement.<sup>21</sup> Based on the straight-line method, the average maturity is 15.97 years, and the maturity premium payable to ADB is 0.10% per year. The government will contribute an estimated \$4.5 million for overheads for processing of UCT payments, administrative expenses, office space, costs of running the PRU, and taxes and duties financed by the government, and approximately \$11 million for interest charges during implementation. The financing plan is in Table 2 and further detailed in the project administration manual (PAM).<sup>22</sup>

<sup>21</sup> The interest includes a maturity premium of 10 basis points. This is based on the loan terms described in para. 19 and the government's choice of repayment option and dates.

<sup>22</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

**Table 2: Financing Plan**

Source	Current		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank						
OCR <sup>a</sup>	394.5	72.7	200.0	97.8	594.5	80.0
Government <sup>b</sup>	148.3	27.3	4.5	2.2	152.8	20.0
<b>Total</b>	<b>542.8</b>	<b>100.0</b>	<b>204.5</b>	<b>100.0</b>	<b>747.3</b>	<b>100.0</b>

OCR = ordinary capital resources.

<sup>a</sup> Financing for the current project is in concessional OCR terms while the additional financing is in regular OCR terms.

<sup>b</sup> The overall program cost for the Benazir Income Support Program is much larger. For fiscal year 2020 (ending June), the overall program cost is budgeted at \$1.1 billion.

Source: Asian Development Bank estimates.

17. A small-scale technical assistance (TA) amounting to \$225,000 and financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources) was approved on 30 August 2019. The TA will support the engagement of additional consultant resources to help develop detailed design of interventions for (i) policy research strengthening, including developing a work plan for priority areas for policy research, (ii) strengthening financial management and internal controls and the error, fraud and corruption mitigation, and (iii) strategic decision making through the development of a strategic business plan for BISP that will focus on improving BISP's role in supporting the Ehsaas program.

## **E. Implementation Arrangements**

18. Procurement of goods, consulting, and non-consulting services under the additional financing shall follow the ADB Procurement Policy (2017, as amended from time to time) and the Procurement Regulations for ADB Borrowers (2017, as amended from time to time). The implementation arrangements are summarized in Table 3 and detailed in the PAM. The additional financing will not alter the existing implementation arrangements except for the inclusion of new activities such as the establishment of the PRU.

**Table 3: Implementation Arrangements**

Aspects		Arrangements	
Implementation period	October 2019–September 2022		
Estimated completion date	30 September 2022 (loan closing date: 31 March 2023)		
Management			
(i) Executing agency	BISP		
(ii) Implementing agency	BISP		
(iii) Implementation unit	BISP-PRU, DG (Cash Transfer), DG (Internal Audit), DG (Finance & Accounts) and heads of other relevant wings.		
Procurement of Goods	RFQ	20 contracts	\$0.2 million
Consulting services	ICS	244 person-months	\$1.5 million
	Firms	5 contracts using QCBS, 90:10 and 1 contract using LCS	\$3.6 million
Retroactive financing and advance contracting	The government has also requested retroactive financing (subject to the ceiling of 20% of the loan amount) to cover the financing of UCT payments for ADB Beneficiaries for up to two quarters from April to September 2019.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the Government of Pakistan and ADB.		

ADB = Asian Development Bank, BISP = Benazir Income Support Program, DG = Director General, ICS = individual consulting selection, PRU = policy research unit, QCBS = quality- and cost-based selection, RFQ= Request For Quotation, UCT = unconditional cash transfer.,  
Source: Asian Development Bank.

19. The overall procurement management risk is classified *moderate* because of inclusion of additional procurement resources in the BISP to ensure timely completion of procurement activities for the current project, as well as for the additional financing. The strategic procurement plan, attached to the PAM, was developed to ensure value for money by choosing appropriate bid packaging, bidding procedures, bid documents, and contract modalities. Research institutes or firms will be recruited following the quality- and cost-based selection method. As the scope of services will be developed during implementation, if necessary, other appropriate selection methods, including different types of contract modalities, will be determined at a later stage.

### III. DUE DILIGENCE

20. Since the additional financing will finance a change in project scope, due diligence on economic, financial, procurement, safeguard, capacity, social, and poverty aspects for the current project have all been updated.<sup>23</sup> Staff and technical assistance resources were mobilized to ensure timely preparation of high-quality due diligence documentation.

#### A. Economic and Financial

21. All outputs and activities supported under this additional financing project are expected to result in economic and financial benefits for beneficiaries. These benefits are derived from (i) Government's implementation of the EFF, which is expected to improve its fiscal position and, in turn, Government's ability to fund critical social and economic infrastructure investments (para. 6), and (ii) the activities financed by the additional financing, that is, continued UCT payments and strengthened institutional capacity for improved financial management and control and policy research functions for cost effective and evidence-based decision making.

22. Improved public finances and reduced public debt will create fiscal space for an increase in social spending to strengthen social protection as well as infrastructure and human capital development. The FY2020 national budget announced on 11 June incorporates agreed EFF measures. The primary deficit is slightly higher compared to FY2019. While this would ordinarily mean there is limited room for new policies, there is a 52% increase in expenditure for the Ehsaas program including BISP. This is expected to help cushion the poor from shocks and the short-term impact of economic reforms.<sup>24</sup> On the revenue side, the 34.8% increase in net revenue for the federal government includes increases in recurrent revenues and other revenues (for example, royalties and dividends) and reductions in tax expenditure (for example, concessions and incentives). There are no planned increases in indirect taxes that could adversely affect the poor and near poor (example, the sales tax will remain at 17%).

23. Continuing UCT payments and improved institutional strengthening will, in the short term, improve income and consumption-related poverty and vulnerability, and, in the long-run, generate broader socio-economic benefits through the development of human capital, which is a pre-requisite for reducing intergenerational poverty. UCTs can yield fiscal savings for the government in the medium- to long-term and can have important positive multiplier effect, including improved

<sup>23</sup> These updated assessments can all be accessed from the list of linked documents in Appendix 2.

<sup>24</sup> Recent data on income distribution for Pakistan suggest that income share of the poorest 20% of the population fell sharply from 9.8% to 5.9% during FY2013-FY2016, that is, during the implementation of the previous IMF program.

contributions to income tax revenue. Finally, although the BISP is subject to regular evaluation, there is need for improvement in financial management and controls. Overall, efficiency and productivity gains from reforms in these areas will help improve: (i) error, fraud and corruption mitigation, (ii) beneficiary awareness about their cash payments, and (iii) policy research for cost effective and evidence-based programs.

## **B. Governance**

24. BISP is the flagship social protection program of Government and is one of the most extensively documented and evaluated program in the public sector in Pakistan. Its expansion has been accompanied by key developments such as: (i) switching from community-based targeting to more effective targeting using a proxy means test-based poverty score cards, (ii) developing one of the largest databases of poor households (the National Socio-Economic Registry), and (iii) increasing the use of personal identification number (or PIN) controlled debit cards or biometric verification card-less system for payments to beneficiaries. However, further work is needed in specific areas, in particular, timely completion and submission of audited financial statements. For example, the FY2017 and FY2018 audited entity financial statements and management letters were received with significant delays. Other high priority measures include undertaking regular analysis of payment complaints to identify causes and trends and improve detection of suspected cases of corruption, and appointing specialist investigators to investigate occurrences of corruption (footnote 15). ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and BISP. The specific policy requirements and supplementary measures are described in the PAM.

## **C. Poverty, Social and Gender**

25. Pakistan has a large informal economy, limited employment opportunities in formal labor markets, inadequate insurance schemes, and an increasing trend of natural and manmade disasters, all which make the country's poor highly susceptible to falling below the poverty line. Additional support to the BISP will ensure the continuity of UCT and provide relief to the extreme poor. In addition, Pakistan was ranked second from last in the 2018 Global Gender Gap Index, surpassing only Yemen.<sup>25</sup> Sociocultural constraints on girls' and women's access to health, education, training, jobs, financing, and ease of mobility have led to high levels of gender inequality and poverty. The overall literacy rate for women in Pakistan is 51.8%, compared to an already low 72.5% for men. This is even lower in rural areas, with 40.5% for women compared to 66.3% for men.<sup>26</sup> Labor force statistics show that labor force participation is 25% for females compared to 82% for males (ages 15 and above). Pakistan's female labor force participation rate is among the lowest in the world and in South Asia. Employment for women is mostly in the informal economy, estimated to be about 72% of the economy.

## **D. Safeguards**

26. Following ADB's Safeguard Policy Statement, the project classification of C for the environment, involuntary resettlement, and indigenous peoples is retained (para. 8). In addition, the project is classified with a *gender equity* theme (para. 8). Since the additional financing will not support any physical intervention, land acquisition is not required.

<sup>25</sup> World Economic Forum. 2018. [The Global Gender Gap Report 2018](#). Geneva.

<sup>26</sup> Government of Pakistan, Ministry of Statistics, Pakistan Bureau of Statistics. 2018. [Labour Force Survey, 2017–18](#). Islamabad.

## E. Risks and Mitigating Measures

27. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan and the PAM.<sup>27</sup> It is anticipated that the implementation of the mitigating measures will strengthen the BISP's financial management system.

**Table 4: Summary of Risks and Mitigating Measures<sup>28</sup>**

<b>Risks</b>	<b>Mitigating Measures*</b>
Ongoing delays in completion of audited financial statements weakens monitoring of internal controls adequacy.	Audit of financial statements and preparation of management letter to be completed within 6 months of the end of the financial year.
Reconciliation process in preparing financial reports is not timely and may result in variances for the observed number of eligible beneficiaries.	Recruitment of full time Financial Management consultant for 2 year period within 6 months following loan effectiveness.
The internal audit function in BISP requires strengthening in order to address risks identified in management letters.	Director Internal Audit position filled, and certification and training programs provided within 3 months following loan effectiveness.

BISP = Benazir Income Support Program.

\* Refer to Financial Management Action Plan in the PAM, which will be implemented by BISP (footnote 22).

Sources: Asian Development Bank, BISP.

## IV. ASSURANCES AND CONDITIONS

28. 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 PAM and loan documents.

29. 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.

## V. RECOMMENDATION

30. 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 of \$200,000,000 to the Islamic Republic of Pakistan for the additional financing of the Social Protection Development Project, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; 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

3 September 2019

<sup>27</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

<sup>28</sup> ADB staff will monitor the implementation of mitigating measures on a regular basis.



## REVISED DESIGN AND MONITORING FRAMEWORK

<b>Impact the Project is Aligned with</b>  <b>Current project</b> Income poverty and non-income poverty for poor families in Pakistan reduced (2007 National Social Protection Strategy) <sup>a</sup>  <b>Overall project</b> Unchanged			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<b>Outcome</b>  <b>Current project</b> Resilience of BISP female beneficiaries and their families increased  <b>Overall project</b> Unchanged	<b>By 2023:</b> <b>Current project</b> a. Average per capita consumption expenditure of beneficiaries increased to 105 (2012 baseline: PRs1,575 = 100)  b. Beneficiaries with health insurance using health services for catastrophic health event increased to 1.37% (2012 baseline: 0.39%)  c. Skilled employment rate of trained beneficiaries in pilot districts within 3 months of training increased to 42%, of which at least 35% are women (2012 baseline: 34%)  <b>Overall project</b> Unchanged	a–c. Household integrated economic survey for 2023; BISP impact monitoring and evaluation; third-party impact assessment studies; internal monitoring reports	Ongoing delays in completion of audited financial statements weakens monitoring of internal controls adequacy.
<b>Outputs</b>  <b>Output 1</b>  <b>Current project</b> Cash transfer program coverage expanded  <b>Overall project</b> Unchanged	<b>Current project</b> <b>By 2018:</b> 1a. 95% of all eligible female heads of families with the CNIC enrolled in BISP (2013 baseline: 70%)  1b. Regular cash transfers received on time by 2.4 million BISP beneficiaries (2013 baseline: 0)  <b>Overall project</b> <b>By 2022:</b> 1a. 100% of all eligible female heads of families with the CNIC enrolled in BISP (2018 baseline: 95%)  1b. Regular cash transfers received on time by 5 million newly registered women	1a–1b. Quarterly internal monitoring reports; NADRA reports; BISP financial management reports; six monthly spot checks conducted by BISP	Reconciliation process in preparing financial reports is not timely and may result in variances for the observed number of eligible beneficiaries.  The internal audit function in BISP requires strengthening in order to address risks identified in management letters.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	(2018 baseline: 2.4 million newly registered women)		
<b>Output 2</b>  <b>Current project</b> BISP graduation program implemented  <b>Overall project</b> Unchanged	<b>Current project</b>  2a. Income poverty sustainably reduced for 50,000 households in the project area (2014 baseline: not applicable)  2b. Social protection in health for BISP poor enhanced and accessed by 20,000 households (2014 baseline: not applicable)  <b>Overall project</b> 2a–2b. Unchanged	2a–2b. Impact assessment study undertaken through independent third-party evaluators financed by ADB	
<b>Output 3</b> <b>Current project</b> Financial management and control systems and policy research improved  <b>Overall project</b> Unchanged	<b>Current project</b>  3a. Detailed annual budget prepared and object-level classification and chart of accounts used for expenditure from Q1 2014 onward (2014 baseline: not applicable)  3b. Engendered research conducted in line with research framework, from Q1 2015 onwards (2014 baseline: not applicable)  <b>Overall project</b> 3a–3b. Unchanged  3c. PRU established and fully operational by Q4 2020 (2019 baseline: not applicable)	3a–3c. Quarterly internal monitoring reports of the implementation agency; yearly impact assessment; six monthly spot checks through joint BISP and ADB missions	

### Key Activities with Milestones

#### 1. Cash transfer program coverage expanded

- 1.1 Support catch-up effort to enroll pending beneficiaries (Q3 2014–Q4 2015)
- 1.2 Provide payments for newly registered (and other) beneficiaries (Q1 2015–Q4 2021)
- 1.3 Monitor timely delivery of cash transfers (until Q4 2021)

#### 2. BISP graduation program implemented

- 2.1 Business incubation
  - 2.1.1 Contract implementing agency (Q4 2019)
  - 2.2.1 Select appropriate beneficiaries (Q2–Q3 2020)
  - 2.3.1 Do skills training, business coaching, and market and company linkages (Q2 2020–Q4 2020)
  - 2.4.1 Implement asset transfers (Q3 2020–Q1 2021)
  - 2.5.1 Enroll those who get assets in compulsory health insurance and refer sick to professional health service providers (Q2 2020–Q2 2021)
  - 2.6.1 Do appropriate impact monitoring and reporting (Q4 2020, Q4 2021)
- 2.2 Inclusive business

**Key Activities with Milestones**

- 2.2.1 Select suitable companies and social enterprises and make inclusive business agreements (Q2–Q3 2020)
- 2.2.2 Transfer funds to the company in installments based on performance progress (Q3–Q4 2020)
- 2.2.3 Do monitoring and external impact assessment (Q4 2020, Q4 2021)

**2.3 Public works**

- 2.3.1 Engage with local governments to prepare public works proposals (Q2 2020–Q3 2020)
- 2.3.2 Get the proposals endorsed by the provincial governments (Q4 2020–Q3 2021)
- 2.3.3 Prepare public works agreements (Q3 2021–Q4 2021)
- 2.3.4 Do impact monitoring (Q4 2020, Q4 2021, Q2 2022)
- 2.3.5 Transfer funds based on performance progress (Q3 2020–Q1 2022)

**2.4 Direct cash**

- 2.4.1 Support the BISP to identify appropriate direct cash beneficiaries (Q4 2019–Q1 2020)
- 2.4.2 Engage business schools to do business coaching (Q4–Q2 2020)
- 2.4.3 Do business coaching for beneficiaries (Q2 2020–Q2 2021)
- 2.4.4 Based on progress in business plan and initial implementation, release cash grants in installments (Q3 2020–Q1 2022)
- 2.4.5 Do impact assessment together with international university (Q3 2020, Q1 2021, Q3 2021, Q1 2022)

**3. Financial management and control systems and policy research improved**

- 3.1 Advertise and recruit financial manager, internal auditor, and policy and research specialist (gender) (Q1 2014–Q4 2014)
- 3.2 Provide training for staff in finance and accounts department (Q2 2014–2015)
- 3.3 Devise, implement, and disseminate research findings of a program of engendered sensitive social research within research framework (Q1 2014–Q2 2022)
- 3.4 Advertise core staff positions for the PRU (Q4 2019)
- 3.5 Recruit core staff for the PRU and set up the PRU (Q1 2020)
- 3.6 Undertake ongoing research for improved social protection and poverty reduction programs (Q2 2020–Q3 2022)

**Project Management Activities**

Recruit procurement consultant to support the BISP's procurement wing for ADB additional financing procurements by Q4 2019

Recruit financial management consultant to support BISP's finance and accounts wing for ADB additional financing by Q1 2020

Set up project performance management system by Q2 2020

Prepare project completion report by Q4 2023

**Inputs**

Asian Bank	Development	Government of Islamic Republic of Pakistan
\$394,537,000 (current) <sup>b</sup>		\$148,300,000 (current)
\$200,000,000 (additional) <sup>c</sup>		\$4,500,000
\$594,537,000 (overall)		\$152,800,000

**Assumptions for Partner Financing**

**Current project:** Not applicable

**Overall project:** Unchanged

ADB = Asian Development Bank; BISP = Benazir Income Support Program; CNIC = computerized national identity card; EFC = error, fraud, and corruption; NADRA = National Database and Regulatory Authority; PRU = policy research unit, Q = quarter.

<sup>a</sup> Government of Pakistan, Planning Commission. 2007. *A Social Protection Strategy to Reach the Poor and the Vulnerable*. Islamabad.

<sup>b</sup> Asian Development Fund (loan).

<sup>c</sup> Ordinary capital resources (regular loan).

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=45233-006-3>

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

### **Supplementary Document**

13. Detailed Sector Assessment: BISP and Pakistan's Social Protection Agenda