



Initial Poverty and Social Analysis

August 2019

Pakistan: Energy Sector Reforms and Financial Sustainability Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 28 August 2019)

Currency unit – Pakistan rupee/s (PRe/PRs)

PRs1.00 = \$0.00636

\$1.00 = PRs157.19

ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
kWh	–	kilowatt-hour
MOE	–	Ministry of Energy
NEPRA	–	National Electric Power Regulatory Authority
PRSP	–	Poverty Reduction Strategy Paper

NOTES

- (i) The fiscal year (FY) of the Government of Pakistan ends on 30 June. “FY” before a calendar year denotes the years in which the fiscal year ends, e.g., FY2018 ends on 30 June 2018.
- (ii) In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Pakistan	Project Title:	Energy Sector Reforms and Financial Sustainability Program
Lending/Financing Modality:	Policy-Based Programmatic Approach	Department/Division:	Central and West Asia Department/ Energy Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS
A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy
<p>The Government of Pakistan's current Poverty Reduction Strategy Paper (PRSP) covers the 3-year PRSP-II period of fiscal years 2009–2011 and provides a framework well beyond this timeframe. The PRSP-II draws upon lessons learned during the implementation of PRSP-I. The poverty reduction strategy is built on nine pillars: (i) improving macroeconomic stability and real sector growth, (ii) protecting the poor and the vulnerable, (iii) increasing productivity and value addition in agriculture, (iv) promoting integrated energy development program, (v) making industry internationally competitive, (vi) supporting human development for the 21st century, (vii) removing infrastructure bottlenecks through public–private partnerships, (viii) enhancing capital and finance for development, and (ix) strengthening governance for a just and fair system. The program directly supports pillars (iv) and (ix) and indirectly supports pillars (i) and (v), while being proactive and vigilant in applying pillar (ii) through social due diligence, public communication, and application of lifeline tariffs and cross-subsidies for vulnerable people. Ensuring energy security and efficiency is among the government's top priorities to tackle the current energy crisis and to supply sufficient energy for domestic and commercial use. Environmental sustainability, a key crosscutting theme, also formed an integral part of the PRSP-II.</p> <p>The program is aligned with the Asian Development Bank (ADB) Strategy 2030: it (i) provides value through finance, knowledge, and partnerships; (ii) is guided by the core principles of country-focused approach and delivering integrated solutions; and (iii) reinforces the operational priority of strengthening governance and institutional capacity. The program also focuses on two of the three pillars of ADB's poverty reduction strategy—pro-poor sustainable economic growth and good governance—and two of the five thematic priorities—capacity development and private sector development. It directly addresses two focal areas in the country partnership strategy (CPS) results framework: (i) sustained growth and poverty reduction through reforms and investments in energy and infrastructure, where key constraints include institutional and regulatory bottlenecks in effective management, and CPS outcomes include improved quality of services of utilities and enhanced access to electricity; and (ii) reforms to strengthen governance, where key constraints include distortions in the agriculture and energy markets, and CPS outcomes include increased market-based adjustment to reduce the distortions in the energy market.</p> <p>Major interventions in the energy sector are designed to achieve economic progress through improved service delivery. The program loan is expected to result in improved quality and reliable delivery of services to customers, particularly benefiting commercial, residential, and agricultural customers in Pakistan. The long hours of load shedding in rural areas, especially unscheduled ones, have had dire impact on employment and productivity. The manufacturing sector has been hardest hit. An estimated 500,000 people have become unemployed or underemployed because of lack of electricity, and the unreliable power supply impedes private sector investment and the development of small and medium-sized enterprises.</p>
B. Poverty Targeting
<input checked="" type="checkbox"/> General intervention <input type="checkbox"/> Individual or household (TI-H) <input type="checkbox"/> Geographic (TI-G) <input type="checkbox"/> Non-income MDGs (TI-M1, M2)
C. Poverty and Social Analysis
<p>1. Key issues and potential beneficiaries.</p> <p>A cumulative increase in affordable power supply, reduction in the current shortfall, and lowered costs together benefit urban and rural consumers; benefit industrial, agricultural, commercial, domestic and/or residential consumers; and potentially may increase employment and benefit the poor.</p> <p>2. Impact channels and expected systemic changes.</p> <p>Rural small and medium-sized enterprises in manufacturing sector employ the largest number of people and are hardest hit because they do not have back-up sources of power. Increased electricity supply can increase employment opportunities and facilitate the re-hiring of personnel who were laid off because of deficient power supply. At the family level, more reliable power may benefit family health, as refrigeration will become more reliable and food and medicines less prone to spoiling during long outages. More reliable power may also benefit education among the poor, with improved access to reliable lighting in poor households.</p> <p>3. Focus of (and resources allocated in) the Project Preparatory Technical Assistance or due diligence.</p> <p>ADB's ongoing technical assistance will review the effects of increased electricity prices on the poor along with the benefits from increased access to electricity.</p> <p>4. Specific analysis for policy-based lending.</p>

During project design, the Ministry of Energy (MOE) will review the analysis for (i) transmission channels of the policy intervention; (ii) short-term (1–3 years) and medium-term (4–10 years) direct and indirect impacts on the poor, vulnerable, and excluded groups; and (iii) other issues. Reduced subsidies that lead to tariffs better aligned to cost recovery may encourage the existing moderate-to-high volume users to use electricity more efficiently. The poor tend to limit their electricity usage to the most essential appliances, and their consumption patterns are low. To avoid a revised tariff structure negatively impacting the poor, the National Electric Power Regulatory Authority (NEPRA) must maintain a basic lifeline tariff so that low-volume users can reap the benefits of a better, more reliable supply without being disadvantaged by higher costs. It is also important to maintain affordable tariffs for the “near poor”—i.e., those people living close to the poverty line who may be pushed into poverty through small increases in cost of essential services. Socioeconomic profiling and determination of willingness-to-pay as part of the project, both in the short and medium term, will help determine appropriate lifeline tariffs to protect the poor and the near-poor. The project will also consider the indirect effects on the poor and vulnerable of institutional tariffs for schools, hospitals, orphanages, and religious places of worship.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? Available, affordable, and sustainable energy supply can greatly benefit women and girls—e.g., by reducing their labor to obtain and use other fuels, enabling income-generating activities in the home, allowing easier study for school or other training, and generally improving their health and quality of life. Women constitute only 24.6% (2016) of the total labor force in Pakistan.^a This percentage is far lower in the energy sector. According to a baseline survey (2018) conducted by the Women in Energy Network of Pakistan, women constitute only about 4% of the total staff of nine power utilities (both public and private, including distribution, transmission, and generation).

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? Yes No

The nature of the project precludes meaningful contributions to promoting gender equity and women's empowerment. However, any discrimination against female-headed households in gaining access to the grid will be investigated during due diligence, as well as the possibility of raising women's awareness on energy efficiency and maximizing its benefits. The following policy actions to be implemented by MOE will possibly increase women's access to energy and employment opportunities in the energy sector: (i) 5-year rural and off-grid electrification plan is prepared; and (ii) the Government of Pakistan has approved a plan to increase women's recruitment in the energy sector including in power utility companies, distribution, transmission, and generation.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No

Systemic reform of the energy sector will impact positively on the population as a whole but will not have a direct gender impact nor widen gender inequality.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity theme) EGM (effective gender mainstreaming) SGE (some gender elements)
 NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The project will mainly affect public sector power companies, regulatory authorities, ministries, independent power producers, and fuel exploration companies. All these stakeholders are being consulted. A sustainable energy sector will potentially benefit urban and rural consumers as well as industrial, agricultural, commercial, and domestic consumers. According to a survey, willingness-to-pay was estimated at PRs21 per kilowatt-hour (kWh). For the poor, alternative sources of lighting such as candles and kerosene lamps will cost more than the lifeline tariffs (0–50 kWh per month consumption), which is PRs5 per kWh, even if increased to the tariff determined by NEPRA, because the rates are cross-subsidized by customers from other categories. The government is considering the effect on the poor of decreased power tariff subsidies, and plans to move towards direct cash. Least-cost planning for power generation and energy production will include consideration of the effect on potentially affected people.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded?

MOE will develop a transition path and public communication program to seek customer understanding of the tariff increase and promote energy conservation. To help implement participatory planning, regulatory reform, and monitoring, MOE will share information and consult with nongovernment organizations and representatives of the poor and vulnerable cross-sections of communities to obtain their views on the proposed tariffs and willingness-to-pay for improved and more reliable services.

<p>3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?</p> <p><input checked="" type="checkbox"/> Information generation and sharing <input checked="" type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>The chambers of commerce and the Independent Power Producers Forum are active organizations for the sector. NEPRA oversees consumer protection and holds public consultations for each tariff determination. ADB will consult consumer protection organizations during program design.</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No.</p> <p>NEPRA will confirm the affordability of tariffs for the poor and vulnerable through socioeconomic and willingness-to-pay surveys.</p>
IV. SOCIAL SAFEGUARDS
<p>A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input checked="" type="checkbox"/> Affordability (H) <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input checked="" type="checkbox"/> Creating political instability (H) <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design?</p> <p>Lifeline tariffs will continue to apply, and the government will monitor the affordability of tariffs for the poor and vulnerable through socioeconomic and willingness-to-pay surveys.</p>
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No.</p> <p>Ongoing poverty and gender assessments are part of the CPS, 2019–2023. The project will not impact any of the safeguard categories and is not expected to generate any other social risks.</p>
<p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the transaction TA or due diligence?</p> <p>Poverty and social analyses are drawn from the ongoing assessments under the CPS.</p>

^a World Bank. [World Development Indicators](#) (accessed 26 May 2017).