

## Pakistan's Bold Covid-19 Income Support: A Portal for Fiscal, Social & Digital Transformation?

Umar Nadeem & Mosharraf Zaidi

- The Ehsaas Emergency Cash (EEC) income support instrument represents a potentially transformational policy adjustment, with long term implications for social protection, fiscal priorities, and citizen-state relations.
- The EEC income support instrument provides the legitimacy for the government to enforce a month-long lockdown to minimize the health costs of Covid-19, and more importantly, most likely reduces the rate of infection and the quantum of fatalities.
- The EEC offers a range of opportunities for public and private actors to apply technologies like big data and analytics, digital payments, and contactless transactions to deepen the engagement of the poorest and most vulnerable with the state and the economy.

With over half a million cases worldwide, and growing, the Covid-19 pandemic has already had a profound impact on the global economy, disrupting normalcy and imposing massive costs, even on the best inoculated economies and societies in the world. In addition to slowing international trade and cross-border transactions, Covid-19 has adversely impacted the livelihoods of billions. Pakistan, already suffering from low growth, fiscal imbalances and an unsustainable period of austerity is likely to be affected more severely than most countries. Governments all around the world are responding with a range of policy instruments designed to address the macro and micro economic impact of Covid-19. A number of fiscal and economic stimuli have been announced around the world, attempting to design and execute policy levers like large monetary concessions, bailouts, grants, subsidies, and deferrals in day-to-day levies.

Among the most central drivers of the economic destruction that the outbreak of Covid-19 will cause is lower demand and reduced consumption. Lower consumption in Pakistan will eat into an already meagre projected GDP growth of under 3%. Covid-19 almost assuredly marks the death of the nearly two year-long programme of austerity that was necessitated by the era of unsustainable monetary policy from 2013 to 2018. The principal question facing Pakistani policymakers now is how should government spending be best allocated? In an economy already devastated by high inflation, low productivity, stagnant wages, and low confidence, key questions about how government can mitigate the microeconomic shocks that will hamper the well-being of individuals, families and communities emerge.

The Government of Pakistan has attempted to answer these questions in a comprehensive relief package for the economic protection and security of the most vulnerable consumer and business groups in the country. A PKR 1.2 trillion (USD 8 billion) Covid-19 relief package was announced by the government on March 24. The relief package, which amounts to over 2% of GDP, is meant to ensure that the preventive measures to contain the Covid-19 pandemic do not plunge Pakistan into a self-perpetuating cycle of fiscal pressure and dependence.

The most noteworthy element of the relief package is the "Ehsaas Emergency Cash" income support instrument for low-income groups to be delivered through the Benazir Income Support Programme (BISP) and the wider Ehsaas programme, reportedly worth at least PKR 144 billion (or approximately USD 870 million). EEC represents a potentially transformational policy adjustment, with long term implications for Pakistan's social protection profile, fiscal priorities, and the citizen-state relationship

at large. The two most important feature of the EEC is its stated client target (twelve million households), and the intended amount of the one-time cash grant (PKR 12,000)<sup>1</sup>.

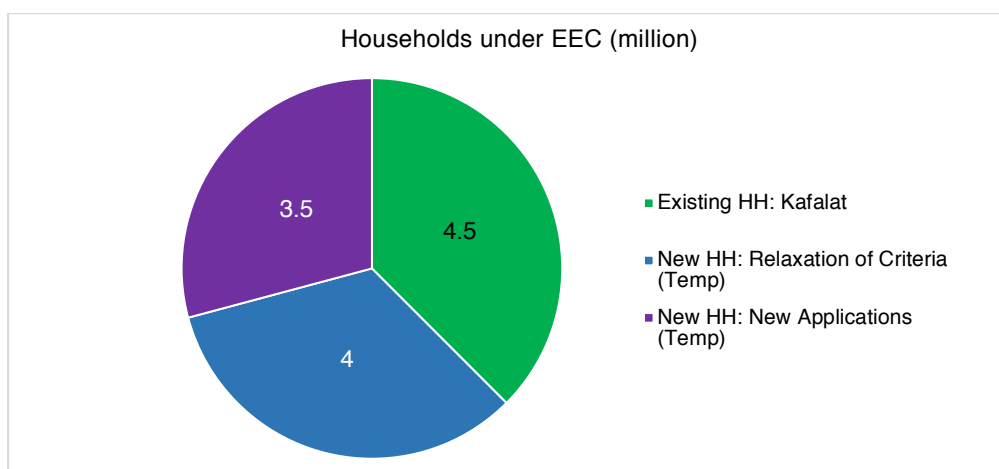
## The significance of 12 million beneficiaries

With a population of approximately 220 million and an average household size of 6.8<sup>ii</sup>, there are approximately 32 million households in the country. An income support instrument that seeks to benefit 12 million households (more than a third of all households in the country), is bold, ambitious and transformational, just in its sheer scale. It merits being celebrated on this account alone.

The 2019 Ehsaas programme strategy—that sought to cohere and consolidate the federal government’s various social protection and welfare programmes under a single umbrella, starting with the flagship BISP—clearly identified the expansion of the social safety net to ten million households as a key objective. Exceeding that goal, even if through an interim measure necessitated by the Covid-19 pandemic and its expected fallout for Pakistan, is a demonstration of continued coherence and commitment to the oft-stated compassion agenda of the current Prime Minister. In this way, BISP and Ehsaas, despite some divisive rhetoric around it, represents one of the key, centrifugal policy forces crafted through the unspoken political consensus that has emerged in the country since 2008-2009. The fact that this consensus emerged around the same time as the global financial crisis that ravaged household incomes and macroeconomic indicators is not accidental. Neither is the reinforcement of the consensus, as a response to the Covid-19 crisis.

The intended 12 million households that the government will provide this EEC grant to can be divided into three categories.

- First, 4.5 million households are already part of the Kafalat programme. This is the original base of the BISP programme, that are part of the National Socioeconomic Registry (NSER) and qualify for the monthly PKR 2,000 grant.
- Second, 4.0 million new households will be added to the original Kafalat list, by relaxing the selection criteria and including more households from the NSER. This is a remarkable single time relaxation, as it will add more than 10% of all Pakistani households in a single stroke.
- Finally, 3.5 million new households will be added to the EEC list of grantees, through an open call for applications using SMS and verifying credentials against the NSER itself, and additional criteria for selection.



This substantive increase in the scale of the safety net has the potential to fundamentally alter the Pakistani social contract. The expanded ambit of social protection coupled with the myriad of interventions planned under Ehsaas, if implemented effectively, can offer a transformational opening

to the state to alter the nature of its relationship with its poorest, least resourceful and most vulnerable citizens.

## The significance of PKR 12,000 in income support

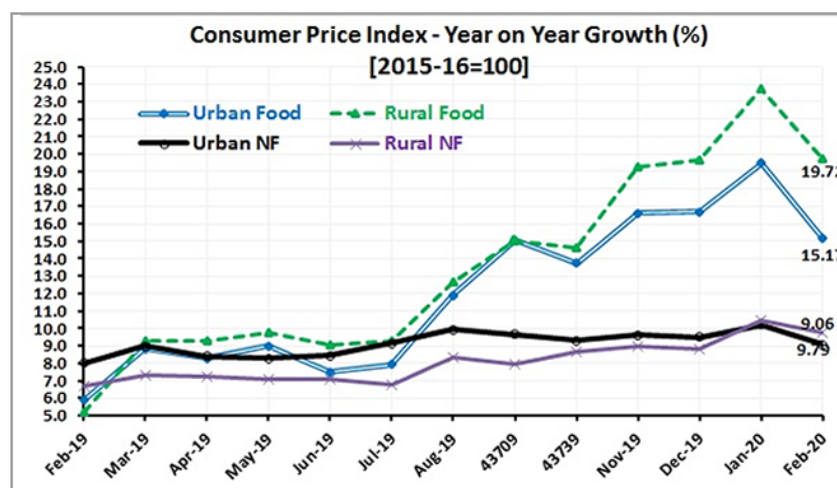
The value of a one-time PKR 12,000 unconditional cash transfer needs to be contextualised to the income and consumption levels of the households the EEC intervention seeks to benefit. It is important to understand who is getting what and how.

The existing 4.5 million households in the Kafalat unconditional cash grant programme currently receive a PKR 2,000 grant, each month, per beneficiary (namely, women heads of households). This monthly stipend has been increased to PKR 3,000 under the EEC. To further improve the value of the intervention, payments for four months are being dispersed upfront to households, in a single payment of PKR 12,000. The relaxation of the inclusion criteria for Kafalat will be applied to 4 million households already on the NSER, but currently not qualified to be included in the regular monthly grant. All 4 million of these additional households will receive a one-time cash grant of PKR 12,000. Finally, the SMS-driven call for applications will help identify an additional 3.5 million households that may currently not be on the NSER, but that exhibit behaviours and consumption that matches the wider definition of being in the bottom two quintiles of household income. They too will receive a one-time grant of PKR 12,000.

The two lowest-income quintiles of Pakistan constitute roughly 5.8 million and 5.2 million households, respectively. This means that the 12 million intended beneficiaries of the EEC grant will primarily be from among these 40% of Pakistani households with some who have been forced into income losses during this pandemic. A basic analysis of the income and expenditure profile of these groups is as follows<sup>iii</sup>:

Quintile	Average Monthly Income (PKR)	Expenditure on Food (PKR)	% of Expenditure on Food
1st (Lowest 20%)	19,742	8,976	48.5%
2nd	23,826	10,449	45.9%

Given the recent spike in inflation, particularly food inflation, and a general shift the country has experienced over the last few years it is important to determine a revised estimate of the food spending by these quintiles.



Source: Pakistan Bureau of Statistics

Based on an average of urban and rural food inflation estimates using base year 2015-16, the adjusted food expenditure by these groups assuming the same allocation as part of overall spend, comes out to be:

Quintile	Average Monthly Income (PKR)	Expenditure on Food 2015-16 (PKR)	Expenditure on Food 2020-Est (PKR)
1 <sup>st</sup> (Lowest 20%)	19,742	8,976	10,542
2 <sup>nd</sup> (Next 40%)	23,826	10,449	12,331

Despite this average food inflation of approximately 18%<sup>iv</sup>, the food expenditure comes out to be pretty close to the allocation announced under the relief programme. The PKR 12,000 will just about suffice to cover the food consumption costs of these groups for an entire month, at a time when the economy will be shrinking and opportunities available to high poverty incidence groups like labour, temporary and contractual workers and odd-job holders (or low-skills, low-wage labour) will dry up. With the recently announced “lockdown” measures exacerbating the impact of the Covid-19 crisis on low-skill and low-wage labour, a one-time cash disbursement will signal a measure of significant relief. One that can absorb the full burden of monthly food consumption.

The EEC income support instrument provides the legitimacy for the government to enforce a month-long lockdown to minimize health costs of Covid-19, and more importantly, most likely reduces the rate of infection and the quantum of fatalities. In short, EEC is a multifarious instrument capable of mitigating the microeconomic impact of this pandemic, whilst also averting the public health risks to the target households and their communities from infection and fatality.

## The Wider Spectrum of Opportunities that EEC Offers

The Covid-19 EEC income support instrument and resulting expansion of the social safety net in Pakistan, offers opportunities for the medium and long-term that need to be assessed, evaluated and operationalized through the experience of deploying the EEC during the month of April 2020 itself.

### Social Protection Continuity

The expansion of the safety net, already part of the Ehsaas vision, can be continued to align with a revised poverty profiling and inclusion of the most deserving households to receive income support continuously. This fast-tracking of developing a comprehensive understanding of what a programme of this scale might eventually entail can help prepare and implement this faster and better with insights from the roll-out during the next few weeks.

### Digital Opportunity - Big Data

4.5 million of the 12 million beneficiaries of the EEC income support are already part of the Benazir Income Support Programme, now merged and re-branded as the Ehsaas Kafalat programme. These beneficiaries have been selected through multiple rounds of beneficiary profiling based on the Poverty Score Card, rigorous internal checks and third-party validations. Inclusion of new beneficiaries (which will be one-off recipients), in a very short period of time, and in the urgency of Covid-19, no matter how robustly planned and executed, is likely to have limitations in terms of the robustness of data, and the institutional capacity to process data, especially given the multiple layers and organizational bureaucracies that the data will pass through.

The short time, massive scale and a push for Digital Pakistan make a timely case for exploring alternative approaches to beneficiary profiling and verification of credentials. NADRA has the capacity and sophistication to run new analyses and cross-reference data from a variety of sources to verify income and credential eligibility. A good starting point may be the recently carried out analysis for the newly formed Naya Pakistan Housing and Development Authority (NAPHDA). The existing NAPHDA database was designed to validate applicants through an extensive exercise for almost two million registrants for affordable housing (Naya Pakistan Housing Programme).

Another opportunity lies in developing proxy economic profiles for the new and existing applicants through the use of telecom data. The four telecom operators have detailed level transactional data of 165 million registered cellular subscribers. This data comprises of a range of network and usage characteristics detailed below along with relevance for beneficiary profiling:

Network / Usage Data	Relevance for Beneficiary Profiling
Handset (make, brand, how often it is changed)	Price of handset as a proxy of income level <sup>v</sup>
Mobility between cell sites (including use of international roaming services)	Traveling patterns and movement between regions
Top-up amount, denomination and frequency	Monthly spend and relationship with income/spending
Use of services e.g. voice, SMS, value-added services, data and relative spend	Basic education/literacy profiling and propensity to spend on services
Branchless banking remittances (inward and outward)	Estimation of receipts and payments to augment income estimation methods

These data points can be easily anonymised and are readily available with mobile network operators and can be used by the Ehsaas programme to further refine and/or augment the primary methods of beneficiary profile assessment given the urgency for a rapid response in these times of panic and worry.

### Digital Opportunity - Processes

The EEC income support instrument aims to trigger the enrolment process for 3.5 million new grantees or beneficiaries using SMS. While SMS is a universal technology and is not device dependent, it is important to account for possible barriers to the use of SMS. Alternative avenues should exist for submitting credentials for enrolment in the programme like a chatbot on WhatsApp or an automated IVR landing number to receive enrolment requests.

A key node in the processing of applications to the EEC via SMS will be the submission of credentials at the Deputy Commissioner’s office. Though the exact details of how the bona fides of applicants will be assessed are still being discussed and agreed, we know that there are significant limits to the use of technology at the sub-national tiers, and that there are varying levels of digital government readiness across provinces and districts. It is inevitable that this leg of the process will involve the processing of documents in paper, and possibly, visits to DC offices, and waiting in queue. Opportunities to streamline this process and eliminate the need for paper handling, travel and physical interaction must be explored and a digital solution to source information through call centers, the use of existing records like Excise & Taxation, and Land Records, Utilities and Cellular databases should be used to try to assess and evaluate the parameters for the processing of cases.

## Digital Opportunity - Payments

The payments are planned to be processed through the already notified banks for the Ehsaas programme – HBL and Bank Al-Falah<sup>vi</sup>. Despite their wide network of branches across Pakistan, their reach is limited. HBL has 1,700<sup>vii</sup> branches while Bank Al-Falah has 700<sup>viii</sup> branches. Their proximity to rural populations and even for urban beneficiaries will require physical movement to visit the branch. The rapid uptake of digital financial services (DFS) in Pakistan has resulted in more than 400,000 enabled and 180,000 active branchless banking agents<sup>ix</sup>. Similarly, the country has more than 46 million m-wallet accounts. The use of this established and underutilized digital financial services channel must be leveraged to avoid unnecessary travel to physical branches and handling of cash to minimize exposure to the novel Coronavirus.

The challenging aspect of closing the loop for this digital equation is to ensure that EEC cash grant beneficiaries are able to spend money the same way they have received it: digitally. The spending part of the income support needs to be transformed and substituted through an integrated, intuitive and universal mechanism for beneficiaries dispersed across urban and rural areas, enabling poor and vulnerable Pakistanis to use digital payments for their everyday expenses. The answer is not simple, especially given the short time to conceive, plan and execute this massive exercise. Some possible solutions to improve the status quo, which currently means beneficiaries having to travel and spend cash at the local corner or *karyana* stores and/or Utility Stores could include:

- A central nationwide deal with one or a group of logistics services firms to be able to accept digital payments from these beneficiaries and deliver key items of need at the doorstep or at clusters within neighbourhoods around the country. This would also require the establishment of Groceries-on-Wheels models that protect drivers and handlers of food items and groceries through adequate protective gear and can deliver and dispense the required orders in neighbourhoods on acceptance of digital payments.
- Rapid and scaled up onboarding of merchants digitally (a process already underway by SBP<sup>x</sup>) to support regions with high concentrations of Ehsaas beneficiaries with the incentive of guaranteed income attributable and linked through the income relief transfers. In short, a market-driven incentives programme that drives entrepreneurial energy and traffic in the direction of low-income, but in high EEC beneficiary neighbourhoods or Union Councils.

The incentives allowed by the State Bank of Pakistan (waiver of charges) to promote digital transactions in these times should be used to the fullest to achieve not just the immediate purpose of disbursements and physical distancing but also to embed and anchor a digital use-case in the slowest adoption segments for leapfrogging the transformation to a “Digital Pakistan” enabled and necessitated through transactions.

## Key Risks to Mitigate During EEC Rollout

### Avoiding Contra-Lockdown at all Costs

The most important aspect of offering and implementing the EEC income support instrument in response to Covid-19, aimed at income/consumption smoothing should be to devise and effectively enforce the conditions for physical and social distancing and curtailing the spread of the pandemic in Pakistan. The rationale for this income support must not only be seen as a standardised, classical cash grant meant to mitigate adverse economic outcomes for households in a crisis. It must also be seen as a tool to further the immediate policy objective: to reduce the speed of the spread of Covid-19 infections and limit the mortality rate that it afflicts on the country. The Government must plan, mitigate and enforce measures that limit the downside of 12 million beneficiaries engaging in activities associated with the income support, such as:

- travel to district offices,
- handle and process papers for documentation,
- travel to and cluster at bank branches,
- queue up at grocery stores and local markets to shop
- any other activities prompted by a bump in income (such as inter-city travel).

### **Availability of Essential Enablers**

As part of the containment measures and lockdown of commercial activities, telecom and branchless banking retailers/agents have also been forced to shut down their business outlets. The extensive outreach offered by this potent channel, far greater than banks, should be guided and managed in this crisis rather than shutting them down. Being connected is as important as food and health supplies. The retailer networks can not only ensure essential services like mobile top-ups and branchless transactions, they can also serve as hubs of essential information dissemination and guidance.

### **Political Support for the EEC**

The EEC instrument has been conceived in the context of a potentially catastrophic global pandemic. It constitutes just over ten percent of the overall relief package of PKR 1.2 trillion. The interest groups that will benefit from 90% of the rest of the relief package all enjoy high levels of government access, power and resources. The 12 million households that will benefit from the EEC do not enjoy such power. The government, cabinet, opposition and mass media must ensure that their voice and interest is not left unrepresented. As the Covid-19 crisis escalates and resources become more and more scarce, the EEC component of the relief package will become more and more vulnerable to re-appropriation. This must be hedged through political support and swift execution.

### **Inclusivity and the Risk of Exclusion**

The profile of those eligible for the EEC includes an array of those low-skill and low-wage workers that hail from the informal sector. These include tailoring assistants, *pakoray walay*, fruit-sellers, motorcycle delivery riders, restaurant workers/waiters, shop attendants, and even small-scale entrepreneurs or staff who live basically on a month-to-month basis and don't have the financial cushion to absorb the disruption that Covid-19 and the resulting "lockdown" will cause. These members of the community may include those who do not have NADRA identity cards, or may be refugees. The total number of Afghans in Pakistan that the government has a record for is roughly 2.5 million. Estimates suggest as many refugees or undocumented individuals from other backgrounds live in various urban centers, especially Karachi. Excluding these groups from the EEC leaves them vulnerable to the risks of impoverishment, and does nothing to limit the risk of their being carriers and spreaders of Covid-19 especially when burdened with the need to find work in these exceptional times. This further deepens the economic underbelly out of an already vulnerable population, especially in the country's largest cities. Criteria for the EEC must therefore, by definition, be more inclusive than what is normally considered robust. How all this can be done whilst catering to the notion of ensuring an absence of fraud, abuse or misuse of the emergency funding, will be essential to EEC success.

### **Moving Forward: Key Considerations**

1. The expanded safety net that EEC will help identify and create needs to be seen as a national resource to be enhanced, improved and sharpened over time. The lowest end of the income levels within these 12 million households deserve and merit consistent support, and an increase

in the scale. But above a certain threshold, the social safety net and social protection instruments deployed by the state need to engage and support the transition of vulnerable households to more productive and self-sufficient economic agents. The full suite of planned interventions under Ehsaas will play a pivotal role in achieving the desired objectives in the short and medium-term.

2. While the immediate-term bridge resources for income support can be sought from the emergency funding from the Asian Development Bank and the World Bank<sup>xi</sup>, a swift recovery in post-pandemic times will have to be fuelled by a well-thought out and aggressive fiscal and economic posture. Part of the fiscal measures that pay for such income redistribution (or social protection) must include luxury taxes that are earmarked and dedicated for this purpose.
3. Containment measures create an opportune context to develop and use digital channels and connectivity for systems and processes that have traditionally relied on legacy methods. Physical presence and paper handling should be transformed to digital environments without compromising inclusion.
4. Synergies between existing, and investment in new systems, should be prioritized to ensure the power of big data in the public sector can be leveraged to the fullest. Recurring data collection exercises should be substituted by robust, granular and exhaustive transactional and system data to enable reliance on swift evidence-based decisions.
5. Any efforts for income and consumption smoothing should not crowd out the caution and preventive stop-gap solution to the Covid-19 pandemic. Use of essential networks of service delivery like telecom and branchless retailers, logistics providers, e-commerce players etc. should be reimagined to optimize the restricted footfall and repurpose these for critical information, ensuring compliance of policy directives to keep Pakistan and Pakistanis safe.

**Mosharraf Zaidi** is a Senior Fellow at Tabadlab. He has over two decades of advisory experience in public policy in complex political environments. He writes a weekly column for The News International, a fortnightly column the Arab News, and hosts the How to Pakistan podcast.

**Umar Nadeem** is a Fellow at Tabadlab. His experience spans engagements with governments, multilateral organizations and corporations in Asia, Europe and Africa with a focus on governance, service delivery, digital transformation and innovation. Umar attended the Lahore University of Management Sciences for his undergraduate studies, and holds a Master of Public Policy from the University of Oxford.

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## Endnotes

<sup>i</sup> Conversation with Dr. Sania Nishtar, Special Assistance to Prime Minister on Poverty Alleviation and Social Safety

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