

V CONCLUSIONS

Pakistan is faced with the twin challenges of reviving growth and reducing poverty. ADB endorses the Government's poverty reduction strategy and ADB's operational strategy for Pakistan will complement the Government's efforts. Improving governance will be the central focus of ADB's operational strategy for Pakistan, and will be supplemented by efforts to encourage pro-poor growth and ensure that development is socially inclusive.

Poverty is high in Pakistan with over a third of the population estimated to be living below the poverty line. The Government's poverty reduction strategy affirms that Pakistan is faced with the twin challenges of reviving growth and reducing poverty. An increase in GDP growth rates will, however, only lead to appreciable reduction in poverty levels if growth is broad-based. To generate employment opportunities on a scale needed for long-term poverty alleviation, it is necessary to create an environment conducive for private economic activity, and encourage domestic and foreign investment. That requires significant improvements in management of public resources, establishment and enforcement of the rule of law, and a move to a less intrusive system of economic regulation.

For the longer term, it is imperative to not only bring about a significant decrease in the incidence of poverty, but also to reduce vulnerability to economic fluctuations, and alleviate the feeling of powerlessness that is the most important intangible that shapes the lives of the poor. Poverty alleviation thus has to be effected not only through macroeconomic policies, but also by bringing about significant improvements in the structure and functioning of systems of governance.

Poor governance is the key underlying cause of poverty, as it not only enhances vulnerability but is the cause of low business confidence which translates into lower investment levels; reduced efficiency in provision of services which has serious implications for human

development; and deterioration in the law and order situation which affects both economic activity and the quality of life.

The Government's ambitious governance reform agenda is at the core of its strategy for reviving growth, reducing poverty, and accelerating social development. In some areas, such as devolution, public expenditure management, anti-corruption initiatives, and the independence of the Central Bank, appreciable progress has been made. In others, such as reform in the tax administration, the justice system, the police, and the civil service, the process, although started, is at a relatively early stage. However, for the success of the proposed development agenda it will be critical to consolidate the reforms in the first category, and accelerate the process in the second.

The Government's development agenda provides a good balance between growth and social development. It is also realistic in recognizing that in the medium-term macroeconomic stabilization must be the priority, and during this period progress in poverty reduction and social development must depend largely on more effective use of existing resources. In addition, its renewed commitment to improve social development indicators is

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apparent in the development targets specified in the Ten Year Perspective Development Plan and the IPRSP. The Government will endeavor to reduce the incidence of poverty to below 15 percent by FY2011. Key human development goals set by the Government for FY2011 include reducing infant mortality from 90 to 30 per 1,000 births, increasing life expectancy from 62 to 69 years, the net primary school enrolment rate from 42 to 100 percent, and the adult literacy rate from 52 to 78 percent, with the target of achieving gender balance in each category. The aim will also be to increase the economic growth to 6.5 percent while bringing down population growth to 1.6 percent.

In general, ADB endorses the Government's poverty reduction strategy and ADB's operational strategy for Pakistan will complement the Government's efforts. However, ADB's operational strategy will be selective in that it will focus on interventions aimed at addressing critical bottlenecks, and promoting growth in sectors or activities that have maximum poverty reduction impact. The key features of ADB's operational strategy for Pakistan will be as follows.

A. GOVERNANCE

Improving governance will be the central theme and the major focus of ADB's poverty reduction strategy for Pakistan. To this end, ADB's support will be channeled through a two-pronged approach: firstly, all ADB assistance envisioned under the CSP in the various sectors, such as supporting capacity building in public policy, enforcing women's and child rights, promoting public private partnerships in provision of social services and revitalizing instruments for social protection, will be developed and implemented in a manner consistent with the overall governance reforms in the country.

Secondly, direct assistance would also be provided to support the Government's

governance reform agenda. Under this framework, ADB will, in the medium term, assist the Government to establish the legal and policy basis for governance reforms, build the capacity of governance institutions with special focus at province and local government levels, and promote efficient, equitable and accountable use of available resources. A major focus of ADB's governance support will be in the area of provincial and district judicial and police reforms. Furthermore, since implementation of governance reforms depends on the creation of a broad-based constituency of support, and consensus building among key stakeholders such as the Government, civil society and the private sector, ADB will encourage the creation of such coalitions, particularly in the context of devolution.

ADB shall also extend support to the process of decentralization and the implementation of the Devolution Plan to ensure that social development in Pakistan is equitable, and inclusive of all sections of society, particularly the marginalized and disadvantaged. Thus ADB will support the improvement of provincial public resource management capacity, including participatory strategic planning for better allocative efficiency of human development investments; the establishment of decentralized financing, planning and delivery of selected social services (health, education and welfare); the improvement of the quality of primary education; and the improvement of municipal services with particular focus on services for the poor.

ADB will also support improvements in corporate governance and restructuring of state owned enterprises with the objective to assist in reducing Government's financial liabilities and creating an enabling environment for private sector participation and investment. A particular focus in this regard will be to promote a dynamic financial sector for market-based and efficient provision of financial services.

Improved performance of the legal system as a result of ongoing ADB assistance to the judicial and police reform program will also provide an impetus to the private sector, and in particular, to foreign direct investment and the growth of SMEs. These governance interventions will support a range of reforms that have important implications for relations between the State and civil society institutions.

B. PRO-POOR GROWTH

The poverty assessment also shows that sustained economic growth is critical for poverty reduction, and there are strong linkages between pro-poor growth on the one hand, and human development, good governance, and cross-cutting concerns such as private sector development and regional cooperation on the other. In this regard, under its pro-poor economic growth strategy, ADB will focus its interventions in the following key areas.

Structural Reforms

Macroeconomic stability is important for poverty reduction and sustainable, high growth. IMF has taken the lead in supporting macroeconomic policy reforms, while ADB has complemented the reform efforts by supporting restructuring and privatization of loss-making public utilities in the power sector, reform of the trade regime and export finance, and improvement of public debt management capacity. ADB will support the development of indigenous energy sources such as natural gas through deregulation, privatization, and creation of an environment to attract private foreign investment. In addition, ADB will assist the provincial governments to improve public resource management, and local governments to enhance their own-source revenue base, and effectively use resources to deliver basic public services to the poor.

Rural Development

Seventy-five percent of Pakistan's poor live in rural areas, a large proportion of whom are pushed into poverty because of the volatility of income. ADB will support higher growth and greater stability of income and employment in rural areas by focusing on (i) getting the policy and institutional framework right; (ii) increasing agriculture productivity and diversification by moving to market-based agricultural prices, strengthening research and extension services, and expanding the role of the private sector in storage and agriculture support services; (iii) increasing nonfarm employment opportunities by developing agribusiness for exports and rural SMEs; (iv) promoting rural-urban linkages by improving communications, particularly rural roads; (v) expanding rural economic infrastructure, especially for irrigation, drainage, and water resource conservation and management; (vi) promoting financial intermediation, mobilizing savings, and enhancing access to credit in the rural areas; and (vii) investing in infrastructure in areas where incidence of poverty is high, and where the lack of infrastructure is a critical barrier to development.

Employment Generation

Employment generation is critical for poverty reduction, and it will be an important area of support in ADB's operational strategy. SMEs are highly labor intensive and provide employment to the bulk of Pakistan's nonagriculture workforce. SMEs in the manufacturing sector also account for a significant share of manufactured exports. SMEs suffer from lack of access to credit, excessive government regulations, an arbitrary and exploitative tax administration system, a weak technological base, and lack of business support services. ADB will

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promote SME growth by supporting policy and regulatory reforms, as well as development of supporting institutions, infrastructure, adoption of new technology, and enhancing access to credit and business support services.

Alleviating Infrastructure Constraints

Inadequate infrastructure continues to hamper economic growth. ADB will selectively focus on the energy and transport sectors, but to ensure that sector governance issues are fully addressed it will move away from project loans to sector development project loans with both investment and policy components aimed at addressing issues such as corporate governance, institutional capacity, cost recovery, adequate operation and maintenance, and public-private partnerships.

C. INCLUSIVE SOCIAL DEVELOPMENT

The poverty assessment also shows that a key factor in Pakistan's poor growth performance in the 1990s was its low level of human development. Although it is true that Pakistan has historically under-invested in the social sectors, the experience of programs such as SAP shows that accelerating human development is as much an issue of increasing expenditure on social sectors as of improving the effectiveness of spending through better governance.

The Government's devolution plan can be instrumental in improving quality and access to education, health, and other public services. ADB strategy will assist the Government in making devolution a success. In addition, ADB will concentrate on improving provincial resource management capacity for better allocative efficiency of human development investments; establishing decentralized financing, planning, and delivery of selected social services (health and population, and education); financing

incremental services (new teachers, textbooks, medicines, etc.) small scale civil works (building or repairing boundary walls or toilet facilities in girls schools for example) targeted at making existing social sector facilities operational, or improving their utilization; improving quality of primary education by supporting changes in governance structures, institutions and incentives; promoting public-private/civil society partnerships in the context of devolving service responsibilities to local governments; and improving municipal services in the context of devolving of municipal functions to local governments, with particular focus on services for the poor.

For social development to be truly inclusive it must provide protection to the most vulnerable groups, particularly women, children and the indigent. ADB's development strategy will target projects for women, and encourage gender mainstreaming across all projects, in addition to promoting policy and institutional reforms for awareness and enforcement of women's rights and representation in all aspects of economic and social development.

D. CROSS CUTTING CONCERNS

In addition to the three key areas detailed above, ADB's operational strategy for Pakistan will be formulated to take into account some important cross-cutting issues as follows.

Sustainable Environmental Management

ADB's environmental program is also going to expand in the medium term, with increased emphasis on environmental management on the part of industry and promotion of renewables. ADB will support the Government's strategy of mainstreaming environmental issues, and incorporating such concerns into all project

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interventions. Building capacity within the Government to effectively monitor infringements of environmental regulations is crucial, and supporting initiatives such as the development of the self-monitoring and reporting tool for reporting industrial emissions to the environmental protection agencies. With decentralization of administration to the district level under the revised administrative arrangements, environmental management is also being decentralized to the district levels and ADB will support the necessary capacity building measures. Finally, ADB will explore the possibility of using special funds at its disposal to support nature conservation and biodiversity in national parks and other protected areas.

Sub-Regional Cooperation

Given its strategic location and complementarity in resources and markets

to its neighbors, Pakistan has substantial potential to gain from sub-regional cooperation. ADB will work with the Government to develop regional transportation networks and infrastructure for regional gas transmission and distribution systems.

Overall, ADB will work closely with the Government, the private sector, and civil society institutions to bring about structural changes in Pakistan's economy, and pave the way for sustainable, long-term development. In the near-term, ADB looks forward to working on programs that improve governance, enhance economic growth and reduce poverty. The road ahead remains challenging, but success requires that the Government stay the course of reforms, and ADB will support the Government in this endeavor by continuing to provide assistance for implementation of Pakistan's poverty reduction strategy.

In the near-term, ADB looks forward to working on programs that improve governance, enhance economic growth and reduce poverty.