

EXECUTIVE SUMMARY

More than 12 million people were added to the poor in Pakistan between 1993 and 1999. The rising poverty was the result of poor governance and slow economic growth. The government has adopted a comprehensive poverty reduction strategy to address this issue and ADB's operational strategy for Pakistan will complement the Government's efforts in this regard.

POVERTY PROFILE

It is generally accepted that the declining trend in poverty in Pakistan during the 1970s and 1980s was reversed in the 1990s. The incidence of poverty increased from 26.6 percent in FY1993 to 32.2 percent in FY1999 and the number of poor increased by over 12 million people during this period. Since FY1999, economic growth has slowed further, development spending has continued to decline, and the country has experienced a severe drought. It is therefore highly likely that the incidence of poverty in Pakistan today is significantly higher than in FY1999.

Poverty in Pakistan has historically been higher in rural than urban areas. Poverty rose more sharply in the rural areas in the 1990s, and in FY1999 the incidence

of rural poverty (36.3 percent) was significantly higher than urban poverty (22.6 percent). Inequality also increased in Pakistan during the 1990s, in both urban and rural areas, which enhanced the negative impact on poverty of the slowdown in growth during this period. While agriculture is the predominant activity in rural society, a substantial proportion of the rural labor force, estimated at more than 40 percent, depends entirely on non-farm activities. The growth of non-farm activities appears to have been severely affected by low economic growth, decline in public sector development spending, and lower worker remittances during the 1990s.

In line with the national picture, poverty in the provinces (apart from Balochistan for which the poverty estimates were considered to have

been affected by sample selection issues) also registered an increase between FY1993 and FY1999. In this period, the incidence of poverty in the Punjab increased from 25.2 percent to 33.0 percent; in Sindh from 24.1 percent to 26.6 percent; and in North West Frontier Province (NWFP) from 35.5 percent to 42.6 percent.

There is very limited documentation on the gender dimensions of poverty; however, it is clear that the gender discriminatory practices prevalent in Pakistani society shape men's and women's choices and life opportunities differently. Women suffer from poverty of opportunities throughout their life cycle. In particular, women's access in the labor market in Pakistan is determined by rigid gender role ideologies, social and cultural restriction on women's mobility and integration in the work place, segmented labor market and employers gender biases that attach a lower value to female labor due to their family responsibilities. Female labor force participation rates in Pakistan are exceptionally low at just 13.7 percent, compared to 70.4 percent for men. In addition, the majority of women in the formal sector of the economy are concentrated in the secondary sector of the segmented labor market,

Poor governance is the key underlying cause of poverty in Pakistan.

where jobs are low paid and there are limited opportunities for upward mobility.

The identification of vulnerable elements within the poor has also received little attention in earlier poverty assessments in Pakistan. Vulnerability may be economic or social with the former being defined as the ex-ante risk of falling below the poverty line and the latter being understood as the constraints that the poor face in managing their assets, whether human, material, social or political. While estimating income or consumption related vulnerability is a complex task, in general vulnerability is likely to be high in households clustered around the poverty line. Similarly, with regard to social vulnerability, the capacity of the poor in Pakistan to access public entitlements like political processes or goods and services which determine human development contrasts strikingly with that of the rich.

There are a number of attributes, besides location, which characterize the poor in Pakistan. Education is the most important factor that distinguishes the poor from the non-poor, for example the proportion of literate household heads in poor households was almost half that in non-poor households. Second, poor households on average had 75 percent more children than the non-poor households. Most of these children are not receiving any education, and thus the cycle of poverty is perpetuated. Third, more than one third of the poor households were headed by aged persons who were dependent on transfer incomes, such as pensions and other forms of social support. Fourth, the poor had few physical assets, and according to one study, if a rural household possesses physical assets (land/livestock) the probability of it being poor declines by 55 percent. Fifth, the poor rely disproportionately on informal sector employment. The incidence of poverty is the highest among household heads with occupations such as day labour in agriculture, construction, trade and

transport sectors. Incidence of poverty is also high among self-employed, which includes street vendors in urban areas, and sharecroppers in rural areas.

Gender discrimination is another key attribute that characterizes the poor. Incidence of poverty among women in Pakistan is higher compared with men, and is characterized by low endowment of land and productive assets, unemployment, discrimination in the labor market, and limited access to economic options and political processes. The poor are also characterized by their vulnerability to environmental degradation and deterioration of the natural resource base, given that they tend to be strongly dependent on the exploitation of such resources.

CAUSES OF POVERTY

A number of factors explain the existence of and increase in poverty in the last decade. However, poor governance is the key underlying cause of poverty in Pakistan. Poor governance has not only enhanced vulnerability, but is the prime cause of low business confidence, which in turn translates into lower investment levels and growth. Governance problems have also resulted in inefficiency in provision of social services, which has had serious implications for human development in the country. The lack of public confidence in state institutions, including the police and judiciary, have eroded their legitimacy and directly contributed to worsening conditions of public security and law and order during the 1990s.

With regard to economic factors, decline in the Gross Domestic Product (GDP) growth rate is the immediate cause of the increase in poverty over the last decade. In the 1990s, growth declined in all sectors and was slower than average in labor-intensive sectors. However, the causes of the slowdown in growth may be divided into two categories, i.e. structural and others,

with the former being more long-term pervasive issues, which have persisted because of deteriorating governance. Among the structural causes, the burgeoning debt burden and declining competitiveness of the Pakistan economy in the increasingly skill-based global economy are the most important. While the former occurred due to economic mismanagement, the latter was because of Pakistan's low level of human development.

With regard to the debt burden, increasing debt service requirements resulted in a growing fiscal squeeze, which in turn led to a declining proportion of GDP being spent on development and social sectors in the 1990s. Falling public investment, together with unsuccessful attempts at macroeconomic stabilization also adversely affected private investment. At the same time, reduction in tariffs, exhaustion of simple import substitution opportunities, and elimination of export subsidies in the 1990s meant that international competitiveness became an increasingly important determinant of investment opportunities in Pakistan. Because of the low level of human development, excessive government intervention and poor state of physical infrastructure, areas of the economy where Pakistan was competitive were not many. As a result, total fixed investment declined significantly, bringing about a fall in the economic growth rate. The effects of poor governance, furthermore, served to reinforce the adverse impact of structural factors.

The existence of pervasive poverty, wherein a significant proportion of the population remains poor over an extended period of time is strongly linked with the structure of society. Cultivated land is highly unequally distributed in Pakistan. About 47 percent of the farms are smaller than 2 hectares, accounting for only 12 percent of the total cultivated area. Access

to land, which is the basic factor of production, is crucial to reduce poverty in rural areas. Pervasive inequality in land ownership intensifies the degree of vulnerability of the poorest sections of rural society, because the effects of an unequal land distribution are not limited to control over assets. The structure of rural society, in areas where land ownership is highly unequal, tends to be strongly hierarchical, with large landowners or tribal chiefs exercising considerable control over the decisions, personal and otherwise, of people living in the area under their influence, as well as over their access to social infrastructure facilities.

Environmental degradation is also a cause of poverty in Pakistan. The environment-poverty nexus manifests itself most particularly in health effects. For example, waterborne diseases are widespread because 17 percent of the urban and 47 percent of the rural population does not have access to clean drinking water. The poor also tend to be more vulnerable to the effects of air and water pollution, both in rural and urban areas, given their limited access to quality health care. The prevalence of disease exacerbates poverty firstly by compelling the poor to devote ever increasing proportions of their limited income to health costs, and secondly by reducing productivity.

RESPONSES TO POVERTY

There is no general or universal social protection system in Pakistan. However, a number of initiatives aimed at helping the poor by improving governance and functioning of public sector institutions; creating assets, employment, and income-generation opportunities; revamping social safety net systems; and improving access to basic services are being implemented by the Government, and also by Non Governmental Organizations (NGOs) and the private sector.

Under the Devolution Plan, the delivery of services in the social and other poverty-focused sectors has been decentralized, with the elected local governments given the mandate and responsibility to manage and run these services.

Foremost among the Government's governance related reforms is the introduction of the Devolution Plan under which local governments were elected at the district, tehsil, and union levels in all the four provinces in August 2001. Under the Devolution Plan, the delivery of services in the social and other poverty-focused sectors has been decentralized, with the elected local governments given the mandate and responsibility to manage and run these services. It is expected that this would result in significant improvement in the system of delivery of public services by making it more responsive and accountable to the local people. The Government is also in the process of introducing important reforms to improve the functioning of judicial institutions to enhance equitable access of the citizenry to justice. Civil service reforms in several key areas are also underway.

The Government has, over the years, undertaken several public works programs to create assets and employment opportunities for poor people. The most recent such program, Khushhal Pakistan Program (KPP), is an integrated small public works program. The program finances public works whose cost ranges from Rs 0.05 million to Rs 5.00 million per scheme in rural areas and Rs 0.05 million to Rs 8.00 million per scheme in urban areas. Rs. 8.50 billion was spent under the Program in the first eight months of FY2002.

Although microfinance in the country has historically been provided by NGOs, the government has, more recently, started playing a direct role in providing microfinance services, through institutions like the Pakistan Poverty Alleviation Fund (PPAF) and the Khushhali Bank, a microcredit bank established in 2000 with

ADB support. The Khushhali Bank provides individual and group loans to poor communities in the range of Rs 3,000 to Rs 30,000 without any collateral.

Among the social safety net systems run by the Government, Zakat a donation to charity obligatory for Muslims is the main one. In FY2001, Zakat collection was estimated to be Rs 5 billion, with the number of total Zakat beneficiaries estimated at 2.5 million. In 2001, the Zakat system was revamped to focus on rehabilitation rather than relief, with Zakat funds assisting in the establishment of small scale commercial activities, or trades. The Zakat fund comprising of savings from Zakat proceeds, which is used primarily to disburse grants for rehabilitation, has risen to Rs 24 billion in 2001. The public sector also runs other pension and social security schemes. These include the Employees Social Security Scheme, Workers Welfare Fund Scheme, and schemes run by the Employees Old Age Benefits Institution (EOBI). In addition, permanently employed government servants of the federal or the provincial governments receive pensions and other benefits under the laws of their respective governments.

A comprehensive program to improve and strengthen delivery of basic social services was initiated by the government in 1992 in the form of the Social Action Program (SAP)¹. SAP focused on four major areas: elementary education (primary and middle schooling), primary health care, drinking water supply and rural sanitation and population welfare. The impact of the first phase of SAP was mixed, with some improvement in health indicators but no appreciable development in primary education. The second phase of the project also had disappointing results and it became

The impact of the first phase of SAP was mixed, with some improvement in health indicators but no appreciable development in primary education. The second phase of the project also had disappointing results.

1. SAP was the name given to the larger program of the Government of Pakistan whereas the Social Action Program Project (SAPP) is a subset of SAP, which is funded by donors.

clear that the project would have to be redesigned to ensure consistency with the proposed Devolution Plan. The SAP experience highlighted the need to have a strong system of governance, including improved financial controls, decentralizing control of services to district and community level and improved incentive for service providers. The Devolution Plan announced in March 2000 aims to replace the existing highly centralized and control oriented government with a three tiered local government system that institutes "people-centered, rights and responsibility-based, and service oriented" government structures. The bulk of basic 'poverty focused' services, like health and education, have been devolved to district and lower local governments under the Plan.

In November 2001, the Government finalized its Interim Poverty Reduction Strategy Paper (IPRSP) which covers the period from FY2002 to FY2004 and identifies five major areas of interventions for poverty reduction in the country. These include the revival of economic growth, creation of income and employment opportunities, improvement of human development, the introduction of a relief program to reduce vulnerability, and improvements in governance. The Strategy is a comprehensive one, but its implementation will depend on the provision of adequate financial resources for public sector interventions in the key areas identified.

In addition to the public sector, NGOs and Community Based Organizations (CBOs) are working throughout Pakistan in a wide range of poverty reduction activities. Some NGOs are purely welfare oriented, and were formed primarily as charitable organizations. Many are involved in broader poverty reduction efforts including strategies to improve income-generation opportunities, savings and credit initiatives and social development. Some NGOs are

involved in skill development, while others are more concerned with advocacy and are issues-based. Most NGOs are engaged in direct service delivery as well as facilitating service delivery through linkages with Government line agencies.

Amongst the more prominent NGOs are the ones implementing microfinance programs, either as the main activity or as components of integrated rural development programs. A number of NGOs are also implementing integrated rural development programs in different parts of the country. Most of these have adopted a participatory approach and work closely with rural communities.

The private sector has also started to play an increasing role in the delivery of social sector services, particularly health and education. Based on 1998-99 Pakistan Integrated Household Survey (PIHS) data, 25 percent of Pakistani children attending primary level schools are attending private for-profit schools, the proportion is 47 percent for urban areas, and 14 percent for rural areas. Similarly, the private sector accounts for almost two-thirds of all health expenditure, although it provides curative services mainly in urban areas.

This growing role of the civil society and private sector offers opportunities for public-private partnerships in several areas that could facilitate and enhance the quality and outreach of development services in the country, and at the same time, allow the public sector to focus its attention and resources more narrowly to selected priority sectors. To this end, civil society and the private sector could be encouraged and assisted to provide services on a larger scale in the areas of social capital creation, small-scale infrastructure development, microfinance provision, and delivery of social sector services. Civil society could also play an important role in the devolution process through linking communities to the

In November 2001, the Government finalized its Interim Poverty Reduction Strategy Paper (IPRSP) which covers the period from FY2002 to FY2004 and identifies five major areas of interventions for poverty reduction in the country.

district, tehsil, and union council level government tiers to enable them to better access locally provided public services. The public sector could help strengthen the role of civil society organizations through fostering an enabling policy framework and giving them more space to grow and contribute to the development mainstream.

Improving governance is the central theme and the major focus of ADB's poverty reduction strategy for Pakistan. To this end, ADB will 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.

In addition, the poverty assessment 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 firstly support structural reforms in key sectors through promoting deregulation, privatization, and the creation of an enabling environment for private sector foreign investments. Secondly, recognizing that 75 percent of the poor in Pakistan live in rural areas, ADB will continue to support rural development initiatives through focusing on improving the institutional framework for rural development, increasing agricultural productivity, promoting non-farm employment opportunities, improving communications and rural infrastructure, and promoting rural financial intermediation. Thirdly, ADB will focus on promoting employment generation through

the Small and Medium Enterprise (SME) sector development by assisting in carrying out policy reforms in this sector and the development of supporting institutions. Finally, to assist in removal of infrastructure constraints impeding economic development in the country, ADB will focus on supporting policy reforms and investments in the energy and transport sectors, and will help address issues such as corporate governance, institutional capacity, and adequate operations and maintenance in these sectors.

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. Experience in Pakistan 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. ADB's strategy will thus be focused on making the Government's devolution plan a success, and the Bank will work towards capacity building at the local level to strengthen social service delivery mechanisms, in addition to financing incremental services and small-scale civil works targeted at making existing facilities operational, or improving their utilization. Furthermore, ADB's development strategy shall target the most vulnerable groups, particularly women, children and the indigent.

ADB endorses the government's poverty reduction strategy, and ADB's development strategy for Pakistan complements the Government's efforts in this regard. The road ahead remains challenging, but success requires that the Government stay the course of reforms, and ADB support the Government in this endeavor by continuing to provide assistance for implementation of Pakistan's poverty reduction strategy.