

Working Paper No. 4

**Targeting Efficiency of  
Poverty Reduction Programs  
in Pakistan**

G. M. Arif

Asian Development Bank

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## Foreword

Poverty reduction is the overarching goal of the Asian Development Bank (ADB). ADB has supported poverty reduction efforts in Pakistan through enhanced levels of assistance and targeted projects. ADB's Country Strategy and Program for Pakistan (2002–2006) aims to promote sustainable pro-poor growth, inclusive social development, good governance, and targeting of the poor and vulnerable. Under the Country Strategy and Program for 2002–2006, assistance to Pakistan has averaged over \$1.2 billion a year over the last 3 years. In comparison, average annual lending between 1990 and 2000 was just over \$500 million per year. The increased lending specifically focuses on supporting poverty reduction projects and improvements in governance.

A number of targeted programs and interventions have been initiated in Pakistan to transfer benefits directly to the poor. This working paper examines the targeting efficiency of three large poverty reduction programs: *zakat*, microfinance, and the Lady Health Workers Programme. The paper was first presented at the Asian Development Bank Institute (ADBI) and Pakistan Resident Mission (PRM) seminar held in Islamabad in August 2004. The paper should be viewed as part of an effort to increase an understanding of the effectiveness of programs and interventions targeting the poor in Pakistan.

Given the importance of the topic, ADB feels that it would be useful to circulate the paper among a wider audience. We hope that this publication will not only contribute to the debate on a key issue of Pakistan's development, but also prove valuable to our development partners, as well as to a wide range of stakeholders who are interested in poverty reduction issues in general.

Kunio Senga  
Director General  
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## Preface

The Asian Development Bank (ADB) is committed to supporting poverty reduction efforts in its developing member countries. Under its Country Strategy and Program for Pakistan for 2002–2006, poverty reduction is the overarching goal of ADB's development assistance to Pakistan. In the past, ADB has supported poverty reduction efforts through enhanced levels of assistance and targeted investment projects with the objective of generating employment. Over the last 3 years, assistance has averaged about \$1.2 billion a year with a record lending assistance of \$1.5 billion in 2005. Assistance has focused specifically on supporting poverty reduction through interventions in the areas of good governance, sustained pro-poor growth, and inclusive social development. ADB is working with the Government of Pakistan to ensure that the benefits of increased growth and a stronger macroeconomic framework reach the country's poor, resulting in sustained poverty reduction and improvement in livelihoods.

The Pakistan Resident Mission (PRM) launched its Working Paper Series in 2002 to document its active research agenda on poverty and economic and social development issues. Improving the targeting efficiency of poverty reduction programs is of particular interest to ADB. Within this context, the fourth paper in the PRM Working Paper Series examines three large programs: *zakat*, microfinance, and the Lady Health Workers Programme. The paper's findings and conclusions highlight the access and outreach of these programs in terms of benefit to target groups.

This paper was written by Dr. G. M. Arif, Poverty Reduction Specialist, PRM, and contributes to the ongoing debate on improving the efficiency of poverty reduction programs in Pakistan. The study benefited from comments from Dr. John Weiss, Director Research, Asian Development Bank Institute (ADBI), Tokyo; Dr. Emma Hooper, Poverty and Macro Economic Specialist, PRM; Dr. Najam-us-Saqib, Senior Research Economist, Pakistan Institute of Development Economics (PIDE); and Dr. Heather Montgomery, former Research Fellow, ADBI, Tokyo. The paper was edited and prepared for publication by Maheen Pracha, and the cover designed by Cecilia Caparas at ADB Headquarters in Manila.

Peter L. Fedon  
Country Director  
ADB Pakistan Resident Mission

## Abbreviations

ADB	—	Asian Development Bank
ADBI	—	Asian Development Bank Institute
CO	—	community organization
CRPRID	—	Centre for Research on Poverty Reduction and Income Distribution
EOBI	—	Employees Old Age Benefit Institution
ESSI	—	Employees Social Security Institution
FY	—	fiscal year
GDP	—	gross domestic product
LHW	—	lady health worker
LHWP	—	Lady Health Workers Programme
LZC	—	local zakat committee
MCO	—	male community organization
NGO	—	nongovernment organization
NRSP	—	National Rural Support Programme
OPM	—	Oxford Policy Management
PIDE	—	Pakistan Institute of Development Economics
PIEDAR	—	Pakistan Institute for Environment Development Action Research
PPAF	—	Pakistan Poverty Alleviation Fund
PRM	—	Pakistan Resident Mission
PRSP	—	Poverty Reduction Strategy Paper
PSES	—	Pakistan Socio-economic Survey
RSP	—	rural support program
SAP	—	Social Action Programme
SPDC	—	Social Policy Development Centre
SRSO	—	Sindh Rural Support Organization
UNDP	—	United Nations Development Programme

## NOTES

	Currency Equivalents (as of 1 May 2006)	
Currency Unit	—	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.0167
\$1.00	=	PRs60.03

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. For example, FY2002 begins on 1 July 2001 and ends on 30 June 2002. All year figures without the prefix FY refer to calendar years, unless otherwise stated.

In this paper, "\$" refers to US dollars.

The analysis in this paper is up-to-date until June 2004 when the study was completed.

## GLOSSARY

<i>aata</i>	wheat-flour
<i>barani</i>	rain-fed, normally with reference to agriculture
<i>deeni madrassah</i>	religious educational institution
<i>deh</i>	village
<i>kachha</i>	construction in material other than burned brick in cement, mortar, or concrete
<i>kachhi abadi</i>	slum
<i>mauza</i>	smallest administrative unit in a rural area
<i>mustahiqeen</i>	literally, deserving recipients; in this context, beneficiaries of <i>zakat</i>
<i>pucca</i>	solid or permanent construction, using bricks and cement
<i>sadqat</i>	charitable donations (other than <i>zakat</i> )
<i>zakat</i>	charitable donations

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## Summary

This paper examines the targeting efficiency of three large, nationally implemented poverty reduction programs: (i) the disbursement of *zakat* (charitable donations), (ii) microfinance, and (iii) the provision of health services through the Lady Health Workers Programme (LHWP). Both *zakat* and microfinance are “narrow-target” programs, incorporating mechanisms to identify the poor, while the LHWP is classified as a “broad-target” program. This paper evaluates the targeting efficiency of *zakat* disbursed through public and private sources, by using data from the Pakistan Socio-economic Survey (PSES) for 2000/01.

### Poverty in Pakistan

A review of the recent literature on poverty trends shows that 1987/88 proved a turning point for trends in poverty: declining trends in poverty reversed. Despite some differences in poverty estimates across the studies reviewed in this paper, the percentage of the population living below the poverty line was much higher at the beginning of the new millennium than it had been in the late 1980s. Irrespective of the precise headcount ratios and methodological differences, most studies agree on the upward trends in poverty witnessed in the 1990s. Income distribution, too, has worsened in the last decade. Historically, poverty in Pakistan has been higher in rural areas than in urban, with relatively high poverty levels in Sindh and southern Punjab.

*1987/88 proved a turning point for trends in poverty: declining trends in poverty reversed.*

### Public Spending and Poverty Targeting

A large number of programs and schemes developed to enhance people's well being, as well as provision of basic facilities, have been introduced in Pakistan over the last 5 decades. However, almost all these programs have the following two features in common: (i) inability to achieve financial targets, with governments cutting down development expenditure in periods of fiscal adjustment without assessing the cost-benefit of such an action; and (ii) public perception that no real qualitative change in standards of living, particularly in rural areas, has occurred as a result.

During the last 3 years, pro-poor expenditure has risen sharply, from 3.8% of gross domestic product (GDP) in the fiscal year (FY) 2002 to 4.3% in FY2003 and 4.7% in FY2004. However, pro-poor sectors for these expenditures have not been identified on the basis of any objective assessment of how benefits might be channeled to the poor. It is likely that the uptake of many services provided under these sectors is relatively lower for the poor.

## The Zakat System

*There are serious concerns for the sustainability of zakat programs.*

Zakat collection at source (through banks) increased from PRs844 million in 1980/81 to PRs4,309 million in 1999/2000, and then declined to PRs3,770 million in 2002/03. The disbursement of zakat declined by 33% to PRs5.3 billion in 2003/04 compared with more than PRs8.0 billion in zakat funds disbursed in 2002/03. This high level of zakat funding in 2002/03 was possible because of the buildup of fund reserves in previous years. This implies serious concerns for the sustainability of zakat programs at their present level; once current reserves are exhausted, zakat funding in the future is likely to decline further.

An analysis of the 2000/01 PSES data shows that, in total, 4.1% of sample households received zakat from both public and private sources: 2.2% from a public source, 1.3% from private sources, and 0.6% from both. Thus, zakat disbursed by local zakat committees (LZCs) in 2000/01 reached approximately 3.0% of households (accounting for the 2.2% from a public source and 0.6% from both sources).

The official data show that, in 2000/01, public zakat was disbursed to 1.10 million *mustahiqeen* (literally, deserving recipients), while 0.72 million benefited under the Guzara (literally, subsistence) Allowance scheme. Mustahiqeen receive regular zakat under this allowance, and the data collected through the PSES and similar surveys are likely to refer primarily to zakat disbursed by the LZCs under the head of the Guzara Allowance. This paper's estimates, based on the PSES data, show that approximately 0.60 million households received public zakat in 2000/01. This number closely matches that of official recipients of zakat under the Guzara Allowance in that year.

The coverage of public zakat is, however, far smaller than the eligible population merits. In 2000/01, approximately one third of total households were below the poverty line, implying that some 7.0 million households were eligible for zakat. Even if all public zakat funds were disbursed only among these poor households and there was no leakage to nonpoor households, the coverage remains abysmally low—hardly one tenth of the needy population.

According to the 2000/01 PSES, in addition to 2.8% of total sample households who actually received zakat, 2.7% applied for public zakat but received none. This suggests that by doubling the number of zakat beneficiaries (as well as resources), the neediest families could be covered.

Approximately 90% of public zakat beneficiaries were located in rural areas, whereas in the case of private zakat, about three quarters of its beneficiaries were from rural areas. About 80% of households who applied for public zakat were also located in rural areas. Only one third of the households who neither applied for nor received zakat were urban-based. These simple statistics reinforce the fact that Pakistan's needy population is concentrated in rural areas.

The distribution of zakat recipients and nonrecipients by quintile (where the first is the poorest and the fifth, the richest) shows that, in rural areas, 85% of public or private recipients belong to the first and second quintiles. Approximately two thirds of the rural beneficiaries (64%) of public zakat are in fact in the first quintile. However, the PSES data also show that 15% of these beneficiaries fall within the middle-income groups (third and fourth quintiles). A similar proportion of recipients of private zakat fall within these two quintiles. The analysis further shows that, in urban areas, public zakat does not target the poorest segment adequately since 51% of total urban beneficiaries are from the middle-income groups. Private zakat appears to target urban beneficiaries relatively better.

*Public zakat does not target the poorest segment adequately.*

In rural areas, a quarter of those households who attempted to apply for zakat by having themselves listed as mustahiqeen fall within the middle quintiles, and only one third (36%) are in the poorest quintile. This implies that many households who apply for public zakat are relatively better off than those that actually receive it. However, it does not mean that the former are ineligible for zakat altogether, rather, it indicates the inadequate coverage of needy households.

Overall, more than a third of zakat recipients (35%) reported that they did not receive the full amount of zakat due to them (2000/01 PSES). Forty percent of the urban zakat recipient sample did not receive the full amount due, while the corresponding figure for rural areas was 34%. Compared with households in the third and fourth quintiles, more households in the first and second quintiles reported not receiving the full amount of zakat due. The proportion of zakat that could not be transferred to beneficiaries was 14% in rural areas and 21% in urban areas.

Results of bivariate and multivariate analyses suggest some success in zakat targeting, particularly in rural areas. Although zakat funds are not allocated randomly, they can slide toward relatively better-off households, particularly in urban areas. The analyses also show that there is a large number of poor households who deserve to be classified as

mustahiqeen. The limited resources available to LZCs, however, do not allow them to reach all the poorest of the poor. For the LZCs, it is not easy to select only a few beneficiaries from among a large pool of poor households. The Government should therefore consider seriously enhancing the resources that are disbursed as public zakat, but concomitantly improve the selection procedure for mustahiqeen as well as the transparency of the system—this would help ensure that poor beneficiaries receive the full benefits of zakat.

## Microfinance

In its analysis of the targeting efficiency of microcredit, this paper focuses on rural support programs, using household-level, secondary data generated from a number of “treatment” (program) and “control” villages as well as participating and nonparticipating households. The targeting efficiency of microcredit is examined using three indicators: land ownership, income or expenditure, and housing conditions. The literacy level of household heads is also discussed briefly. In terms of land ownership, the targeting efficiency of microcredit is not particularly impressive. The monthly per capita expenditure for the overall sample is PRs746, but with a significant difference between participating and nonparticipating households — PRs825 and PRs660, respectively. It is likely that this difference in expenditure arises because of the credit participating households receive.

*The economic impact of microcredit on rural participating households appears to be quite large.*

The study finds that a much higher proportion of respondents (48%) and their families live in *kachha*<sup>1</sup> houses, with over 54% among nonparticipants and 43% among participants. Over 80% of the houses sampled had up to two rooms (the average being 1.75), with 89% among nonparticipating households in the treatment villages surveyed. A larger number of participating households compared with nonparticipating households had electricity connections.

The participating households showed a much higher literacy rates among household heads than did nonparticipating households. Nearly 27% of respondents had completed their matriculation or attained a higher level of education, with 35% among participating households but only 14% among nonparticipating households. Participating households also showed a far higher proportion of literate males (67%) than nonparticipating households (47%). The statistics clearly indicate that nonparticipating households are at a disadvantage.

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<sup>1</sup> “Kachha” refers to construction in material other than burned brick in cement, mortar, or concrete.

Finally, a considerable proportion of credit beneficiaries experienced a sustainable increase in their income after receipt of a loan. The economic impact of microcredit on rural participating households appears to be quite large and probably makes a significant difference to households close to the poverty line. However, further rigorous research work is still required to establish the link between microcredit and poverty reduction.

## The Lady Health Workers Programme

The LHWP is a broad-target scheme that was designed in the early 1990s, with the objective of providing basic community services to all poor rural and urban areas in Pakistan. Under the program, a large number of lady health workers (LHWs) were stationed in each district of the country, the majority placed in rural areas. Since districts vary in terms of size of population, the number of LHWs in each district should match the district's population. The analysis, however, shows large variation: in Punjab overall, for instance, the average number of people per LHW varies from 1,000 to 4,500; in southern Punjab, one LHW serves, on average, 3,300–3,500 people.

According to a study by Oxford Policy Management, the LHWP appears either pro-poor or neutral in relation to poverty. On one hand, richer households are likely to consider the preventive services provided by LHWs inferior to clinic-based services, implying that the LHWP, to some extent, is self-targeted toward lower-income households and individuals. On the other hand, the study referred to shows that the LHWP tends to slightly over-serve advantaged areas at the expense of disadvantaged areas. This is due in part to the fact that LHWs are only placed in areas that already have a functional health facility, and because the program's original emphasis was on overall coverage rather than being poverty-focused. It is also due, at least in part, to recruitment criteria that demand relatively educated women, who are more likely to come from relatively more advantaged areas, and thus serve more advantaged households.

The LHWP could be expanded on the basis of location targeting to concentrate more personnel in districts with (i) a large number of people per LHW; and (ii) a concentration of poor households, such as rural Sindh and southern Punjab. This requires location targeting at the district level, something that is not common in Pakistan. There appears to be a growing tendency toward location targeting, however, examples being the Tawana Pakistan programs that are implemented in 29 districts with the lowest rates of female literacy.

*The LHWP appears either pro-poor or neutral in relation to poverty.*



# 1 Introduction

Pakistan's approach to poverty reduction, as outlined in the Government of Pakistan's Poverty Reduction Strategy Paper (PRSP),<sup>2</sup> focuses on sustained high economic growth with an emphasis on (i) developing human resources, (ii) promoting good governance, and (iii) targeting the poor and vulnerable. The PRSP also identifies a number of pro-poor sectors for poverty-related expenditure. These include roads and highways, education, health, rural development, food subsidies, rural electrification, law and order, and access to justice. Under the Fiscal Responsibility Law 2005, the Government is obligated to maintain expenditures on these sectors at about 4.5% of the gross domestic product (GDP).<sup>3</sup> It is often argued that government expenditure, particularly on social sectors such as health and education, leads to greater benefits for the poor than for the relatively better off.

In terms of targeting, most PRSP interventions (or sectors) can be categorized as “broad-target.”<sup>4</sup> There are also a number of “narrow-target” interventions that transfer benefits directly to the poorest of the poor. These include the disbursement of *zakat* (charitable donations), food support programs, and food subsidies. Such transfers help vulnerable groups—such as the destitute, unemployed, sick, and aged—who would not otherwise benefit from economic growth. The Government also implements targeted interventions to address poverty and generate employment and income through microfinance, which the PRSP highlights as an important tool to enable the poor to become self-employed (footnote 2).

*A number of  
“narrow-target”  
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directly to the  
poorest of the poor.*

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<sup>2</sup> Government of Pakistan. 2003. *Accelerating Economic Growth and Reducing Poverty: The Road Ahead, Poverty Reduction Strategy Paper*. Islamabad: Ministry of Finance.

<sup>3</sup> Government of Pakistan. 2005. *Medium Term Development Framework 2005–10*. Islamabad: Planning Commission.

<sup>4</sup> For a classification of targeting, see: Srivastava, P. 2004. *Poverty Targeting in Asia: Country Experience of India*. Asian Development Bank Institute (ADBI) Discussion Paper No. 5. Tokyo: ADBI; and Weiss, J. 2004. *Poverty Targeting in Asia: Experience from India, Indonesia, the Philippines, People's Republic China and Thailand*. Research Policy Brief No. 9. Tokyo: ADBI.

The extent to which the poor gain from targeted programs has always been in question, as has the contribution of such interventions toward poverty reduction. Evaluating their impact is critical to development initiatives because it provides answers to questions such as whether such programs (i) are properly designed, (ii) reach their intended beneficiaries, and (iii) are cost-effective.

In Pakistan's case, data on these issues are not readily available, but two broad conclusions emerge from the existing literature on the zakat system.<sup>5</sup> First, there are insufficient zakat funds to cater to the needs of the poor: there are currently some 7 million households living below the poverty line, but zakat, according to official statistics, is disbursed annually to less than 2 million *mustahiqeen* (literally, “deserving recipients”). Second, it fails to target its intended beneficiaries adequately because a considerable proportion in the past has been transferred to nonpoor households, suggesting significant leakage to people outside the target group. It is argued that the system often fails to reach the poorest of the poor. Even when zakat has been disbursed among the poor, the benefits of these transfers were undervalued by corruption and bribery (footnote 5). Corruption and nepotism are widely perceived as endemic in such interventions; their benefits fail to target the poorest. However, one major problem with these findings is that they are based either on qualitative observations or on the Pakistan Integrated Household Survey,<sup>6</sup> which does not distinguish between public and private zakat. It is not possible therefore to comment precisely on the targeting performance of public zakat. Similarly, there are conflicting views on how efficiently other interventions, such as food support programs and microfinance, target poverty.<sup>7</sup>

*There are insufficient zakat funds to cater to the needs of the poor.*

This paper focuses on the targeting performance of three of the main poverty reduction interventions that are implemented across Pakistan:

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<sup>5</sup> For details, see: Assad, N. M. 2004. Risk and Vulnerability in Pakistan: A Review of Available Literature. Innovative Development Strategies, Islamabad; Azid, T., and U. Burkei. Date not available. Role of Zakah Fund in an Islamic Economy: An Empirical Evidence. *Hamdard Islamicus* 20 (2): 83–87; Heltberg, R. 2004. *Targeting of Zakat and other Welfare Transfers in Pakistan*. Washington, DC: World Bank; Irfan, M. 2003. *Poverty and Social Safety Nets in Pakistan: A Case Study of Pakistan*. Micro Impact of Macro Adjustment Policies (MIMAP) Technical Paper No. 15. Islamabad: Pakistan Institute of Development Economics (PIDE); and Mohammad, F. 1991. Prospects of Poverty Eradication through the Existing Zakat System in Pakistan. *Pakistan Development Review* 30 (4): 1119–1129.

<sup>6</sup> Federal Bureau of Statistics. 2002. *Pakistan Integrated Household Survey 2001–02*. Islamabad: Government of Pakistan.

<sup>7</sup> For details, see: Gallup Pakistan. 2004. *PPAF Micro Credit Financing: Assessment of Outcomes*. Islamabad: Pakistan Poverty Alleviation Fund; Hafeez, M. 2003.

- (i) pure income transfers—zakat,
- (ii) self-employment—microfinance, and
- (iii) “doorstep” provision of preventive health facilities—the Lady Health Workers Programme (LHWP).

Zakat and microfinance are “narrow-target” programs, with mechanisms for identifying the poor. The LHWP, which is a major health intervention, falls under “broad-target” programs. This paper does not evaluate the impact of these interventions on poverty reduction or income; rather it examines their targeting efficiency.<sup>8</sup>

An important contribution of this study is that it evaluates the targeting efficiency of zakat disbursed through public and private sources separately, by using the Pakistan Socio-economic Survey (PSES) for 2000/01. With respect to microfinance, the focus of earlier studies has largely been on sustainable increases in income through access to credit, the impact of which is generally positive. This paper shifts the focus toward the targeting efficiency of microfinance. For its assessment of the LHWP, a location-wise analysis was carried out to gauge the extent to which the program reaches poor districts in the country.

The paper is structured as follows. Section 2 discusses the different sources of data used for this study followed by a brief review of poverty trends and a poverty profile in Section 3. A discussion on public spending and poverty targeting in Pakistan is presented in Section 4, including an analysis of poverty expenditures for the period 1995/96–2003/04. Three poverty-targeting programs, zakat, microfinance, and the LHWP, are reviewed in Sections 5 to 7. The study's main conclusions are given in Section 8.

*This study evaluates the targeting efficiency of zakat disbursed through public and private sources.*

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Program and Management Audit of Food Support Program (FSP), Pakistan Bait-ul-Mal, Government of Pakistan. University of the Punjab, Lahore; Hussain, A. 2003. *Pakistan National Human Development Report 2003: Poverty, Growth and Governance*. Karachi: United Nations Development Programme (UNDP) and Oxford University Press; Issues and Policies Consultants. 2004. Pakistan: Review of Selected Social Safety Net Programs. Issues and Policies Consultants, Lahore; and Khan, M. H. 2004. *Methods for Assessment of Rural Poverty, Projects and Programme Impact: A Handbook for Practitioners in Rural Support Programmes*. Islamabad: Rural Support Programmes Network.

<sup>8</sup> Studies that examine the impact of zakat disbursement or microfinance on poverty reduction or income include: Montgomery, H. 2005. *Serving the Poorest of the Poor: the Poverty Impact of Khushhali Bank's Microfinance Lending in Pakistan*. Tokyo: ADBI; Gallup Pakistan 2004 (footnote 7); Hussain 2003 (footnote 7); Malik, S. J. 1999. *Poverty and Rural Credit: the Case of Pakistan*, Islamabad: PIDE; and Shirazi, N. S. 1996. Targeting, Coverage and Contribution of Zakat to Household Income: the Case of Pakistan. *Journal of Economic Cooperation Among Islamic Countries* 17 (3-4): 165–186.



## 2 Sources of Data

### 2.1 Poverty Trends

This paper has relied primarily on the results of several studies,<sup>9</sup> which provide poverty estimates for Pakistan for the years that the Household Integrated Economic Survey (later renamed the Pakistan Integrated Household Survey, footnote 6)—the main source of data for poverty analysis in Pakistan—was carried out. The first of these was conducted in 1963/64 and the most recent in 2001/02. Although the methods used to estimate poverty in these studies differ substantially, it was possible to draw some broad conclusions on poverty trends in Pakistan for the purpose of this study.

### 2.2 Zakat Interventions

The study's main source of data on zakat targeting is the second round of the PSES, carried out in 2000/01 by the Pakistan Institute of Development Economics (PIDE).<sup>10</sup> The PSES is a panel data set, and its first round was conducted in 1998/99. Households covered in Round I were revisited in Round II (2001/02), after a gap of about 2 years.<sup>11</sup>

*The study's main source of data on zakat targeting is the second round of the PSES.*

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<sup>9</sup> Ali, S. S., and S. Tahir. 1999. Dynamics of Growth, Poverty and Inequality in Pakistan. *Pakistan Development Review* 38 (4): 337–858; Amjad, R., and A. R. Kemal. 1997. Macro-economic Policies and Their Impact on Poverty Alleviation in Pakistan. *Pakistan Development Review* 36 (1): 39–68; Anwar T., S. K. Qureshi, and H. Ali. 2005. Landlessness and Rural Poverty in Pakistan. Paper presented at the 20<sup>th</sup> Annual General Meeting and Conference of the Pakistan Society of Development Economists, PIDE, Islamabad, 10–12 January; Government of Pakistan. 2005. *Pakistan Economic Survey 2004–05*. Islamabad: Economic Advisor's Wing, Finance Division; Malik, S. J. 1994. *Poverty in Pakistan, 1984–85, 1987–88 and 1990–91*. Washington, DC: International Food Policy Research Institute; and Social Policy Development Centre (SPDC). 2004. *Social Development in Pakistan*. Karachi: SPDC.

<sup>10</sup> Arif, G. M., Syed Mubashir Ali, Zafar M. Nasir, and Nabeela Arshad 2001. *An Introduction to the 1998–99 Pakistan Socio-economic Survey (PSES)*. MIMAP Technical Paper No. 4. Islamabad: PIDE.

<sup>11</sup> For sample details of the PSES, Round I, see Arif, et al. (footnote 10). The attrition rate for the second round of the PSES was 22%. Of the “missing” households that

To ensure that the data collected in Round II were representative at a national as well as rural and urban level, more than 1,000 new households were included in the sample, using the sampling frame developed by the Federal Bureau of Statistics. The total sample for Round II of the PSES thus included 4,020 households (see Arif and Bilquees, forthcoming).<sup>12</sup>

The PSES is a multipurpose survey and its module on “transfer income” contains data on zakat collected from public as well as private sources in the year preceding the survey.<sup>13</sup> Under this module, recipients of zakat from public sources were asked whether they received any local support to be classified as mustahiqeen, and whether there had been leakages from the zakat fund in terms of entitled money they had not received. Households who had not received any zakat in the year preceding the survey were asked if they had ever attempted to apply for zakat from a public source; households who had done so are treated as a separate category in this analysis (Section 5).

*The study uses recent data for districts in Sindh where the SRSO has implemented microfinance programs.*

### 2.3 Microfinance Interventions

In evaluating the targeting performance of microfinance, the study uses recent data generated for several districts in Sindh where the Sindh Rural Support Organization (SRSO) has implemented microfinance programs (Khan 2004; footnote 7). A survey of 20 sample villages and 307 households was carried out in March 2004, and the names of 15 villages drawn randomly from a list of male community organizations (MCOs) that represented the villages. Three villages with active MCOs were selected from each district; in addition, five villages that had no community organizations (COs) were randomly selected from a list of villages in union councils where the SRSO's support program operated. Villages that did not have a CO were selected in proximity to villages in the sample that had a CO. Villages with COs that were expected to continue to participate in the SRSO-run support program were designated “treatment” villages. The second group of villages (those without COs) was used as a control group since the villages did not fall under the SRSO program.

The study also uses the results of a small sample field survey of 277 households that was conducted for the United Nations Development Programme (UNDP)'s National Human Development Report, which

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could not be interviewed, some could not be traced and others simply refused to be part of the panel (as can happen in any longitudinal survey). Cost constraints made it difficult to trace households that moved out of the primary sampling units between 1998/99 and 2000/01.

<sup>12</sup> Arif, G. M., and Faiz Bilquees. Forthcoming. Sample Attrition in PSES Panel Data. MIMAP Technical Paper Series. Islamabad: PIDE.

<sup>13</sup> Public zakat refers to money disbursed to mustahiqeen through their local zakat committees (Section 4).

investigated the impact of seven nongovernment organizations (NGOs) on the economic life of microfinance beneficiaries (Hussain 2003, footnote 7). Data were collected to gauge how well respondents ate before and after the NGOs' intervention, their health status, household income, and whether there had been a sustainable increase in income following the provision of loans.

## 2.4 The LHWP

In evaluating the targeting efficiency of the LHWP, this study relies on two sources of data: (i) district-level data on the placement of lady health workers (LHWs), linked to district population to compare program coverage in poor and relatively better-off districts;<sup>14</sup> and (ii) Oxford Policy Management (OPM)'s (2002) evaluation of the LHWP in terms of cost, provision of services, and coverage of poor segments of the population.<sup>15</sup>

*The study relies on district-level data on LHWs and OPM's evaluation of the LHWP.*

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<sup>14</sup> Government of Pakistan. 2004. *PRSP Progress Report, 2003–04*. Available: <http://www.finance.gov.pk/poverty/home.html>

<sup>15</sup> OPM. 2002. *Lady Health Worker Programme: External Evaluation of the National Programme for Family Planning and Primary Health Care*. Islamabad: OPM.



## 3 Poverty in Pakistan

### 3.1 Poverty Trends

Figure 1 summarizes the poverty estimates provided by six recent studies that used the calorific approach but covered different survey years. It is therefore not possible to isolate the effect of different methodologies on these poverty estimates. Despite this limitation, there are several conclusions common to all the studies used.

First, the 1960s witnessed high levels of poverty of around 40%, increasing particularly in the rural areas. This occurred despite high growth rates in the agriculture sector during the same period. One explanation for this unexpected relationship between high growth rates and the rise in poverty is that the initial beneficiaries of agricultural subsidies in the 1960s were generally large farmers. The benefits of high agricultural growth could thus not be translated into reduced levels of poverty.<sup>16</sup>

Second, poverty declined rapidly after 1970 and this declining trend continued until 1987/88. Private investment in agriculture peaked during the 1970s (Malik 2005, footnote 16). There was also heavy migration to the Middle East in the 1970s and 1980s, resulting in increased foreign remittances; this is commonly cited as one of the major reasons behind falling poverty trends for that period.<sup>17</sup> The agriculture sector also performed relatively better in the 1980s.

*The 1960s witnessed high levels of poverty despite high growth rates in the agriculture sector.*

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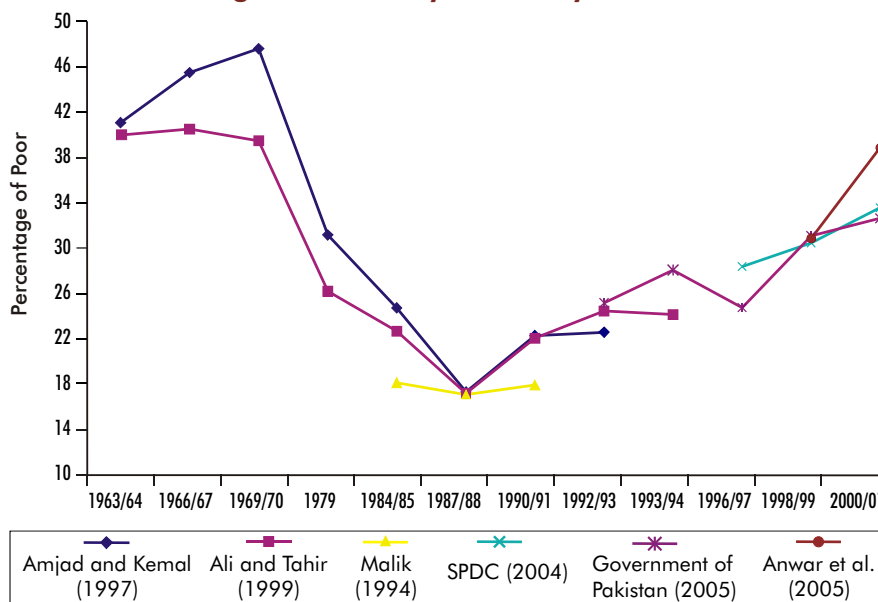
<sup>16</sup> Arif, G. M., and M. Ahmad. 2001. Poverty Across the Agro-climatic Zones in Rural Pakistan. Paper presented at the National Workshop on Pro-poor Intervention Strategies in Irrigated Agriculture in Asia: Pakistan, International Water Management Institute, Lahore, 12 March; and Malik, S. J. 2005. *Agricultural Growth and Rural Poverty: A Review of the Evidence*. Pakistan Resident Mission Working Paper No. 2. Islamabad: Asian Development Bank (ADB).

<sup>17</sup> Irfan, M., and R. Amjad. 1984. Poverty in Rural Pakistan. In *Poverty in Rural Asia*, edited by Azizur R. Khan and Eddy Lee. Geneva: International Labour Office, Asian Employment Programme.

Third, as illustrated in Figure 1, 1987/88 proved a turning point for poverty trends: declining trends in poverty reversed. Despite some differences in poverty estimates for the more recent period, this figure clearly demonstrates that the percentage of the population living below the poverty line was much higher at the beginning of the new millennium than in the late 1980s.

Fourth, the incidence of poverty in 2001/02 varied between 32% (based on the official poverty line; Government of Pakistan 2005, footnote 9) and 36% (Anwar, et al., footnote 9). These variations are largely due to methodological differences in computing poverty lines.

**Figure 1: Poverty Trends by Source**



SPDC = Social Policy Development Centre.

Sources: Ali, S. S., and S. Tahir. 1999. Dynamics of Growth, Poverty and Inequality in Pakistan. *Pakistan Development Review* 38 (4): 337–858; Amjad, R., and A. R. Kamal. 1997. Macro-economic Policies and Their Impact on Poverty Alleviation in Pakistan. *Pakistan Development Review* 36 (1):39–68; Anwar, T., S. K. Qureshi, and H. Ali. 2005. Landlessness and Rural Poverty in Pakistan. Paper presented at the 20<sup>th</sup> Annual General Meeting and Conference of the Pakistan Society of Development Economists, Pakistan Institute of Development Economics, Islamabad, 10–12 January; Government of Pakistan. 2005. *Pakistan Economic Survey 2004–05*. Islamabad: Economic Advisor's Wing, Finance Division; Malik, S. J. 1994. *Poverty in Pakistan, 1984–85, 1987–88 and 1990–91*. Washington, DC: International Food Policy Research Institute; and SPDC. 2004. *Social Development in Pakistan*. Karachi: SPDC.

Irrespective of precise headcount ratios and methodological differences, most studies agree on the upward trends in poverty that occurred in the 1990s. The rise in poverty coincided with the initiation of the structural adjustment program agreed on between the Government,

World Bank, and International Monetary Fund in the late 1980s. Measures taken as part of this program included (i) liberalization of trade, (ii) privatization of public sector enterprises, (iii) reduction in subsidies, and (iv) increases in indirect taxes and duties to reduce the fiscal deficit.<sup>18</sup> After 1988, Pakistan's economy performed poorly in terms of all the stabilization indicators except for a nominal reduction in the budget deficit. Average inflation in the 1990s stood at close to 11% as against 8% in the 1980s (Jamal 2003, footnote 18).

Income distribution also worsened in the last decade: the overall Gini coefficient increased from 0.35 in 1987/88 to 0.41 in 2001/02. The share of income to the poorest 20% of the population declined from 8.0% in 1987/88 to 6.2% in 1998/99, while in the same period, the share to the richest 20% increased from 5.5% to 8.0%. Poverty reduction in the presence of such great income inequality requires an exceptionally high rate of GDP growth over an extended period of time (Social Policy Development Centre [SPDC] 2004, footnote 9).

Since this study concerns primarily the targeting of the poor, and given that information on geographical variations in poverty can provide grounds for intervention, it is worth examining briefly the regional or geographical variations in the incidence of poverty. Poverty in Pakistan has generally been higher in rural areas than in urban.<sup>19</sup> Within the rural sector, there are large variations across agro-climatic zones. The lowest levels of poverty occur in *barani* (rain-fed) Punjab, while higher poverty levels generally occur in Sindh and southern Punjab.<sup>20</sup> An analysis by the Federal Bureau of Statistics, dividing Punjab into three regions (northern, central, and southern), substantiates these findings.<sup>21</sup> It shows that the highest levels of poverty occurred in southern Punjab and the lowest in northern Punjab (mainly *barani* areas) during the 1990s (Table 1). The highest incidence of vulnerability and chronic and transient poverty also occurred in the southern irrigated plains of Sindh and Punjab.<sup>22</sup> According

*The highest levels of poverty occurred in southern Punjab and the lowest in northern Punjab during the 1990s.*

<sup>18</sup> Amjad and Kemal 1997 (footnote 9); and Jamal, H. 2003. Poverty and Inequality during the Adjustment Decade: Empirical Findings from Household Surveys. *Pakistan Development Review* 42 (2): 125–136.

<sup>19</sup> There appears to be only one study (Jafri 1999) that shows levels of poverty to be higher in urban areas than in rural area for some survey years. All other studies point unambiguously to the relatively higher incidence of rural poverty in Pakistan. See: Jafri, S. M. Younis. 1999. Assessing Poverty in Pakistan. In *A Profile of Poverty in Pakistan*. Islamabad: Mahbub ul Haq Centre for Human Development and UNDP.

<sup>20</sup> See: Arif and Ahmad 2001 (footnote 16), Malik 1994 (footnote 9), and Malik 2005 (footnote 16).

<sup>21</sup> Federal Bureau of Statistics. 2001. *Poverty in the 1990s*. Islamabad: Government of Pakistan.

<sup>22</sup> World Bank. 2002. *Pakistan Poverty Assessment, Poverty in Pakistan: Vulnerabilities, Social Gaps and Rural Dynamics*. Washington, DC: World Bank.

to a recent study, the most deprived districts in Punjab are in the south of the province (Jamal 2003, footnote 18).<sup>23</sup> These statistics strongly support the need for targeted programs in the rural areas of southern Punjab and Sindh.

**Table 1: Poverty Headcount in Rural Punjab by Region**

Region	1992/93	1993/94	1996/97	1998/99	2001/02
North Punjab	10.49	29.27	21.44	29.31	25.90
Central Punjab	27.94	31.60	26.17	34.52	41.30
South Punjab	33.24	41.08	32.87	39.74	53.00

Sources: For estimates for the 1990s: Federal Bureau of Statistics. 2001. *Poverty in the 1990s*. Islamabad: Government of Pakistan; for 2001/02: Malik, S. J. 2005. *Agricultural Growth and Rural Poverty: A Review of the Evidence*. Pakistan Resident Mission Working Paper No. 2. Islamabad: Asian Development Bank.

### 3.2 Nonincome Poverty

Pakistan is signatory to the Millennium Development Goals, which set targets for the social sector in areas including education, mortality, nutrition, immunization, adult literacy, fertility, safe drinking water supply, and sanitation.<sup>24</sup> It is useful here to briefly describe some of these nonincome indicators.

*There are wide differences across provinces, rural-urban areas, and gender in access to education facilities.*

The country's education sector has always performed poorly. Not only are overall levels of education low, there are wide differences across provinces, rural-urban areas, and gender in access to education facilities. However, the results of the recently released Pakistan Social and Living Standards Measurement Survey<sup>25</sup> for 2004/05 are encouraging: literacy has improved by 8 percentage points in the last 3 years, and there has been a substantial increase in the gross primary school enrolment rate (Government of Pakistan 2005, footnote 9).

Health indicators for Pakistan are also far from satisfactory. One newborn child dies every 40 seconds because of the unavailability of health facilities, particularly in rural areas. Although child mortality has declined over time, it is still high, and communicable and preventable diseases are the most common reasons for high mortality levels. A considerable proportion of the population has poor access to safe drinking water and

<sup>23</sup> The deprivation index takes into accounts three sectors: education, housing, and employment. The most deprived districts in Punjab are Bahawalpur, Bhakkar, Dera Ghazi Khan, Jhang, Layyah, Lodhran, Muzafargarh, Pakpattan, Rahimyar Khan, and Rajanpur.

<sup>24</sup> Government of Pakistan. 2004. *Pakistan Millennium Development Goals Report 2004*. Islamabad: Planning Commission.

<sup>25</sup> Federal Bureau of Statistics. 2005. *PSLM: Pakistan Social and Living Standard Measurement Survey, 2004–05*. Islamabad: Government of Pakistan.

proper sanitation facilities, such as indoor closed latrines or drainage systems. This segment of the population is also less likely to have access to tap water, gas, or electricity (Government of Pakistan 2005, footnote 9).

### 3.3 A Poverty Profile

Who are the poor? A clearer knowledge of this helps identify possible areas of intervention that can reduce poverty. The dominant characteristics of the poor are compared with those of zakat recipients in Section 4, based on various analyses that use primary data from the PSES. This section summarizes some of the major findings of recent studies on the subject.

A household head's level of education is commonly used as an indicator of the relationship between poverty and education. Those households whose heads are uneducated tend to be the poorest. A household whose head has at least matriculated has less probability of remaining poor in the long term because the head has better chances of getting a job.<sup>26</sup> Household size is associated positively with the incidence of poverty. High fertility rates imply not only large families but also high dependency ratios. Population policies should target poorer families to decrease their fertility rates and hence their average household size. Remittances, particularly from overseas, reduce the risk of falling into poverty, but only a small proportion of poor households receive remittances from abroad.

*Household size is associated positively with the incidence of poverty.*

Access to land is considered crucial for reducing poverty in rural areas. Although land concentration in large holdings (150 acres or above) has declined over time, the inequitable distribution of land ownership continues. In 2000, owners of holdings of over 150 acres accounted for less than 1% of total landowning households. If landholdings of 25 acres or more are taken into account, only 4.3% of the households in Punjab own nearly 36% of all agricultural land; more than 50% of rural households are landless. Of the households that cultivate land, just over 25% are tenants (Hussain 2005, footnote 7). According to a recent study, the overall incidence of rural poverty among households with and without land stands at 18% and 32%, respectively (SPDC 2004, footnote 9). There has also been a dramatic decline in tenancy and a corresponding increase in owner-cultivation. The highest incidence of poverty is among sharecroppers as against owner-cultivators (Malik 2005, footnote 16).

<sup>26</sup> Jafri 1999 (footnote 19); and Qureshi, S. K., and G. M. Arif. 2002. *Profile of Poverty in 1998–99*. MIMAP Technical Paper No. 5. Islamabad: PIDE.

In short, the poor are often characterized by the following: (i) landlessness; (ii) lack of livestock; (iii) absence of a wage earner in the household; (iv) dependency on daily-wage employment; (v) inability to afford food, shelter, clothing and shoes, and medical care; and (vi) widowhood.<sup>27</sup> Access to land, credit, and public services can thus help the rural poor improve their quality of life.

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<sup>27</sup> Government of Pakistan. 2003. *Between Hope and Despair, Pakistan Participatory Poverty Assessment, National Report*. Islamabad: Planning Commission.

## 4 Public Spending and Poverty Targeting

The level, pattern, and effectiveness of public expenditure usually have great impact on the level of economic activity, employment, income distribution, and poverty reduction. Public expenditure also plays a crucial role in providing key social services and infrastructure. In Pakistan, consolidated public expenditure (excluding interest and defense) declined from an average of about 15% of GDP in the 1980s to a little over 10% in the late 1990s.<sup>28</sup> Although public spending increased sharply between the fiscal year (FY) 2001 and FY2004, Pakistan still compares unfavorably with other developing countries in South Asia. The recent increase in public spending was accounted for entirely by the rise in interest payments; excluding interest, real budgetary spending has declined slightly. The burden of stagnant public spending (excluding interest) has fallen especially heavily on development spending. In real terms, development spending dropped by 40.0% between FY1991 and FY2002, and its share in total public spending fell from 25.0% to 12.8% in this period. Development spending in FY2002 recovered by 34% as public resource availability improved (footnote 28).

In the last 5 decades, a large number of programs and schemes aimed at improving people's well-being and the provision of basic facilities have been introduced in Pakistan. Given the variety of these schemes and the range of financing, whether at the federal, province, or district level, it is hard to determine which programs actually targeted the poor. This section briefly (i) reviews poverty-targeting efforts made during the Government's various 5-year plans, (ii) examines current programs given in the PRSP, and (iii) identifies those that are narrow-target programs.

*Pakistan's public spending still compares unfavorably with other developing countries in South Asia.*

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<sup>28</sup> World Bank. 2004. *Pakistan Public Expenditure Management: Strategies, Issues and Reform Agenda*. Vol. 1. Washington, DC: World Bank.

## 4.1 Poverty Targeting in Plan Periods

Since the First Five-Year Plan (1956–1960), successive governments have tried to address the issue of poverty reduction and social development primarily through rural development programs. Such programs date back to the 1950s when the Village Aid (1952–1961) program was launched (i) to increase agriculture as well as village-based industrial production; (ii) to establish schools and health centers; and (iii) to provide basic facilities such as farm-to-market roads, water supply, and sanitation facilities. Different governments initiated successive rural development programs under various names but with similar objectives: the Rural Works Programme (1963–1972), the People's Works Programme (1972–1982), the Integrated Rural Development Programme (1972–1980), the Five-Point Programme (1985–1988), the Tameer-e-Watan Programme (1991), and the Social Action Programme (SAP) (1992–2002).

*Different governments initiated successive rural development programs with similar objectives.*

The most recent program launched is the Khushhal Pakistan Programme, the main goal of which is to increase employment opportunities and provide essential infrastructure in rural and low-income urban areas by building farm-to-market roads, rehabilitating water supply schemes, and repairing existing schools, small roads, streets, drains, and storm channels in villages. In terms of resources for these development activities, Table 2 reveals that approximately 90% of the total resources allocated for poverty reduction and human development during the period 1985–2002 were earmarked for implementing SAP I and II. The program's main focus was education, health, water supply and sanitation, and population welfare.

**Table 2 : Special Programs for Poverty Reduction and Human Development**

Program	Period	Expenditure (PRs billion)
Prime Minister's Five-Point Programme	1985–1990	2.7
People's Programme	1988–1991 1994–1997	12.4
Tameer-e-Watan Programme	1991–1993 1998–2000	7.3
Social Action Programme	1985–2002	355.6
Khushhal Pakistan Programme	1999–2001	22.7
<b>Total</b>	<b>1985–2002</b>	<b>400.7</b>

Note: Expenditure values are given at constant 1992/93 prices.

Source: Khan, M. A. 2003. Public Expenditure, Poverty and Human Development: the Experience of Pakistan. In *Pakistan Human Condition Report 2003*. Islamabad: Centre for Research on Poverty Reduction and Income Distribution, and United Nations Development Programme.

Two observations commonly emerge with respect to the use of public resources specified for development activities in different plan periods. First, as Khan (2003) argues, not a single development plan has achieved its financial targets. Governments are apt to cut down on development expenditure in periods of fiscal adjustment without assessing the cost benefit of such an action. In the case of the SAP—the largest program in monetary terms to be implemented between 1985 and 2002—of a total allocated budget of more than PRs600 billion, less than 60% (PRs356 billion) could be used (Table 2).<sup>29</sup> It is worth noting that the main shortfall incurred was during the program's second phase (1997–2002), when only 45% of the allocated money was used.<sup>30</sup> During this phase, all the sectors targeted by the SAP showed negative growth rates (Khan 2003).

Second, common perception holds that the development programs conceived so far, including the SAP, have not brought about any real qualitative change in the country, particularly in rural areas. Even the services that have been made available have neither really benefited communities nor been fully utilized because of (i) lack of awareness, (ii) absence of people's participation, and (iii) centralized decision-making. Public spending under the SAP, despite the shortfall mentioned earlier, may have been sufficient for providing a reasonable level of basic public services, but weak public institutions at all levels of government, and the mismanagement, misuse, and wastage of resources have meant that desired results have not been achieved. According to Khan (2003), one of the most important lessons to be learned from the SAP is that increased public expenditure is a necessary but not sufficient condition for expanding access to and improving the quality of social services (footnote 29). Unless institutional efficiency is enhanced and the broader participation of communities ensured, the SAP experience indicates that public resources will continue to be mismanaged.

*Unless institutional efficiency is enhanced, public resources will continue to be mismanaged.*

## 4.2 Targeting Poverty under the PRSP

### 4.2.1 Pro-Poor Expenditure

The present Government's agenda focuses on reducing poverty and significantly improving the level of human development. To implement this agenda, the Interim Poverty Reduction Strategy Paper<sup>31</sup>

<sup>29</sup> Khan, M. A. 2003. Public Expenditure, Poverty and Human Development: the Experience of Pakistan. In *Pakistan Human Condition Report 2003*. Islamabad: Centre for Research on Poverty Reduction and Income Distribution (CRPRID) and UNDP.

<sup>30</sup> ADB. 2002. *Hari Issues, Final Report, Additional Preparatory Work on the Sindh Rural Development Project*. Islamabad; Khan, M. A. 2002. Social Sector-I, Review of Social Sector and Social Action Program. In *Pakistan Human Condition Report 2002*. Islamabad: CRPRID; and Khan 2003 (footnote 29).

<sup>31</sup> Government of Pakistan. 2001. *Pakistan Interim Poverty Reduction Strategy Paper*. Islamabad: Ministry of Finance.

was launched in November 2001, and the full PRSP released (footnote 2) in December 2003. As noted earlier, the PRSP focuses on (i) reviving economic growth, (ii) improving social development indicators, (iii) promoting broad-based governance reforms, and (iv) targeting the poor and vulnerable.<sup>32</sup> The PRSP envisages that these activities will help reduce poverty in the medium term.<sup>33</sup>

Under the Fiscal Responsibility Law 2005, the Government is also obligated to spend at least 4.5% of GDP on pro-poor sectors; the PRSP has identified 17 such sectors.<sup>34</sup> These are broadly grouped under five main categories: (i) community services, (ii) human development, (iii) rural development, (iv) safety nets, and (v) governance. Because these sectors have not been identified on the basis of any objective assessment of the distribution of benefits, it is unclear as to what actually constitutes poverty-targeted expenditure; this also applies to many other developing countries. Figure 2 shows the share of pro-poor expenditure in GDP.

*It is unclear as to what actually constitutes poverty-targeted expenditure.*

The upper line in the figure indicates this share for the PRSP period since its initiation in 2001, and includes data on all 17 pro-poor sectors. The bottom line includes the pre-PRSP period of the 1990s as well. The latter does not incorporate data on law and order, access to justice, and rural electrification sectors because data were not readily available for the pre-PRSP period.<sup>35</sup> The post-PRSP period has witnessed a distinct rise in pro-poor expenditure after the sharp decline that occurred between FY1996 and FY2001, i.e., the period during which poverty in Pakistan increased rapidly.

Analyzing sector-level data clarifies the situation in terms of how the poor suffered in the 1990s. Education expenditure as a percentage of GDP declined from 1.65% in FY1996 to 1.35% in FY2001 (Table 3). A similar decline in expenditure affected the health sector; the resource allocated for rural development also declined in the late 1990s. Data on expenditure in real terms (Table 4) also reflect this pattern. Pro-poor expenditure as a share of total public expenditure fell between 1995/96 and 1999/2000

<sup>32</sup> The PRSP's approach was criticized by the SPDC for focusing primarily on GDP growth to reduce poverty, and ignoring the considerable national and international evidence of jobless growth. The report also holds that the PRSP fails to focus on equity since there is no mention of asset redistribution, particularly to reduce the inequality in land ownership (SPDC 2004, footnote 9).

<sup>33</sup> Economic growth in the last 3 years has been impressive: 4.8% in FY2003, 6.4% in FY2004, and 8.4% in FY2005 (Government of Pakistan 2005, footnote 9).

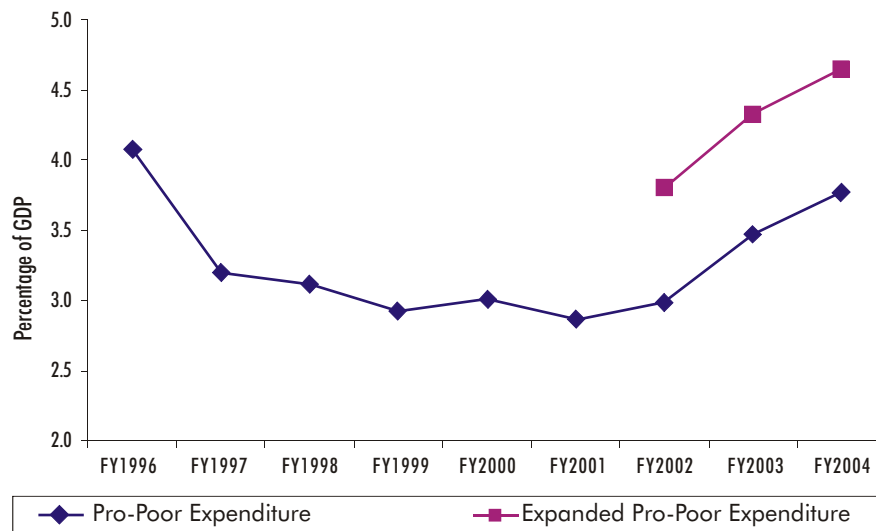
<sup>34</sup> These sectors include: roads and highways, irrigation, education, health, rural development, low-cost housing, population welfare, rural electrification, the Tawana Pakistan Programme, law and order, access to justice, water and sanitation, food subsidies, food support programs, and land distribution.

<sup>35</sup> Data on food support programs, the Tawana Pakistan Programme, and low-cost housing, are not given here because these programs are still relatively new.

(Table 5). As noted earlier, the depth of this crisis of public spending can be gauged from the fact that consolidated public expenditures averaged a little over 10% of GDP in the late 1990s compared with the average of about 15% of GDP in the 1980s. This decline in public spending, particularly in pro-poor expenditure, during a period of rising poverty implies that the gaps in public service delivery are likely to have widened over the last decade, especially in relation to the poor (footnote 28).

*Gaps in public service delivery are likely to have widened over the last decade.*

**Figure 2: Pro-Poor Expenditure as a Percentage of GDP**



FY = fiscal year, GDP = gross domestic product.

Sources: Government of Pakistan. 2001. *Pakistan Interim Poverty Reduction Strategy Paper*. Islamabad: Ministry of Finance; Government of Pakistan. 2003. *Accelerating Economic Growth and Reducing Poverty: The Road Ahead, Poverty Reduction Strategy Paper*. Islamabad: Ministry of Finance; and Government of Pakistan. 2004. *PRSP Progress Report, 2003–04*. Available: <http://www.finance.gov.pk/poverty/home.html>

In the last 3 years, pro-poor expenditure has risen sharply, from 3.8% of GDP in FY2002 to 4.3% in FY2003, and 4.7% in FY2004. Expenditure has increased in almost all the pro-poor sectors identified by the PRSP. For example, the share of education expenditure in GDP increased from 1.6% in FY2003 to 1.8% in FY2004. A modest increase also occurred in health expenditure. Population planning, irrigation, food support programs, and roads, highways, and buildings are other important sectors that witnessed sharp increases in expenditure between FY2003 and FY2004. Spending on water supply and sanitation, however, declined in this period (Tables 3 to 5). This is an important sector and has a lasting effect on people's quality of life. Sufficient resources need to be allocated to ensure that people have access to safe drinking water and sanitation facilities.

**Table 3: Pro-Poor Expenditure as a Percentage of GDP**

<b>Expenditure Component</b>	<b>FY1996</b>	<b>FY1997</b>	<b>FY1998</b>	<b>FY1999</b>	<b>FY2000</b>	<b>FY2001</b>	<b>FY2002</b>	<b>FY2003</b>	<b>FY2004</b>
Community Services									
Roads, Highways, and Buildings	0.28	0.16	0.16	0.17	0.14	0.17	0.14	0.27	0.30
Water Supply and Sanitation	0.25	0.17	0.19	0.15	0.15	0.11	0.11	0.07	0.08
Human Development									
Education	1.65	1.46	1.52	1.39	1.42	1.35	1.51	1.63	1.79
Health	0.52	0.46	0.46	0.44	0.46	0.42	0.44	0.46	0.49
Population Planning	0.08	0.06	0.06	0.07	0.09	0.04	0.03	0.06	0.09
Social Security and Welfare	0.10	0.08	0.06	0.06	0.05	0.04	0.08	0.03	0.08
Natural Calamities	0.02	0.01	0.01	0.03	0.03	0.02	0.00	0.01	0.01
Rural Development									
Irrigation	0.47	0.34	0.30	0.26	0.22	0.20	0.23	0.32	0.42
Land Reclamation	0.02	0.01	0.02	0.02	0.02	0.03	0.04	0.04	0.04
Rural Development	0.31	0.11	0.11	0.14	0.17	0.29	0.28	0.35	0.34
Safety Nets									
Food Subsidies	0.38	0.35	0.23	0.20	0.26	0.20	0.13	0.23	0.14
Food Support Programme	—	—	—	—	—	—	0.05	0.04	0.05
Tawana Pakistan (Program)	—	—	—	—	—	—	0.02	0.02	0.01
Low-Cost Housing	—	—	—	—	—	—	0.00	0.00	0.01
Governance									
Administration of Justice	—	—	—	—	—	—	0.05	0.05	0.04
Law and Order	—	—	—	—	—	—	0.70	0.75	0.73
<b>Total Pro-Poor Expenditure as a Percentage of GDP</b>	<b>4.08</b>	<b>3.20</b>	<b>3.11</b>	<b>2.93</b>	<b>3.01</b>	<b>2.87</b>	<b>3.80</b>	<b>4.33</b>	<b>4.65</b>

FY = fiscal year, GDP = gross domestic product.

Note: This table uses revised GDP figures for FY2000.

Sources: Government of Pakistan. 2001. *Pakistan Interim Poverty Reduction Strategy Paper*. Islamabad: Ministry of Finance; and Government of Pakistan. 2004. PRSP Progress Report, 2003–04. Available: <http://www.finance.gov.pk/poverty/home.html>

**Table 4 : Real Expenditure under the PRSP (PRs million)**

<b>Expenditure Component</b>	<b>FY1996</b>	<b>FY1997</b>	<b>FY1998</b>	<b>FY1999</b>	<b>FY2000</b>	<b>FY2001</b>	<b>FY2002</b>	<b>FY2003</b>	<b>FY2004</b>
Community Services									
Roads, Highways, and Buildings	9,850	5,726	5,917	6,536	5,360	7,148	6,123	12,314	14,741
Water Supply and Sanitation	8,729	6,107	6,975	5,726	5,798	4,499	4,485	3,205	3,741
Human Development									
Education	58,160	52,526	56,128	53,435	56,381	56,362	64,024	73,487	87,757
Health	18,448	16,563	16,845	16,815	18,106	17,494	18,554	20,954	23,813
Population Planning	2,664	2,291	2,257	2,804	3,591	1,552	1,285	2,923	4,401
Social Security and Welfare	3,377	3,001	2,226	2,187	2,160	1,568	3,539	1,219	3,711
Natural Calamities	824	274	245	1,162	1,298	912	183	384	486
Rural Development									
Irrigation	16,382	12,140	11,117	9,893	8,639	8,157	9,787	14,553	20,549
Land Reclamation	644	517	619	881	980	1,401	1,775	1,623	1,789
Rural Development	10,987	3,811	4,062	5,248	6,800	11,976	11,904	15,816	16,465
Rural Electrification	—	—	—	—	—	—	—	—	1,771
Safety Nets									
Food Subsidies	13,529	12,453	8,392	7,676	10,284	8,236	5,325	10,172	7,028
Food Support Programme	—	—	—	—	—	—	1,948	1,889	2,512
Tawana Pakistan (Program)	—	—	—	—	—	—	773	749	358
Low-Cost Housing	—	—	—	—	—	—	0	0	379
Governance									
Administration of Justice	—	—	—	—	—	—	1,913	2,057	2,189
Law and Order	—	—	—	—	—	—	29,944	33,998	35,834
<b>Total Real Expenditure</b>	<b>143,593</b>	<b>115,407</b>	<b>114,783</b>	<b>112,362</b>	<b>119,397</b>	<b>119,305</b>	<b>161,561</b>	<b>195,44</b>	<b>227,524</b>

FY = fiscal year, PRSP = Poverty Reduction Strategy Paper.

Note: Expenditure values are given in terms of FY2001 prices.

Sources: Government of Pakistan. 2001. *Pakistan Interim Poverty Reduction Strategy Paper*. Islamabad: Ministry of Finance; and Government of Pakistan. 2004. *PRSP Progress Report, 2003–04*. Available: <http://www.finance.gov.pk/poverty/home.html>

**Table 5: Real Expenditure under the PRSP as a Percentage of Total Real Expenditure**

Expenditure Component	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Community Services									
Roads, Highways, and Buildings	1.4	0.9	0.8	0.9	0.7	1.0	0.8	1.4	1.7
Water Supply and Sanitation	1.2	0.9	1.0	0.8	0.8	0.6	0.6	0.4	0.4
Human Development									
Education	8.1	7.9	7.7	7.7	7.5	7.7	8.0	8.5	10.4
Health	2.6	2.5	2.3	2.4	2.4	2.4	2.3	2.4	2.8
Population Planning	0.4	0.3	0.3	0.4	0.5	0.2	0.2	0.3	0.5
Social Security and Welfare	0.5	0.4	0.3	0.3	0.3	0.2	0.4	0.1	0.4
Natural Calamities	0.1	0.0	0.0	0.2	0.2	0.1	0.0	0.0	0.1
Rural Development									
Irrigation	2.3	1.8	1.5	1.4	1.1	1.1	1.2	1.7	2.4
Land Reclamation	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Rural Development	1.5	0.6	0.6	0.8	0.9	1.6	1.5	1.8	1.9
Rural Electrification	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Safety Nets									
Food Subsidies	1.9	1.9	1.2	1.1	1.4	1.1	0.7	1.2	0.8
Food Support Programme	—	—	—	—	—	—	0.2	0.2	0.3
Tawana Pakistan (Program)	—	—	—	—	—	—	0.1	0.1	0.0
Low-Cost Housing	—	—	—	—	—	—	0.0	0.0	0.0
Governance									
Administration of Justice	—	—	—	—	—	—	0.2	0.2	0.3
Law and Order	—	—	—	—	—	—	3.8	3.9	4.2
<b>Total Real Expenditure as a Percentage of Total Real Expenditure</b>	<b>20.1</b>	<b>17.3</b>	<b>15.8</b>	<b>16.1</b>	<b>15.8</b>	<b>16.2</b>	<b>20.2</b>	<b>22.6</b>	<b>26.9</b>

FY = fiscal year, PRSP = Poverty Reduction Strategy Paper.

Notes: Expenditure values are given in terms of FY2001 prices. Expenditure values for FY2004 represent budget estimates, not actual expenditures; expenditure values for FY2003 represent revised estimates. Total real expenditure includes current and development expenditure.

Sources: Government of Pakistan. 2001. *Pakistan Interim Poverty Reduction Strategy Paper*. Islamabad: Ministry of Finance; and Government of Pakistan. 2004. *PRSP Progress Report, 2003–04*. Available: <http://www.finance.gov.pk/poverty/home.html>

## 4.2.2 Narrow-Target Programs

As mentioned earlier, the PRSP does not identify its pro-poor sectors based on any objective assessment of how benefits might be channeled to the poor. It is likely that the uptake of many of the services provided within these sectors is relatively lower for the poor. For example, while it is well established that the distribution of benefits from primary healthcare and primary education is progressive, the uptake by the poor of benefits from higher education and urban hospital systems may be lower. A closer look at the subsector allocation of health expenditure shows that few resources are allocated to primary healthcare. In the case of education, only a third of the allocated resources are channeled into primary education.

A core element of the PRSP is to improve the targeting power of anti-poverty and social protection programs for the poor and vulnerable (footnote 2). The Government has initiated several such schemes to help the poor, including (i) transfers in cash and kind, (ii) access to microcredit, and (iii) employment opportunities through public works programs. Zakat, the Food Support Programme run by the Pakistan Bait-ul-Maal, the Employees Old Age Benefit Institution (EOBI), the Workers Welfare Fund, and Employees Social Security Institutions (ESSIs) are all important social safety nets. The EOBI, Workers Welfare Fund, and ESSIs are essentially labor welfare schemes for the formal sector, which employs only a small proportion of the total workforce. In addition to these schemes, the federal and provincial governments also implement general food subsidy schemes for wheat and *aata* (flour). The PRSP also identifies microfinance and public works programs as being sound poverty reduction interventions. Currently, the Government's microcredit initiatives are executed by the Khushali Bank, the Pakistan Poverty Alleviation Fund (PPAF), and the Zarai Taraqiati Bank.

The Food Support Programme and Pakistan Bait-ul-Maal are funded by federal budgetary allocations; organizations such as ESSIs and Workers Welfare Fund boards receive funding in the form of contributions from organizations or individuals. Zakat is deducted at source by financial institutions on saving accounts, fixed deposit saving certificate, and national income tax units. Recently, however, the Supreme Court declared the payment of zakat voluntary for all persons (Issues and Policies Consultants 2004, footnote 7).

Labor welfare schemes, such as those run by the EOBI, Workers Welfare Fund, and ESSIs have inadequate national coverage: owing to the lack of resources relative to the scale of the problem, only 4% of the nonagricultural workforce employed in the formal sector benefits from these schemes. Provincial wheat subsidy schemes are difficult to quantify

*The uptake of many of the services provided within the PRSP's pro-poor sectors is relatively lower for the poor.*

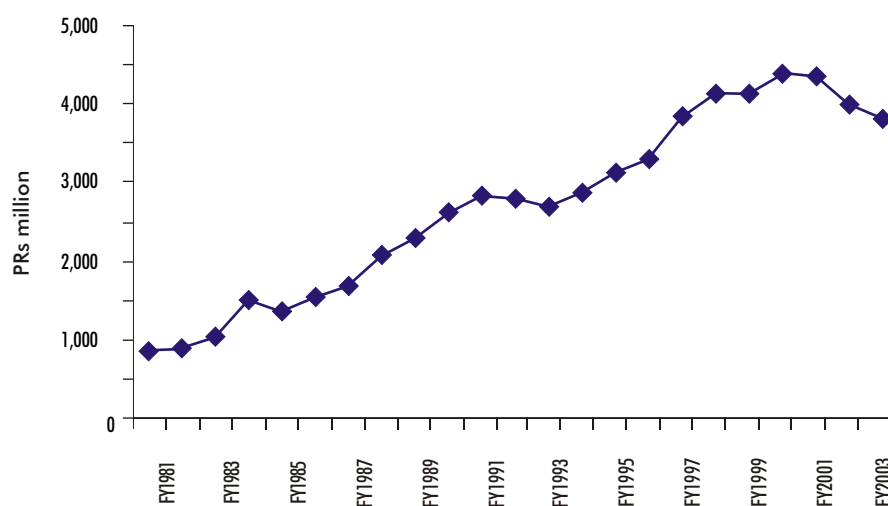
in terms of the number of beneficiaries. This paper focuses on two narrow-target programs—zakat and microfinance—and one broad-target program, the LHWP. The other important broad-target program, the Food Support Programme, could not be analyzed because of lack of data.

## 5 An Evaluation of the Zakat System

The zakat collected by financial institutions is deposited in the Central Zakat Fund maintained by the State Bank of Pakistan. The Central Zakat Council then disburses funds to the provincial zakat councils, which in turn, allocate funds to the district zakat committees. Figure 3 shows that zakat collection at source increased from PRs844 million in 1980/81 to PRs4,309 million in 1999/2000, and then declined to PRs3,770 million in 2002/03. Recent data show that the disbursement of zakat declined by 33% to PRs5.3 billion in 2003/04 compared with more than PRs8 billion in zakat funds disbursed during 2002/03 (Figure 4). This high level of zakat funding was possible because of the substantial fund reserves that had built up in previous years. The sustainability of zakat collection at its present level is, however, a serious cause for concern. Once current reserves have been exhausted, future zakat funding is likely to decline even further.

*Once current reserves have been exhausted, future zakat funding is likely to decline even further.*

**Figure 3: Total Deduction of Zakat at Source (Financial Institutions)**



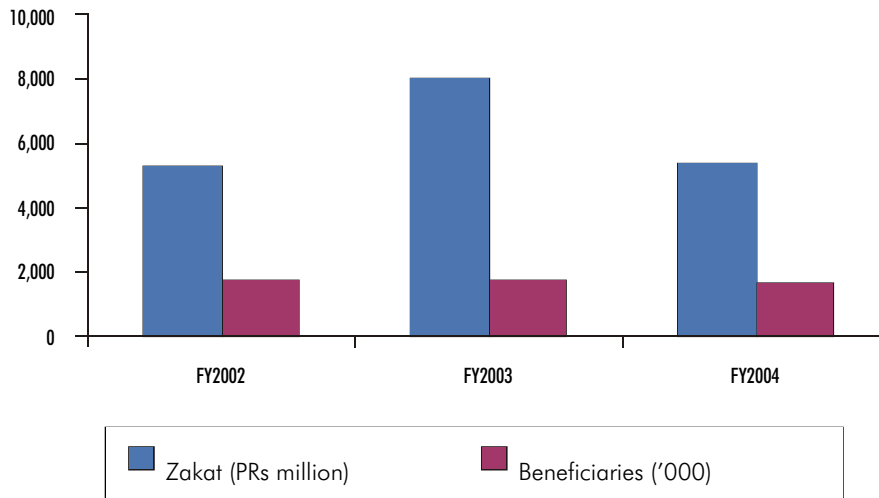
FY = fiscal year.

Source: Issues and Policies Consultants. 2004. Pakistan: Review of Selected Social Safety Net Programs. Lahore.

Zakat is disbursed under seven heads or sectors, including: (i) the Guzara (literally, subsistence) Allowance, (ii) education stipend, (iii) grants for *deeni madrassahs* (religious educational institutions), (iv) healthcare, (v) social welfare, (vi) marriage assistance, and (vii) rehabilitation grants. Funds, particularly under the Guzara Allowance, are distributed through local zakat committees (LZCs), which receive their funds from the district zakat committees. One of their main responsibilities is identifying *mustahiqeen* in the areas they serve; the most deserving beneficiaries are indigent widows, orphans, and the disabled. Of these, the poorest identified by the LZCs are allocated a monthly Guzara Allowance of PRs500. Until 2001/02, the Guzara Allowance occupied the greatest share of zakat funds, but large reserves of unspent funds prompted the Government and Central Zakat Council to introduce a “rehabilitation grant,” an alternative to the Guzara Allowance that would help the poor become self-reliant (Issues and Policies Consultants 2004, footnote 7). In 2002/03, the major share of zakat funds was disbursed under this head. It is important to report that recipients of rehabilitation grants are no longer eligible for the Guzara Allowance afterward.

*In 2001/02, large reserves of unspent funds prompted the Government to introduce a “rehabilitation grant.”*

**Figure 4: Zakat Disbursement and Number of Beneficiaries**



FY = fiscal year.

Source: Government of Pakistan. 2004. PRSP Progress Report, 2003–04. Available: <http://www.finance.gov.pk/poverty/home.html>

## 5.1 Coverage of Zakat: Findings of the PSES Household Survey

Table 6 provides data on the households sampled by the PSES, classified as recipients or nonrecipients of zakat and according to source of zakat (public, private, or both). As noted in Section 2, those respondents to the PSES questionnaire who did not receive zakat from a public source, were asked whether they had ever applied for inclusion in the list of mustahiqeen. Households who had done so and not received zakat, are classified separately in Table 6. These households clearly consider themselves eligible for zakat as mustahiqeen, but for one reason or other, were not deemed so by their LZCs. The remaining sample households are categorized as those that neither received nor applied for zakat. Table 6 shows that, in total, 4.1% of households in Pakistan received zakat in 2000/01 from all sources, 2.2% from a public source, 1.3% from a private source, and 0.6% from both public and private sources. Thus, zakat through local committees was disbursed to approximately 3% of households (2.2% from a public source and 0.6% from both private and public sources).

*In 2000/01, zakat through local committees was disbursed to approximately 3% of households.*

**Table 6: Distribution of Sample Households by Status in Terms of Zakat Received/Applied for**

Status of Household in Terms of Zakat Received/Applied For	Households in Each Category (%)	Rural or Urban Distribution of Households in Each Category (%)		
		Urban	Rural	All
Received zakat from public source	2.2	11.2	88.8	100.0
Received zakat from private sources	1.3	25.1	74.9	100.0
Received zakat from public and private sources	0.6	18.2	81.8	100.0
Attempted to apply for zakat from public source	2.7	20.8	79.2	100.0
Received no zakat and did not attempt to apply for zakat	93.1	32.4	67.6	100.0
All sample households	100.0	31.4	68.6	100.0

Note: "Public source" refers to zakat received from the Government through local zakat committees, "private sources" refers to all other sources.

Source: Author's estimates based on the Pakistan Socio-economic Survey 2000/01.

It is commonly argued that the number of zakat recipients recorded in household surveys (usually the Pakistan Integrated Household Survey) generally falls far below official data on recipients, suggesting that some beneficiaries may have avoided mentioning that they were recipients when interviewed, perhaps due to recall error or even embarrassment (Heltberg 2004, footnote 5). Official data show that, when the PSES was carried out in 2000/01, public zakat was disbursed to 1.1

million beneficiaries. The number of beneficiaries of the Guzara Allowance that year was 0.72 million. Mustahiqeen receive regular zakat under this allowance; the questions asked in the PSES and similar surveys are likely to have referred primarily to zakat received under this head. Based on PSES data, this paper estimates that approximately 0.6 million households received zakat in 2000/01 from a public source. This number is very close to that of official recipients of zakat under the Guzara Allowance in that year, i.e., 0.72 million. It appears that a well designed set of questions, if included in a nationally representative survey and put forward suitably by enumerators, can reflect more accurate results for zakat receipt from a public source.

Nonetheless, current coverage of public zakat is far less than the eligible population. In 2000/01, one third of Pakistan's total households were below the poverty line, making approximately 7 million households eligible for zakat. Even assuming that all public zakat funds were disbursed only among these poor households and there was no leakage to nonpoor households, coverage was abysmally low, hardly a tenth of the needy population.

*Not all households below the poverty line necessarily want to receive zakat.*

However, not all households below the poverty line necessarily want to receive zakat, whether from public or private sources. As mentioned above, the PSES asked households who had not received any zakat from a public source whether they had ever tried applying for it. Table 6 shows that 2.7% of the total sample households had ever applied for zakat from a public source. Interestingly, this proportion is almost equal to that of households who received zakat from a public source in 2000/01 (2.8%), suggesting that doubling the number of beneficiaries would adequately cover the neediest families.

Table 6 also reveals an interesting piece of information concerning the geographical distribution of zakat recipients by source of zakat received. Approximately 90% of beneficiaries who received zakat from a public source were located in rural areas, while three quarters of those receiving zakat from private sources were from rural areas. About 80% of households who applied for zakat from a public source were also located in rural areas, whereas one third of households who neither applied for nor received zakat were from urban areas. These simple statistics reinforce the argument that needy beneficiaries are concentrated in rural areas. The distribution of zakat primarily in such areas is thus a step in the right direction.

## 5.2 Efficiency of Public Zakat System in Targeting Poverty

The last few decades have engendered considerable discussion in different studies as well in the media, on the efficiency of zakat programs in targeting the poor. As mentioned earlier, there are concerns about corruption and nepotism in the disbursement of zakat. Table 7 presents data on the distribution of zakat recipients and nonrecipients by quintile, computed as an equal number of households sorted by per capita expenditure. Each quintile comprises 20% of households; the first quintile is the poorest and the fifth, the richest. The table includes three geographical panels: urban, rural, and all areas. The following discussion focuses separately on the rural and urban panels.

In rural areas, 85% of zakat recipients (whether receiving zakat from public or private sources) belongs to the first and second quintiles. Approximately two thirds (64%) of rural beneficiaries of public zakat are in fact in the first (poorest) quintile. However, Table 7 also shows that 15% of rural beneficiaries of public zakat are from the middle-income groups (the third and fourth quintiles). A similar proportion of private zakat beneficiaries also fall within these quintiles. More than a quarter of rural households who received zakat from both sources are concentrated in the middle-income groups. It is worth noting that no single beneficiary household, rural or urban, is found in the fifth (richest) quintile.

In urban areas, however, public zakat does not adequately target the poorest households since 51% of total urban beneficiaries belong to the middle-income groups. Private zakat seems to target the urban areas relatively better. One reason for this could be that the zakat committees constituted in affluent urban communities disburse funds to households who are relatively poor but still economically better off than many households in poor urban communities. One solution could be to constitute urban area zakat committees only in poor *kachhi abadis* (slums) that would specifically target their needy populations. Private zakat givers in affluent urban communities could then take care of the needy living in their localities.

Table 7 also shows that, in rural areas, a quarter of the households who tried to have their names included in the list of mustahiqeen fall in the third and fourth quintiles, and only one third (36%) in the first (poorest) quintile. This suggests that many households who apply for public zakat are relatively better off than those who actually receive it. However, this does not mean that they are ineligible for zakat altogether. Rather, it indicates the inadequacy of the zakat system in covering all needy households.

*Private zakat seems to target the urban areas relatively better.*

The data in the last column of Table 7 also warrant discussion. They show that, in rural areas, about 46% of households in the first and second quintiles, most of whom would be below the poverty line, did not try to apply for public zakat. Assuming they were eligible, why would they not have put their names forward? There seems to be an interplay of several factors here. First, as mentioned earlier, many poor families may be averse to receiving zakat from a public source, particularly those who have been pushed into poverty by a recent shock, e.g., bad weather or drought, unemployment, or illness—they may consider asking for zakat beneath their dignity. It is important that LZCs approach such families tactfully and include them in their list of mustahiqeen. Second, the zakat they are likely to receive may not be sufficient to solve their economic problems. Third, poor families may be victims of the local power structure, unable to put their names forward as beneficiaries because they have no links with this structure.

*Poor families may be unable to put their names forward as beneficiaries because they have no links with the local power structure.*

**Table 7: Distribution of Sample Households by Quintile (Zakat Recipients and Nonrecipients)**

Quintile	Zakat Recipients (%)			Zakat Nonrecipients (%)	
	Public Source	Private Source	Public and Private Sources	Attempted to Apply for Zakat	All Other Households
All Areas					
1 <sup>st</sup> (Poorest)	61.0	56.1	60.0	33.0	17.7
2 <sup>nd</sup>	19.8	25.5	8.9	34.0	19.6
3 <sup>rd</sup>	10.8	7.7	16.6	17.8	20.5
4 <sup>th</sup>	8.4	10.7	14.4	8.8	20.8
5 <sup>th</sup> (Richest)	0.0	0.0	0.0	6.4	21.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Urban Areas					
1 <sup>st</sup> (Poorest)	37.1	12.8	44.9	23.0	7.2
2 <sup>nd</sup>	11.5	58.5	9.5	16.9	12.6
3 <sup>rd</sup>	17.6	11.7	6.5	17.8	17.3
4 <sup>th</sup>	33.8	17.0	39.1	13.3	23.6
5 <sup>th</sup> (Richest)	0.0	0.0	0.0	28.9	39.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Rural Areas					
1 <sup>st</sup> (Poorest)	64.0	70.6	63.4	35.6	22.8
2 <sup>nd</sup>	20.9	14.4	8.8	38.4	23.0
3 <sup>rd</sup>	9.9	6.4	18.9	17.8	22.0
4 <sup>th</sup>	5.2	8.6	8.9	7.6	19.5
5 <sup>th</sup> (Richest)	0.0	0.0	0.0	0.5	12.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Notes: "Public source" refers to zakat received from the Government through local zakat committees; "private sources" refers to all other sources. Figures may not add up to total because of rounding.

Source: Author's estimates based on the Pakistan Socio-economic Survey 2000/01.

Table 8 presents data on the amount of zakat received by households both from public and private sources. In the first case, in rural areas, the bottom 20% of households received on average PRs2,507 from their LZCs, and this amount was almost double that given to households in the third and fourth quintiles. In urban areas, however, more public zakat on average was transferred to the middle-income group than to the poorest quintile. Although a fixed amount of zakat is transferred to all beneficiaries' bank accounts, suggesting that they all receive similar amounts, there are three ways in which these amounts might differ. First, beneficiaries may not have received all the installments of zakat disbursed during the year preceding the survey. There are always some dropouts as well as new entrants in the list of mustahiqeen. Second, some beneficiaries may have had to pay bribes from the zakat amount they were eligible for, which is likely to have reduced total receipts (see Section 5.3 for further discussion on this). Third, zakat is allocated under different heads and the amounts disbursed may vary against these heads.

**Table 8: Mean Zakat Received from Public and Private Sources by Quintile**

Quintile	All Areas (PRs)			Urban Areas (PRs)			Rural Areas (PRs)		
	Public	Private	Both	Public	Private	Both	Public	Private	Both
1 <sup>st</sup> (Poorest)	2,364	2,376	3,256	409	2,144	1,943	2,507	2,390	3,463
2 <sup>nd</sup>	1,505	2,995	2,138	2,64	148	1,881	1,426	1,121	2,200
3 <sup>rd</sup>	1,191	1,603	1,985	1,242	1,246	4,000	1,187	1,174	1,831
4 <sup>th</sup>	1,197	3,653	2,269	1,307	3,119	2,765	1,107	4,380	1,782
5 <sup>th</sup> (Richest)	0	0	0	0	0	0	0	0	0
Total Mean Zakat Received	1,979	2,617	2,197	1,099	1,935	2,392	2,078	2,316	2,894

Note: "Public source" refers to zakat received from the Government through local zakat committees; "private sources" refers to all other sources.

Source: Author's estimates based on the Pakistan Socio-economic Survey 2000/01.

In the case of private zakat distributed both in rural and urban areas, households in the upper middle-income group received more zakat than the lower-income quintiles. Why are private zakat-givers more inclined to give zakat to relatively better-off households? One of the main reasons for this is that Islamic teachings advocate giving zakat and other charitable donations (*sadqat*) to the poor among family members or even neighbors before donating elsewhere. Thus, better-off households are more likely to help relatives or neighbors in need than others, even if they are not among the poorest; shocks such as serious illness or unemployment can make them eligible for such funds.

*Private zakat-givers are more inclined to give zakat to relatively better-off households.*

To assess how efficiently zakat targets the poor, Table 9 compares the characteristics of zakat recipient households with nonrecipients. The results are interesting and in line with the earlier discussion, revealing that,

in general, zakat recipients (whether of public or private donations) are poorer than nonrecipients. For example, a sizeable proportion of beneficiaries 24% receiving public zakat and 34%, private zakat—were households headed by females, while the corresponding proportion of households who had applied for but not received zakat, was relatively small.

Housing is a commonly used indicator in targeting the poor. Table 9 also compares public and private zakat recipients in terms of housing characteristics, indicating that the former are poorer. For example, the proportion of houses with electricity is lower among zakat recipients than nonrecipients. More than 40% of public zakat recipients live in a one-room kachha (footnote 1) house. In other indicators such as literacy of the household head, zakat recipients, particularly those receiving public donations, seem to be at a disadvantage.

This descriptive analysis highlights some of the differentials in zakat targeting. Using a multivariate analysis, it is possible to highlight the relative importance of individual and household factors that influence the decision of zakat committees or private zakat donors. The analysis estimates five logit models, among which the first three use zakat received or not during the year preceding the survey as the dependent variable. Model 1 applies to households who received public zakat, and Model 2 to households who received zakat from private sources. For comparison, households who applied for (but did not receive) zakat as mustahiqeen are included in Model 3. To test the effectiveness of self-selection, Model 4 focuses on households who did not apply for zakat at all. Model 5 then determines dominant characteristics of the poor and links these to the characteristics of zakat recipients. The poverty line used in the latter model was computed by Qureshi and Arif (2001) for the 1998/99 period, and applied here (2000/01 PSES data) after making the necessary price adjustments.

*Households who are headed by older persons and poor widows are more likely to receive zakat.*

The age of the household's head occurs as a variable in Models 1 to 3. Households who are headed by older persons are more likely to receive zakat. Poor widows are usually given preference in charitable donations, and a poor household headed by a widow is more likely to be included in an LZC's list of mustahiqeen. Private zakat donors are also more likely to transfer funds to these households. Given this likelihood, a dummy household headed by a widow is also incorporated into all five models. The analysis also takes into account various characteristics of the head of a household, such as literacy and working status. Other independent variables include size of family, ownership of house, number of rooms, access to electricity, debt, and remittances. Operational definitions of all these variables, as well as their mean, minimum, and maximum values are given in the appendix to this paper (Table A.1).

**Table 9: Socioeconomic Profile of Sample Rural Households (Zakat Recipients and Nonrecipients)**

Socioeconomic Characteristics	Zakat Recipients (%)			Zakat Nonrecipients (%)	
	Public Sources	Private Sources	Public and Private Sources	Attempted to Apply for Zakat	Did Not Apply for Zakat
Occupies Own House	78.7	86.8	60.3	85.9	87.8
Lives in Nonrented House <sup>a</sup>	11.7	10.2	22.0	7.0	6.5
Lives in One-Room House	42.5	29.6	42.1	29.7	22.7
Lives in Pucca House <sup>b</sup>	20.9	27.1	14.9	15.3	40.1
Has Electricity	53.7	72.3	67.3	80.2	80.0
Has Gas Connection	5.0	18.5	12.3	8.4	24.5
Has Telephone	0.0	1.0	0.0	1.3	13.4
Mean Family Size (no.)	5.8	5.7	5.1	6.5	7.1
Head is Female	23.9	34.3	29.9	12.6	4.9
Head is Employed	56.4	56.9	61.6	37.9	24.3
Head is Literate	16.5	30.0	5.2	27.8	45.0
Receives Remittances	9.1	10.1	12.9	15.0	10.5
Is in Debt	68.5	56.0	80.3	65.8	50.4

Note: "Public source" refers to zakat received from the Government through local zakat committees; "private sources" refers to all other sources.

<sup>a</sup> This implies that the household lives in a house it neither owns or rents, e.g., if living with relatives or in a house allocated by a rural landlord.

<sup>b</sup> "Pucca" refers to solid or permanent construction, using bricks and cement.

Source: Author's estimates based on the Pakistan Socio-economic Survey 2000/01.

The results of the analysis are presented in Table 10 in the form of odds ratios [exp (b)], where a value less than 1 indicates a negative impact, and a value greater than 1, a positive impact. The odds ratio of the reference category remains constant at 1. The findings of this analysis are interesting. Overall, the public zakat system seems to target its beneficiaries well. These households appear to be more disadvantaged than households who received zakat from private sources or tried to enlist themselves as eligible mustahiqeen. Age, education (literacy), and housing—characteristics such as ownership of residence, number of rooms, and electricity—were significant only in Model 1 (public zakat). Three variables, i.e., widowhood of household head, working status of household head, and debt, were significant in all three models. These results imply that in addition to these three variables, LZCs take into consideration other factors such as housing, and the age and education or literacy of the household's head (Table 10).

The results of the fourth model, which indicates the correlates of "did not apply for zakat," are in line with the first three models. Household headship (widows), debt, and housing (households living in a one-room house) have a negative impact on the dependent variables, which are positively correlated with the probability of receiving zakat, particularly from a public source (Model 1). Education, ownership of residence, and

*Overall, the public zakat system seems to target its beneficiaries well.*

*The working status of household heads has a positive impact on keeping households from applying for zakat.*

working status of household head have a positive impact on keeping households from applying for zakat. To some extent, the results of Model 4 reveal how effective this process of “self-selection” is among households who choose whether to apply for zakat or not.

**Table 10: Logistic Regression Effects on Zakat Recipients and Nonrecipients (Odds Ratios)**

Correlates (Socioeconomic Characteristics)	Zakat Recipients		Zakat Nonrecipients		Poverty Status (Model 5)
	Public Sources (Model 1)	Private Sources (Model 2)	Attempted to Apply for Zakat (Model 3)	Did Not Apply for Zakat (Model 4)	
Age of Head	0.984	1.000	1.002	1.001	0.985
Age of Head <sup>2</sup>	1.000	1.000	1.000	1.000	1.000
Head is Widow	2.538	2.393	2.294	0.374	0.861
Family Size	0.962	0.968	0.960	1.054	1.232
Head is Literate	0.469	1.103	0.725	1.549	0.639
Head has Matriculated	0.520	0.263	0.350	2.741	0.402
Working Status of Head	0.393	0.394	0.663	1.939	0.971
Ownership of House Occupied	0.612	0.920	0.896	1.482	0.743
Lives in Pucca House <sup>o</sup>	0.660	0.666	0.393	2.016	0.386
Lives in One-Room House	1.288	1.650	1.355	0.733	1.340
Has Electricity	0.492	0.816	1.404	1.231	0.681
Is in Debt	1.460	2.135	2.465	0.435	1.118
Received Remittances Last Year	0.835	0.692	1.428	0.918	0.686
Urban	0.780	1.290	0.925	0.992	0.559
Constant	0.297	0.025	0.038	4.344	1.051
-2 Log Likelihood	735.722	528.605	1,045.216	1,796.017	434.494
Value of N	3,957	3,957	3,831	3,957	3,957

■ Significant at 5% or less

■ Significant at 10% or less

Note: “Public source” refers to zakat received from the Government through local zakat committees; “private sources” refers to all other sources.

<sup>o</sup> “Pucca” refers to solid or permanent construction, using bricks and cement.

Source: Author’s estimates based on the Pakistan Socio-economic Survey 2000/01.

Model 5 (the last column in Table 10) reflects the dominant characteristics of the poor which by and large are similar to those of households who received public zakat. However, an important variable that did not emerge as statistically significant is households headed by widows. Previous studies that have examined the relationship between households headed by females and poverty show similar results (footnotes 19 and 26). Yet, as mentioned earlier, widows in particular are considered eligible for zakat, because they are often destitute and classified as the poorest of the poor. Given this, why has it failed to prove a significant

variable in Model 5? The main reason for this phenomenon could be that widows often receive support from relatives and neighbors in cash/kind. Although it may not be possible for them to build any asset base from this support, they can probably meet their basic needs, particularly food, clothing, and shelter, i.e., those variables used to estimate the poverty line as well as poverty levels. Moreover, the PSES shows that the average size of households headed by widows is considerably smaller (4.9 persons) than that of households headed by males (7.3 persons). Continuous assistance from relatives and public institutions (through zakat) probably keeps their consumption level at par with households headed by males.

These findings correspond to those of Toor and Nasar (2003), whose study sampled four districts in Sindh.<sup>36</sup> They found that 33% (urban) and 48% (rural) of zakat recipient households had no earning member, that about 60% of zakat recipients were illiterate, and that the average per capita household expenditure was approximately PRs600 per month.<sup>37</sup> Toor and Nasar (2003) argue that, while people can misrepresent their circumstances to enumerators, the material circumstances of the houses sampled seemed consistent with considerable poverty. Ninety-one percent of the rural households interviewed were landless; 46% had no electricity; 47% occupied a one-room house (33% in urban areas); and 93% and 57% of rural and urban households, respectively, had kachha floor construction.

In short, the findings of this study suggest some success in zakat targeting, particularly in rural areas. It is safe to say that public zakat funds are not allocated randomly, but some portion of zakat funds, particularly in urban areas, does slip toward relatively better-off households. The analysis also shows that there is a large number of poor households who deserve to be included in their LZCs' list of mustahiqeen (Model 3), but are not. The inadequate resources available to the LZCs keep them from disbursing zakat to all households who might be classified as the poorest of the poor. For the LZCs themselves, selecting only a few beneficiaries from a large pool of poor households is not an easy decision. The Government should seriously consider enhancing the resources that are disbursed under the zakat system, but after improving the process under which mustahiqeen are selected.

*Some portion of zakat funds does slip toward relatively better-off households.*

### 5.3 Leakage of Zakat Funds

Another important dimension of the efficiency of zakat targeting is whether mustahiqeen receive the full benefits of the zakat disbursed. In the PSES for 2000/01, zakat recipients were asked whether they had received

<sup>36</sup> Toor, I. A., and A. Nasar. 2003. *Zakat as a Social Safety Net: Exploring the Impact*. Research Report No. 53. Karachi: SPDC.

<sup>37</sup> For earlier work, see Shirazi 1996 (footnote 8).

*More than a third of zakat recipients reported that they did not receive the full amount due to them.*

the full amount of zakat due to them the preceding year. If they answered no, they were asked “to report the total amount of zakat not given” to them. Despite these questions being put to them very clearly, it is possible that some respondents were unaware of the actual amount they were entitled to as zakat. Their answers may thus have been under- or even over-reported.

An analysis of these questions is given in Table 11, but the results must be viewed cautiously because they are based on respondents' replies, not on objective data. Overall, more than a third of zakat recipients (35%) reported that they did not receive the full amount due to them in the year preceding the survey. Forty percent of the urban zakat recipient sample did not receive the full amount, while the corresponding figure for rural households was 34%. Compared with households in the middle quintiles (third and fourth), more households in the two bottom quintiles (first and second) reported not receiving the full amount of zakat due. Table 11 shows that 43% of households in the second quintile complained that they had not received the money they were entitled to. In all these cases, the proportion of households who did not receive the full amount of zakat due to them is alarmingly high.

**Table 11: Households Who Did Not Receive Full Zakat Dues**

Quintile	All Areas (%)	Urban Areas (%)	Rural Areas (%)
1 <sup>st</sup> (Poorest)	33.6	45.8	34.9
2 <sup>nd</sup>	38.4	4.3	43.0
3 <sup>rd</sup>	23.2	50.4	18.3
4 <sup>th</sup>	37.1	46.1	24.5
5 <sup>th</sup> (Richest)	0.0	0.0	0.0
All	34.8	39.9	34.1

Note: The table includes households who received zakat from a public source (i.e., local zakat committee).

Source: Author's estimates based on the Pakistan Socio-economic Survey 2000/01.

With respect to the proportion of zakat that was not or could not be transferred to beneficiaries, Table 12 shows that, in rural areas, this proportion was about 14% while in urban areas, it was 21%. There was no variation across the quintiles in rural areas in terms of proportion of zakat that could not be transferred. In urban areas, households in the first quintile received 40% or less of the zakat funds due to them. Although the reliability of these figures depends on whether respondents were aware of the amounts they were entitled to, it is commonly perceived that these funds are not transferred in full to the mustahiqeen.

Unfortunately, there is no ready answer as to why this happens. Zakat is distributed through bank cheques that normally reflect the full amount beneficiaries are entitled to. However, there seems to be an organized system of bribery and corruption under which beneficiaries are often forced to give up part of their zakat amount. According to the

Participatory Poverty Assessment (footnote 27), for example, zakat recipients in Sindh reported that they had to bribe the officials concerned to get their zakat cheques at all. Recipients in Balochistan pointed toward the chairpersons of their LZCs, accusing them of appropriating money from the zakat fund. Thus, even when zakat targets the poor, corruption and bribery reduce the value of the transfer.

*Even when zakat targets the poor, corruption and bribery reduce the value of the transfer.*

**Table 12: Zakat Leakages: Proportion of Zakat Not Received by Beneficiaries**

Quintile	All Areas (%)	Urban Areas (%)	Rural Areas (%)
1 <sup>st</sup> (Poorest)	16.2	41.3	14.2
2 <sup>nd</sup>	13.5	4.3	14.3
3 <sup>rd</sup>	8.0	7.3	8.1
4 <sup>th</sup>	14.0	13.0	15.2
5 <sup>th</sup> (Richest)	0.0	0.0	0.0
All	14.4	21.1	13.5

Source: Author's estimates based on the Pakistan Socio-economic Survey 2000/01.

## 5.4 Effectiveness in Selecting Beneficiaries

The earlier discussion engenders other important questions. How are lists of zakat mustahiqeen prepared, and are there people likely to influence these lists? These are crucial questions because there are nowhere near enough funds to allocate to the number of people eligible. For example, in a rural locality under the jurisdiction of a particular LZC, several hundred households may be eligible for zakat. The LZC then has to choose the poorest of the poor to disburse zakat funds. How effective are these committees, and how much real power do they have in choosing the required number of beneficiaries from a large pool of the poor? In the PSES, recipients of public zakat were asked who had included their names as eligible beneficiaries. The replies to this question are presented in Table 13, and clearly show how the local power structure influences the final list of zakat beneficiaries. Less than 60% of zakat recipient households in rural areas were selected by their LZC or its chairperson. The names of 42% of zakat recipients were included in these lists on the recommendation of local councilors or other influential persons, including local landlords, religious leaders, or relatives of members of the zakat committees.

As reported earlier, one fifth of zakat recipients was found in the third and fourth quintiles—households who may not have been classified as mustahiqeen. Table 13 clearly shows that about 60% of rural households in the fourth quintile were not selected by their LZC; rather, their names were included on the recommendation of either the local councilor or other influential person. In urban areas, more than 70% of households in the third quintile received zakat, primarily on the recommendation of their

*Politicization seems to be a major problem affecting the distribution of zakat.*

local councilor. Such politicization, i.e., favors for political gain, seems to be a major problem affecting the distribution of zakat.

**Table 13: Distribution of Zakat Recipients by Source of Zakat Received**

Quintile or Area	Local Zakat Committee	Local Councilor	Other	All
Urban Areas (%)				
1 <sup>st</sup> (Poorest)	74.8	0.0	25.2	100.0
2 <sup>nd</sup>	93.3	6.7	0.0	100.0
3 <sup>rd</sup>	29.2	56.2	14.6	100.0
4 <sup>th</sup>	79.6	6.6	14.8	100.0
5 <sup>th</sup> (Richest)	0.0	0.0	0.0	0.0
All	72.1	10.9	16.9	100.0
Rural Areas (%)				
1 <sup>st</sup> (Poorest)	53.9	19.8	26.4	100.0
2 <sup>nd</sup>	77.1	20.4	2.5	100.0
3 <sup>rd</sup>	58.1	27.1	14.8	100.0
4 <sup>th</sup>	40.7	16.4	42.0	100.0
5 <sup>th</sup> (Richest)	0.0	0.0	0.0	0.0
All	57.8	20.6	21.6	100.0

Note: The table includes households who received zakat from a public source (i.e., local zakat committee).

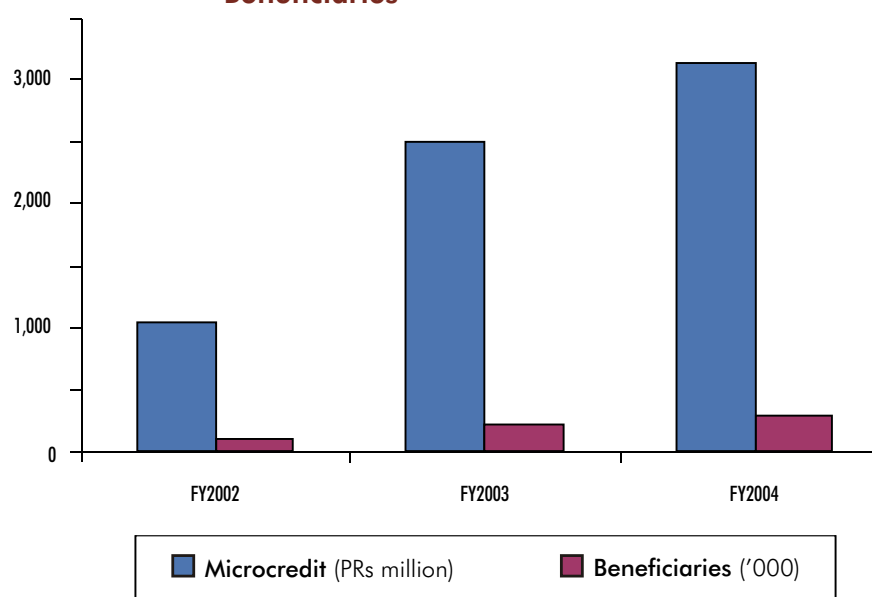
Source: Author's estimates based on the Pakistan Socio-economic Survey 2000/01.

## 6 Microfinance

Another important component of the Government's poverty reduction strategy is the expansion of the microfinance facility to channel benefits to the poor. Figure 5 indicates the total microcredit disbursed by three major sources: the Khushali Bank, PPAF, and Zarai Taraqati Bank. More than PRs3 billion was disbursed in 2003/04 to 286,000 people. In the last 3 years, there has been a sharp rise in the total amount of microcredit disbursed as well as the number of beneficiaries (Appendix, Table A.2), although in terms of the latter, the coverage of microfinance organizations remains low. Recently, the Government has begun to encourage such organizations, particularly rural support programs, to extend their outreach to a much larger population.

*The Government has begun to encourage microfinance organizations to extend their outreach.*

**Figure 5: Microcredit Disbursement and Number of Beneficiaries**



FY = fiscal year.

Source: Government of Pakistan. 2004. PRSP Progress Report, 2003–04.  
Available: <http://www.finance.gov.pk/poverty/home.html>

More than 50% of the total microcredit disbursed so far has been through the PPAF, which acts as a funding provider for microfinance organizations rather than a microfinance organization itself. The PPAF lends to partner organizations, which then lend to individuals and groups within their target communities. Loan collateral and responsibilities for repayment, therefore, belong to the partner organizations and communities. At present, more than 90% of the total PPAF disbursements have been channeled to different rural support programs (RSPs), 50% to the National Rural Support Programme (NRSP) alone (Hussain 2003, footnote 7). Although RSPs have played a central role in introducing and popularizing the participatory approach to poverty reduction in Pakistan, its benefits have reached only a small number of beneficiaries.

As in the case of cash transfers through zakat, targeting is also a critical issue in the disbursement of microcredit. Unfortunately, despite some major recent initiatives in microcredit, no credible representative study has been carried out yet to determine the targeting efficiency of these initiatives.<sup>38</sup>

*A significant majority of the members of COs are drawn from among the poor and very poor.*

## 6.1 Targeting Approaches Used by Microfinance Organizations

The RSP approach involves a number of key players in the process of poverty targeting. These include social organizers and activists within communities, who bear the greatest responsibility for ensuring participation of the poor and channeling program benefits to them. The main feature of this approach is that a significant majority of the members of COs are drawn from among the poor and very poor.<sup>39</sup> The risk however is that the poor either remain excluded or benefit very little from their participation in the program. It is argued that some RSP requirements, such as regular savings by CO members and collateral for loans, tend to limit the participation of the weak and very poor in the CO (footnote 39).

It is thus essential to identify the poor and nonpoor and quantify their representation in a CO. RSPs depend primarily on their communities to define and identify the poor and nonpoor, rarely relying on verifiable economic and social indicators. Community members classify their households into one of five categories: (i) destitute, (ii) very poor, (iii) poor,

<sup>38</sup> Nonetheless, a few survey-based studies on the performance of the PPAF and Khushali Bank are in progress, one of them taken by the Asian Development Bank Institute on the Khushali Bank. The results of this study show a positive impact of microcredit through Khushali Bank on the overall well-being of credit-receiving households (Montgomery 2005, footnote 8).

<sup>39</sup> Khan, M. H. Date not available. *The Rural Support Programmes in Pakistan: Methods for Assessment of Cost and Impact*. Islamabad: Rural Support Programmes Network.

(iv) better off, and (v) well off. Respondents enlist the name of their heads of households, and then classify each household through consensus. Once the CO has been organized, this information is crosschecked and verified by its members. However, there is no attempt to collect verifiable data even on a sample basis on how representative the membership of the CO is and what economic status its member households are accorded (footnote 39).

It is worth noting that microfinance organizations use different approaches to targeting the poor. Even the PPAF's partner organizations (other than RSPs) use different approaches to ensure the participation of the poor. The organization Damen, for example, does not categorize its target communities into socioeconomic groups, because it holds that poverty targeting is intrinsic to its program design since the affluent would not find Damen's mode of service delivery befitting to their social standing. Only the poor are likely to opt for membership because the program is designed to cater only to their needs—credit worth PRs5,000, for example, will not attract the well off.

Damen does not collect poverty profile or baseline data, depending instead on the loan application form its beneficiaries are required to submit, which largely establishes their socioeconomic status.<sup>40</sup> Another organization, the Sindh Agricultural and Forestry Workers Coordinating Organization, collects poverty-related benchmark data from different villages, using a questionnaire designed to collect baseline information. This provides a clear picture of respondents' social and economic status, distinguishing between the poor and nonpoor on the basis of income and assets such as livestock, landholdings, and construction type (kachha or *pucca*).<sup>41</sup> A third organization, the Taraqee Foundation, claims to target the poorest of the poor. Its targeting criteria require that (i) people be permanent residents of the locality or village in which the foundation is implementing a program, (ii) one family member from every eligible household may join the program; and (iii) the monthly income of a participating household should be between PRs1,000 and PRs5,000 (footnote 40).

What emerges from this brief review is that most microfinance organizations use, at least, a loose criterion to identify poor and nonpoor households. However, as noted above, evidence on the targeting efficiency of microfinance is slim. This paper focuses on land ownership, household income, poverty status, and housing characteristics as important elements identifying the poor and their eligibility for microcredit.

*Most microfinance organizations use a loose criterion to identify poor and nonpoor households.*

<sup>40</sup> PPAF. 2002. *Pakistan Poverty Alleviation Fund: Impact Assessment of Community Physical Infrastructure Projects*. Islamabad: PPAF.

<sup>41</sup> "Pucca" refers to solid or permanent construction, using bricks and cement.

## 6.2 Land Ownership

Tables 14 and 15 present data on land ownership among microcredit beneficiaries. In SRSO treatment villages, 63% of the sample households did not own any land; the difference between participating and nonparticipating households is quite small, with 62% of the former and 58% of the latter being landless households. The average size of landholdings is about 5 acres per household, with about 3 acres per owner-household among nonparticipating households and nearly 6 acres among participating households in the treatment villages. This implies that relatively better-off households participated in the program since the land they own is on average double that owned by nonparticipating households. Table 14 also shows that, compared with 8% of participating households, only 2% of nonparticipating households owned 5 or more acres of land.

**Table 14: Landholdings Owned by Sample Households (%)**

Size of Landholding (Acres)	Treatment Villages			Control Group	All Villages		
	Member	Nonmember	All		Member	Nonmember	All
0 (Landless)	61.8	66.7	63.4	38.5	61.8	58.1	60.3
Up to 1	9.6	10.0	9.7	12.8	9.6	10.9	10.1
>1 to 2	4.5	7.8	5.6	12.8	4.5	9.3	6.5
>2 to 5	16.3	13.3	15.3	12.8	16.3	13.2	15.0
>5 to 12	3.9	1.1	3.0	17.9	3.9	6.2	4.9
>12 to 25	2.2	1.1	1.9	5.1	2.2	2.3	2.3
>25	1.7	0.0	1.1	0.0	1.7	0.0	0.9
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Khan, M. H. 2004. *Methods for Assessment of Rural Poverty, Projects and Programme Impact: A Handbook for Practitioners in Rural Support Programmes*. Islamabad: Rural Support Programmes Network.

Data on landholdings are also given in Table 15: 60% of NRSP beneficiaries, 35% of Pakistan Institute for Environment Development Action Research (PIEDAR), 20% of Khwendo Kor, and 10% of Kashf respondents owned some land (Hussain 2003, footnote 7). In terms of size distribution of land owned, the NRSP stand out with 50% of its landowning beneficiaries owning over 11 acres of irrigated land. The corresponding percentages in the case of PIEDAR and Khwendo Kor were 11% and 83%, respectively. Again, these microcredit programs appear to reach largely the nonpoor, while the poor either remain excluded or benefit very little from their participation in the program. In terms of land ownership, microcredit targeting is not particularly impressive.

*In terms of land ownership, microcredit targeting is not particularly impressive.*

**Table 15: Canal-Irrigated Land Owned by Zakat Beneficiaries**

Size of Landholding (Acres)	NRSP (%)	PIEDAR (%)	Khwendo Kor (%)	Kashf (%)
1–5	29.2	11.1	16.7	75.0
6–10	20.8	77.8	0.0	25.0
11–25	29.2	11.1	33.3	0.0
>25	20.8	0.0	50.0	0.0
All	100.0	100.0	100.0	100.0

NRSP = National Rural Support Programme, PIEDAR = Pakistan Institute for Environment Development Action Research.

Source: Hussain, A. 2003. *Pakistan National Human Development Report 2003: Poverty, Growth and Governance*. Karachi: United Nations Development Programme and Oxford University Press.

### 6.3 Household Income

Other important variables that need to be considered when targeting the poor through microcredit programs include household income, expenditure, and poverty status. Khan (2004) has estimated the incidence of poverty among participating and nonparticipating households in the SRSO treatment villages (footnote 7), and the results show that there is quite a large difference between the proportion of participating and nonparticipating poor households (50% for the former and almost 64% for the latter) (Table 16). There are also significant differences in household expenditure levels in the treatment and control villages. The monthly per capita expenditure for the overall sample is PRs746, but with significant differences between participating and nonparticipating households (PRs825 and PRs660, respectively). The per capita monthly income of participating households was slightly higher than that of nonparticipating households. It is likely that this difference in expenditure and poverty is due to the credit that participating households receive, but it is worth noting that, in terms of land ownership, participating households are in general better off than nonparticipating households. Access to microcredit does not affect land ownership in the short to medium term, but effective utilization for land cultivation can help improve the consumption level of household members.

Hussain (2003) reveals a similar assessment. By assuming an average of six persons per household and defining as poor all those households earning less than PRs5,000, using the poverty line of PRs748 per capita, the study concludes that the target group for microfinance is not necessarily the poorest (footnote 7). Target households are more likely to include those in the middle quintiles, in the range just above and below the poverty line (footnote 7).

*In terms of land ownership, participating households are better off than nonparticipating households.*

**Table 16: Poverty, per Capita Income, and per Capita Expenditure**

Item	Treatment Villages			Control Group	All Villages		
	Member	Nonmember	All		Member	Nonmember	All
Poor Households (%)	50.0	63.3	54.5	64.1	50.0	63.6	55.7
Per Capita Income (PRs)	498.0	480.0	491.0	491.0	498.0	484.0	491.0
Per Capita Expenditure (PRs)	825.0	654.0	764.0	670.0	825.0	660.0	746.0

Source: Khan, M. H. 2004. *Methods for Assessment of Rural Poverty, Projects and Programme Impact: A Handbook for Practitioners in Rural Support Programmes*. Islamabad: Rural Support Programmes Network

*PIEDAR has the largest proportion of respondents in the extremely poor category.*

Table 17 indicates the distribution of NGO beneficiaries by various classes of monthly household income. PIEDAR has the largest proportion of respondents in the extremely poor category: 23.0% with a monthly income of PRs1,000 or less, 44.0% with an income between PRs1,000 and PRs5,000 per month, and only 6.3% with incomes above PRs15,000 per month. In the case of Khwendo Kor, 17.1% of beneficiaries have a monthly household income of up to PRs1,000 and 43% between PRs1,000 and PRs5,000. Of the NRSP's respondents, this corresponds to 2.5% and 25%, respectively.

**Table 17: Distribution of Beneficiaries by Total Monthly Household Income (%)**

NGO	Total Monthly Household Income				Total
	<PRs1,000	PRs1,000–5,000	PRs5,000–15,000	>PRs15,000	
Khwendo Kor	17.1	42.9	31.4	8.6	100.0
PIEDAR	22.9	43.8	27.1	6.3	100.0
NRSP	2.5	25.0	45.0	27.5	100.0
Kashf	2.4	42.9	52.4	2.4	100.0
Orangi Welfare Project	5.3	36.8	52.6	5.3	100.0
Anjuman Samaji Bahbood	6.3	62.5	31.3	0.0	100.0

NGO = nongovernment organization, NRSP = National Rural Support Programme, PIEDAR = Pakistan Institute for Environment Development Action Research.

Note: Figures may not add up to total because of rounding.

Source: Hussain, A. 2003. *Pakistan National Human Development Report 2003: Poverty, Growth and Governance*. Karachi: United Nations Development Programme and Oxford University Press.

The largest proportion of respondents in the over PRs15,000 per month category are with the NRSP (27.5%) and the smallest with Kashf (2.4%). In terms of household income, the NRSP appears to target the poor least accurately compared with other NGOs in the sample.

## 6.4 Housing Characteristics and Literacy

Table 18 presents data on housing characteristics and literacy levels among the SRSO sample households. Just over one third of households occupy a pucca structure, while a much higher proportion of respondents (48%) and their families live in kachha structures, with over 54% among nonparticipants and 43% among participants. Over 80% of the homes sampled have up to two rooms (the average is 1.75) with 89% among nonparticipants in the treatment villages. More participant households than nonparticipants have access to electricity. The proportion of literate persons is much higher among participants than nonparticipant households. Nearly 27% of respondents have matriculated or progressed to a higher level of education, with 35% among participating households and only 14% among nonparticipating households. The former have a far higher proportion of literate males (67%) than the latter (47%). All these statistics show that nonparticipating households appear to be the most disadvantaged.

*The proportion of literate persons is much higher among participants than nonparticipating households.*

**Table 18: Profile of Participating and Nonparticipating Households (%)**

Socioeconomic Characteristics	Treatment Villages			Control Group	All Villages		
	Member	Nonmember	All		Member	Nonmember	All
Housing Indicators							
Kachha House <sup>a</sup>	47.6	42.7	54.4	46.6	53.8	42.7	54.3
≥ Two Rooms	78.7	88.9	82.4	76.9	78.8	84.4	81.4
Electricity	82.6	76.7	80.6	64.1	82.6	72.9	78.5
Literacy (Household Head)							
Not Literate	28.7	47.8	35.0	43.6	28.7	46.4	36.2
Matriculate	36.0	11.2	27.7	20.5	36.0	14.0	26.7
Literacy (Adult Members of Household)							
Not Literate	57.6	70.1	62.2	76.1	57.6	72.2	64.7
≥ High School	61.0	46.8	56.5	59.5	61.0	50.7	57.0

<sup>a</sup> "Kachha" refers to construction in material other than burned brick in cement, mortar, or concrete.

Source: Khan, M. H. 2004. *Methods for Assessment of Rural Poverty, Projects and Programme Impact: A Handbook for Practitioners in Rural Support Programmes*. Islamabad: Rural Support Programmes Network.

*More than 80% of NRSP beneficiaries experienced a sustainable increase in income after a loan.*

## 6.5 Microcredit and Household Well-Being

Table 19 presents Hussain's (2003) findings on sustainable income after loan. More than 80% of NRSP beneficiaries experienced a sustainable increase in income after a loan, but the study cautions that, "this must be qualified that NRSP also has the highest proportion of well-off beneficiaries [*sic*]." Other NGO beneficiaries represented in Table 19 also experienced an increase in sustainable income after loan, although in terms of percentage, the increase is lower than that experienced by NRSP beneficiaries (footnote 7).

With respect to the SRSO treatment villages, Khan (2004) concludes that, "the economic impact of the support program on rural households is substantially large and probably makes a significant difference to the households close to poverty line..." (footnote 7). This conclusion holds particularly for those rural households who participate in COs on a sustained basis over a long period, but given the small sample size, seems to be premature at this stage. Some rigorous research work may establish it more firmly.

**Table 19: Sustainable Income Increase after Loan**

Nongovernment Organization	Did Loan Result in Sustainable Increase in Beneficiary Household's Income?			
	Yes (%)	No (%)	Equal (%)	Total (%)
Khwendo Kor	42.9	47.6	9.5	100.0
Orangi Welfare Project	71.1	17.8	11.1	100.0
PIEDAR	56.5	21.7	21.7	100.0
NRSP	81.6	7.9	10.5	100.0
Kashf	66.7	33.3	0.0	100.0

NRSP = National Rural Support Programme, PIEDAR = Pakistan Institute for Environment Development Action Research.

Note: Figures may not add up to total because of rounding.

Source: Hussain, A. 2003. *Pakistan National Human Development Report 2003: Poverty, Growth and Governance*. Karachi: United Nations Development Programme and Oxford University Press.

The findings of another study carried out for the PPAF by Gallup Pakistan shows that, in general, low-income households who borrowed from the PPAF are better off today than they would have been without their loan.<sup>42</sup> On average their income levels have risen, consumption

<sup>42</sup> Gallup Pakistan 2004 (footnote 7). This study assesses the socioeconomic outcomes of the program on PPAF borrowers relative to a comparable group of nonborrowers at the individual, household, and enterprise /livestock /agriculture level. It was based on a "with-without approach and before-after approach." The quantitative data was gathered from over 1,700 households interviewed in 140 COs spread across 17 districts in all four provinces of Pakistan.

increased, and personal and business assets improved. Moreover, their lifestyle, in terms of housing facilities and social status, has also improved, particularly for women borrowers. The benefits of the PPAF loan emerge in terms of poverty reduction and improvement in basic lifestyle indicators. The direct impact of these loans on building business assets, generating employment, or the effect on other development indicators does not appear to be very significant. In NRSP program areas in two districts of Sindh, Lohano, Mukarram, and Jamal (2001) also show that borrowers perceived positive change in terms of income-generating activities and improved cash flow.<sup>43</sup> However, as said earlier, the results of the studies reviewed above do not provide rigorous counterfactual calculations on the impact of microcredit on income and, hence, are at best suggestive.

*The benefits of the PPAF loan emerge in terms of poverty reduction and improvement in basic lifestyle indicators.*

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<sup>43</sup> Lohano, H. R., F. Mukarram, and H. Jamal. 2001. *Credit to the Poor: Consultations with Borrowers*. Research Report No. 38. Karachi: SPDC.



## 7 The Lady Health Workers Programme

The LHWP is a broad-target scheme that was designed in the early 1990s with the objective of providing basic community services to all rural and poor urban areas in Pakistan. An LHW registers approximately 200 households or 1,000 individuals in her community to whom she offers a range of preventive and promotive services, including family planning. LHWs tend to be married women who are permanent residents of the area for which they have been recruited. They normally work from home, where they are required to designate one room as a “health house” (footnote 15). The present health system accords great importance to the LHWP; the Government aims to increase the number of LHWs from 70,000 to 100,000 to cater to a population of 100 million, while expanding and improving the effectiveness of health facilities. The LHWP is one of the programs monitored regularly in the PRSP quarterly reports (footnote 2).

This section evaluates the LHWP in two ways. First, it examines the geographical coverage of the program to determine whether the program has adequate coverage in poor areas (districts) of the country. This analysis is based on data given in the PRSP quarterly reports. Second, the section assesses the targeting efficiency of the program. As noted in Section 2, the incidence of poverty is relatively higher in southern Punjab and rural Sindh. Several recent studies have shown that health is one of the major problems facing poor households. By targeting poor areas as well as households, the LHWP can help improve the health status of the poor. Using the results of an evaluation study of the program, this section determines whether the LHWP has managed to reach the most disadvantaged groups or has focused on better-off households.

### 7.1 Geographical Coverage of LHWs

Table 20 presents province-level data for March 2004, showing that approximately 74,000 LHWs have been recruited so far to provide basic health services to the rural as well as urban population. The data show that 76% of LHWs or more than 50,000 were deployed in rural areas, covering about 75% of the rural population. However, the four provinces vary in terms of rural population covered, the largest being 86% in the

*Approximately 74,000 LHWs have been recruited to provide basic health services.*

North-West Frontier Province (NWFP), and the lowest, less than 60% in rural Sindh. Punjab and Balochistan point toward a more modest population coverage, 80 and 74%, respectively.

**Table 20: Coverage of Population by Lady Health Workers**

Province or Region	No. of LHWs			Rural-Based LHWs (%)	Rural-Population Covered (%)	Persons per LHW		
	Urban	Rural	Total			Urban	Rural	Overall
Punjab	7,637	26,274	33,911	77.48	79.45	990	1,113	1,085
Sindh	6,778	11,217	17,995	62.33	58.70	1005	863	916
NWFP	1,574	8,686	10,260	84.66	86.02	889	992	976
Balochistan	817	3,323	4,140	80.27	74.28	1,209	859	928
AJK	177	2,110	2,287	92.26	88.29	1,324	838	875
FANA	117	1,013	1,130	89.65	58.70	3,673	603	921
FATA	0	777	777	100.00	100.00	0	1,040	1,040
ICT	59	253	312	81.09	78.37	1,110	937	970
<b>Total</b>	<b>17,159</b>	<b>53,653</b>	<b>70,812<sup>a</sup></b>	<b>75.77</b>	<b>75.47</b>	<b>1,019</b>	<b>1,003</b>	<b>1,007</b>

AJK = Azad Jammu and Kashmir, FANA = Federally Administered Northern Areas, FATA = Federally Administered Tribal Areas, ICT = Islamabad Capital Territory, LHW = lady health worker, NWFP = North-West Frontier Province.

<sup>a</sup> Excludes 2,758 LHWs who were in training in March 2004.

Source: Government of Pakistan. 2004. PRSP Progress Report, 2003–04. Available: <http://www.finance.gov.pk/poverty/home.html>

District-level data are presented in the appendix (Table A.3), which indicates the number of LHWs stationed in rural and urban areas, population covered, and number of people per LHW. A significant number of LHWs are stationed in each district—the majority of these workers serve rural areas—but there is no proper mechanism to report the exact number of people covered by LHWs. In Punjab, for instance, a figure of 1,062 is reported for 32 districts out of a total of 35, while in most districts of Sindh and NWFP, this figure is 898 and 952, respectively. These figures appear to be targets for LHWs rather than actual figures; actual coverage may vary both because of differences in size of target household and LHW outreach. On the other hand, there are large variations in Balochistan's districts in terms of the number of people per LHW, implying that the province employs a relatively better reporting system.

Districts vary in terms of the size of population. The number of LHWs in each district should match the district population, but there appear to be wide variations instead. The total population of each district, as shown in the 1998 population census, has been divided by the number of LHWs serving in each district to calculate the average number of persons per LHW in each district (Appendix, Table A.4).<sup>44</sup> In Punjab, the average

*The number of LHWs in each district should match the district population, but there are wide variations.*

<sup>44</sup> District-level population data for the more recent period are not available, but the 1998 population census gives a good indication of variations in the average number of persons per LHW. See Government of Pakistan. 1998. *Population Census Data*. Islamabad: Federal Bureau of Statistics.

number of persons per LHW varies from 1,000 in Bhakkar, Jhelum, and Mandi Bahauddin, to 4,500 in Sheikhpura. In southern Punjab, however, one LHW caters for a relatively larger population, e.g., 3,300 in Muzafargarh, 3,500 in Rahimyar Khan, and 3,400 in Rajanpur. Obviously, more LHWs need to be appointed in southern Punjab, one of the poorest regions of the country. A better targeting approach is thus essential to make this program more effective, particularly if it is to serve poor areas on priority.

In Sindh, the situation is relatively better. The number of persons per LHW varies less, ranging from 800 to 2,000 persons (excluding Karachi). LHWs placed in Ghotki, Hyderabad, Sanghar, Tharparkar, and Thatta serve populations of between 1,600 and 2,100 people. In other districts of Sindh, the number of LHWs corresponds better to the target population of 1,000 people, although, as noted earlier, rural Sindh is inadequately served.

In NWFP, there are several districts—Buner, Hangu, Peshawar, Shangla, and Upper Dir—that require more LHWs to provide basic health facilities. Districts in Balochistan that face a similar problem include Bolan, Dera Bugti, Gwadar, Jhal Magsi, and Kila Abdullah.

Based on the data, the LHWP appears not to have reached all of Pakistan's remote and poor rural areas. These areas are those least likely to have a functional health facility and where recruiting suitable educated women to work as LHWs is probably the most difficult. According to the 1998 population census (footnote 44), there are a total of 46,242 rural localities (*mauzas* or *dehs*).<sup>45</sup> Given the Government's aim to increase the number of LHWs to 100,000 in the short term, this large number of workers should make it possible to place at least one LHW in each rural locality, and thus cover the more remote and poor rural areas as well. The LHWP needs to develop a target-based expansion strategy for rural areas if it is to counteract this problem and ensure that it serves the rural poor at least as well as it serves the rest of the rural population.

*The LHWP needs to develop a target-based expansion strategy for rural areas.*

## 7.2 Targeting the Poor under the LHWP

OPM (2002) has carried out an external evaluation of the LHWP, which provides some useful information on how well the program targets the poor (footnote 15). The study compares the target population covered under the LHWP with a control population, and its main findings are as follows.

- (i) Within their communities, LHWs are not trained or instructed to register poorer households when there is a

<sup>45</sup> A *mauza* is the smallest administrative unit in a rural area; a *deh* refers to a village.

choice, or to target their services to ensure that both poor and nonpoor households are served. Nonetheless, there is no evidence that LHWs target better-off households; rather, OPM (2002) produces considerable evidence that the LHWP appears either to be pro-poor or neutral in relation to poverty, i.e., no income group appears to benefit more than any other. Better-off households are more likely to prefer clinic-based service delivery over the preventive services provided by LHWs; to some extent therefore, the program self-targets lower-income households and individuals.

- (ii) The LHWP tends to slightly over-serve advantaged areas at the expense of disadvantaged areas. This occurs for several reasons. First, areas in which LHWs are stationed tend to be those already equipped with a functional health facility. Second, the program's original emphasis was on overall coverage rather than being poverty-focused. Third, recruitment criteria demand relatively educated women who are more likely to come from better-off areas, and thus serve households who are more advantaged.
- (iii) The population served by the program was found to have substantially better health indicators than the control population. These indicators include use of antenatal services, medical assistance at birth, use of family planning, health knowledge, use of preventive child health services, and treatment of childhood diseases. However, the evaluation bore no evidence that two key health indicators— child mortality and fertility—had improved under the LHWP as yet. It is possible that the program's impact on these indicators will materialize in the long term as a result of improved uptake of preventive services.
- (iv) The LHWP certainly appears to be cost-effective (Table 21). Salaries as well as supervision costs are low, although more resources are required for provision of drugs to persons in need.

*The LHWP could be expanded by targeting those locations where there is a high people-to-LHW ratio.*

In short, the LHWP could be expanded by targeting those locations where (i) there is a high people-to-LHW ratio; and (ii) the poor are more heavily concentrated, such as in rural Sindh and southern Punjab. This implies location targeting at the district level, something that is not commonly practiced in Pakistan, but has recently begun to gain ground. A key example is the Tawana Pakistan program, which is being implemented in 29 districts that have the lowest rates of female literacy. Primary schools

are the hub of this activity: children are enrolled in these schools into a 2-year cycle where freshly cooked meals are served six times a week for 10 months in a year (Issues and Policies Consultants 2004, footnote 7). More recently in 2005, the government of Punjab allocated 11% more development funds for southern Punjab compared with its share on the basis of population another indication that location targeting is beginning to take root.<sup>46</sup>

**Table 21: Planned and Actual Annual Cost per LHW**

Expenditure under LHWP	Planned Cost		Actual Cost	
	(PRs)	(%)	(PRs)	(%)
LHW Salaries	19,356	31	17,612	62
Drugs/Contraceptives	24,684	39	3,992	14
LHW Training/Kit	7,534	12	1,076	4
Supervision	8,338	13	3,865	14
Media and MHEC	1,526	2	492	2
Administration and HMIS	1,547	2	1,211	4

HMIS = health management information system, LHW = lady health worker, LHWP = Lady Health Workers Programme.

Source: Oxford Policy Management (OPM). 2002. *Lady Health Worker Programme: External Evaluation of the National Programme for Family Planning and Primary Health Care*. Islamabad: OPM.

<sup>46</sup> Dawn. 2005. Title not available. *Dawn*, 27 February.



## 8 Conclusion

This paper has reviewed poverty trends in Pakistan and concluded that different estimates agree on upward trends in the 1990s, regardless of precise levels of poverty. The poor tend to be concentrated in rural Sindh and southern Punjab. Pro-poor expenditures declined sharply in the 1990s at a time when poverty increased rapidly. This decline in public spending is likely to have widened gaps in public service delivery in the last decade, especially in relation to the poor. While a higher level of social and economic development spending is no guarantee of growth revival and poverty reduction, it is highly unlikely that these will occur without more spending. The State Bank of Pakistan has pointed toward an inverse relationship between unemployment and development expenditure as percentage of GDP.<sup>47</sup> Within the PRSP framework, public expenditure has been prioritized to (i) achieve sustainable high economic growth, (ii) create physical assets for the poor, (iii) develop a system of social safety nets, and (iv) strengthen public institutions to address governance issues. Recent growth in pro-poor expenditure has occurred in the right direction, but the level of expenditure is still considerably depressed.

The results of this study show that public zakat currently covers far fewer households than the number actually eligible. The problem is practical rather than theoretical: there are insufficient zakat funds to provide all poor households with their basic needs. The findings of this study suggest some success in zakat targeting, particularly in rural areas, but this is marred by the leakage of zakat funds to relatively better-off households, particularly in urban areas. One solution to this is to constitute urban zakat committees only in poor slum areas to ensure that the benefits are transferred to those households most in need, while private zakat givers living in affluent urban communities look after needy beneficiaries living in their localities.

*Public zakat currently covers far fewer households than the number actually eligible.*

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<sup>47</sup> State Bank of Pakistan. 2004. *State Bank of Pakistan Annual Report FY04*. Karachi.

There is a significant amount of leakage in terms of beneficiaries who fail to receive the full amount of zakat they are entitled to. This is manifested in an organized system of bribery and corruption, which reduces the value of the transfers made to the poor.

Moreover, the results of the analysis show that one fifth of the zakat recipients in the sample study were from the third and fourth income quintiles, i.e., beneficiaries who do not necessarily classify as the poorest of the poor. In rural areas, about 60% of these recipients in the fourth quintile were included in their LZCs' list of mustahiqeen on the recommendation of either their local councilors or other influential personality. Politicization thus appears to be a major problem in drawing up lists of beneficiaries. The large body of independent volunteers that operate the LZCs is not actively involved in generating these lists, and nepotism, particularly among local councilors, is apt to reduce the effectiveness and independence of the zakat committees.

*Most microfinance programs fail to target the poorest households, while the LHWP has not reached the most disadvantaged areas.*

It is commonly argued that poverty targeting is intrinsic to microcredit program design because the affluent are not likely to want small loans, perhaps for reasons of social status. Only the poor will opt for these loans because such programs are designed to cater to their specific needs. Small loans are also better suited to the repayment capacities of the poor. In spite of this, most microfinance programs fail to target the poorest households, a key reason being that there is no verifiable mechanism for identifying the poor.

The third poverty reduction program assessed here is the LHWP. The broad conclusion that can be drawn is that the LHWP has not yet reached the most disadvantaged areas or the poorest households. It is the more remote and poorer rural areas where functional health facilities are least likely to exist, and where recruiting suitable educated women to work as LHWs is the most difficult. Nonetheless, the program contains several elements that can benefit the poor— the LHWP needs to develop a targeted expansion strategy in rural areas to ensure that it serves the rural and urban poor more efficiently.

The paper's analyses thus provide broad guidelines for improving the targeting efficiency of narrow-target programs in general and zakat in particular. Its key recommendation is the development of a transparent mechanism based on household physical and social assets that could help identify the poor and ensure that cash/in kind benefits are transferred to such households.

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# **APPENDIX**



## APPENDIX: BACKGROUND DATA

**Table A.1: Operational Definitions of Independent Variables**

Variables Describing Household	Mean	Minimum	Maximum
Age of Household Head (Years)	46.60	16	88
Gender of Household Head (Female/widow = 1, Otherwise = 0)	0.05	0	1
Family Size (Actual Number)	7.25	1	34
Literacy Level of Household Head (Literate = 1, Otherwise = 0)	0.45	0	1
Schooling of Household Head ( $\geq 10$ Years = 1, $< 10$ Years = 0)	0.18	0	1
Working Status of Household Head (Employed = 1, Unemployed = 0)	0.75	0	1
Ownership of Residence (Owned = 1, Otherwise = 0)	0.87	0	1
Living in Pucca House <sup>a</sup> (Yes = 1, No = 0)	0.39	0	1
Living in One-Room House (Yes = 1, No = 0)	0.24	0	1
Electricity Connection (Yes = 1, No = 0)	0.79	0	1
Household in Debt (Yes = 1, No = 0)	0.51	0	1
Foreign/Domestic Remittances Received in the Last Year (Yes = 1, No = 0)	0.09	0	1
Urban or Rural Location (Urban = 1, Rural = 0)	0.36	0	1

<sup>a</sup> "Pucca" refers to solid or permanent construction, using bricks and cement.

Source: Author's estimates based on the Pakistan Socio-economic Survey 2000/01.

**Table A.2: Nonbudgetary Transfers: Zakat and Microcredit**

Program, Disbursement, or Beneficiaries	Total Disbursement or Beneficiaries			Change (%)	
	FY2002	FY2003	FY2004	FY2003	FY2004
Zakat: Amount Disbursed (PRs million)	5,254	8,009	5,330	52.4	(33.4)
No. of Beneficiaries ('000)	1,710	1,754	1,639	2.6	(6.6)
Microcredit: Amount Disbursed (PRs million)	1,049	2,518	3,034	140.0	20.5
No. of Beneficiaries ('000)	100	216	286	116.0	32.4

FY = fiscal year.

Source: Government of Pakistan. 2004. PRSP Progress Report, 2003–04. Available: <http://www.finance.gov.pk/poverty/home.html>

**Table A.3: District-Level Coverage of Lady Health Workers (LHWs)**

District	No. of LHWs			Population Covered	No. of Persons per LHW
	Urban	Rural	Total		
Punjab					
Attock	153	526	679	72,1098	1,062
Bahawalnagar	184	534	718	76,2516	1,062
Bahawalpur	346	680	1,026	1,089,612	1,062
Bhakkar	185	918	1103	1,171,386	1,062
Chakwal	61	927	988	1,049,256	1,062
Dera Ghazi Khan	224	718	942	1,000,404	1,062
Faisalabad	214	1,142	1,356	1,440,072	1,062
Gujranwala	321	707	1,028	1,091,736	1,062
Gujrat	252	983	1,235	1,311,570	1,062
Hafizabad	182	561	743	789,066	1,062
Jhang	102	708	810	860,220	1,062
Jhelum	199	767	966	1,025,892	1,062
Kasur	455	1,075	1,530	1,624,860	1,062
Khanewal	298	711	1,009	1,071,558	1,062
Khushab	220	571	791	840,042	1,062
Lahore	940	494	1,434	1,522,908	1,062
Layyah	127	398	525	557,550	1,062
Lodhran	103	468	571	606,402	1,062
Mandi Bahauddin	130	1,050	1,180	1,253,160	1,062
Mianwali	249	701	950	1,008,900	1,062
Multan	471	926	1,397	1,483,614	1,062
Muzafargarh	144	662	806	855,972	1,062
Narowal	105	996	1,101	1,169,262	1,062
Okara	288	800	1,088	1,396,530	1,284
Pakpattan	106	563	669	710,478	1,062
Rahimyar Khan	137	764	901	956,862	1,062
Rajanpur	80	245	325	345,150	1,062
Rawalpindi	179	1,741	1,920	2,039,040	1,062
Sahiwal	138	590	728	773,136	1,062
Sargodha	231	1,122	1,353	1,436,886	1,062
Sheikhupura	242	490	732	777,384	1,062
Sialkot	213	1,250	1,463	2,101,698	1,437
Toba Tek Singh	211	665	876	930,312	1,062
Vehari	147	821	968	1,028,016	1,062
<b>Total</b>	<b>7,637</b>	<b>26,274</b>	<b>33,911</b>	<b>36,802,548</b>	<b>1,085</b>

District	No. of LHWs			Population Covered	No. of Persons per LHW
	Urban	Rural	Total		
Sindh					
Badin	150	851	1,001	898,898	898
Dadu	402	984	1,386	1,244,628	898
Ghotki	91	387	478	429,244	898
Hyderabad	818	1,103	1,921	1,884,902	981
Jacobabad	408	405	813	730,074	898
Karachi	1,783	966	2,749	2,468,602	898
Khairpur	406	773	1,179	1,058,742	898
Larkana	658	1,135	1,793	1,711,588	955
Mirpur Khas	435	654	1,089	977,922	898
Naushahro Feroz	270	892	1,162	1,111,724	957
Nawabshah	174	621	795	713,910	898
Sanghar	368	553	921	827,058	898
Shikarpur	291	465	756	678,888	898
Sukkur	341	574	915	821,670	898
Tharparkar	43	392	435	390,630	898
Thatta	140	462	602	540,596	898
<b>Total</b>	<b>6,778</b>	<b>11,217</b>	<b>17,995</b>	<b>16,489,076</b>	<b>916</b>
North-West Frontier Province					
Abbottabad	46	813	859	817,768	952
Bannu	62	391	453	431,256	952
Batagram	0	51	51	104,720	2,053
Buner	0	202	202	192,304	952
Charsadda	176	542	718	683,536	952
Chitral	47	375	422	401,744	952
Dera Ismail Khan	165	330	495	471,240	952
Dir (Upper)	0	412	412	392,224	952
Dir (Lower)	0	206	206	196,112	952
Hangu	59	22	81	94,248	1,164
Haripur	61	501	562	556,920	991
Karak	26	304	330	314,160	952
Kohat	53	228	281	267,512	952
Lakki Marwat	82	154	236	224,672	952
Malakand	29	390	419	398,888	952
Mansehra	73	669	742	706,384	952
Mardan	139	513	652	725,424	1,113
Nowshera	48	503	551	524,552	952
Peshawar	205	522	727	692,104	952
Shangla	0	121	121	158,032	1,306
Swabi	91	647	738	702,576	952

District	No. of LHWs			Population Covered	No. of Persons per LHW
	Urban	Rural	Total		
Swat	185	693	878	835,856	952
Tank	27	97	124	123,760	998
<b>Total</b>	<b>1,574</b>	<b>8,686</b>	<b>10,260</b>	<b>10,015,992</b>	<b>976</b>
Balochistan					
Awaran	0	65	65	83,145	1,279
Barkhan	14	124	138	108,450	786
Bolan	24	53	77	108,450	1,408
Chaghai	40	134	174	144,600	831
Dera Bugti	0	21	21	50,610	2,410
Gwadar	15	38	53	72,300	1,364
Jafarabad	55	175	230	216,900	943
Jhal Magsi	15	22	37	72,300	1,954
Kalat	35	110	145	108,450	748
Kech	45	323	368	325,350	884
Kharan	15	115	130	151,830	1,168
Khuzdar	81	204	285	253,050	888
Kila Abdullah	15	107	122	122,910	1,007
Kila Saifullah	20	80	100	86,760	868
Kohlu	0	56	56	57,840	1,033
Lasbela	55	160	215	173,520	807
Loralai	25	118	143	122,187	854
Mastung	31	86	117	115,680	989
Musakhel	13	80	93	93,990	1,011
Naseerabad	24	112	136	121,464	893
Panigur	35	311	346	281,970	815
Pishin	28	111	139	137,370	988
Quetta	164	431	595	500,316	841
Sibi	25	83	108	115,680	1,071
Zhob	25	82	107	115,680	1,081
Ziarat	18	122	140	101,220	723
<b>Total</b>	<b>817</b>	<b>3,323</b>	<b>4,140</b>	<b>3,842,022</b>	<b>928</b>
Azad Jammu and Kashmir					
Bagh	23	349	372	318,060	855
Bimber	8	279	287	245,385	855
Kotli	51	360	411	351,405	855
Mirpur	34	176	210	179,550	855
Muzafarabad	35	520	555	488,205	880
Poonch	26	222	248	244,530	986
Sudhunti	0	204	204	174,420	855
<b>Total</b>	<b>177</b>	<b>2,110</b>	<b>2,287</b>	<b>2,001,555</b>	<b>875</b>
Federally Administered Northern Areas					
Diamer	17	167	184	157,320	855

District	No. of LHWs			Population Covered	No. of Persons per LHW
	Urban	Rural	Total		
Ghanche	0	134	134	134,235	1,002
Ghizer	0	198	198	169,290	855
Gilgit	60	280	340	311,220	915
Skardu	40	234	274	268,470	980
<b>Total</b>	<b>117</b>	<b>1,013</b>	<b>1,130</b>	<b>1,040,535</b>	<b>921</b>
Federally Administered Tribal Areas					
Bajaur Agency	0	64	64	94,248	1,473
Khyber Agency	0	75	75	71,400	952
Kurram Agency	0	325	325	309,400	952
Mohmand Agency	0	109	109	103,768	952
North Waziristan Agency	0	59	59	56,168	952
Orakzai Agency	0	59	59	91,392	1,549
South Waziristan Agency	0	86	86	81,872	952
<b>Total</b>	<b>0</b>	<b>313</b>	<b>313</b>	<b>333,200</b>	<b>1,064</b>
Islamabad Capital Territory					
Islamabad	59	253	312	302,640	970
<b>Total</b>	<b>59</b>	<b>253</b>	<b>312</b>	<b>302,640</b>	<b>970</b>

Source: Government of Pakistan. 2004. PRSP Progress Report, 2003–04. Available: <http://www.finance.gov.pk/poverty/home.html>

**Table A.4: Average Number of Persons per Lady Health Worker (LHW) by District**

District (1)	Total Population (1998 Census) ('000) (2)	No. of LHWs in District (March 2004) (3)	No. of Persons per LHW (‘000) (2) ÷ (3)
Punjab			
Attock	1,275	679	1.9
Bahawalnagar	2,061	718	2.9
Bahawalpur	2,433	1,026	2.4
Bhakkar	1,052	1,103	1.0
Chakwal	1,084	988	1.1
Dera Ghazi Khan	1,643	942	1.7
Faisalabad	5,430	1,356	4.0
Gujranwala	3,401	1,028	3.3
Gujrat	2,048	1,235	1.7
Hafizabad	832	743	1.1
Jhang	2,835	810	3.5
Jhelum	937	966	1.0
Kasur	2,376	1,530	1.6
Khanewal	2,069	1,009	2.1
Khushab	906	791	1.1
Lahore	6,319	1,434	4.4
Layyah	1,121	525	2.1
Lodhran	1,172	571	2.1
Mandi Bahauddin	1,161	1,180	1.0
Mianwali	1,057	950	1.1
Multan	3,117	1,397	2.2
Muzafargarh	2,636	806	3.3
Narowal	1,265	1,101	1.1
Okara	2,233	1,088	2.1
Pakpattan	1,287	669	1.9
Rahimyar Khan	3,141	901	3.5
Rajanpur	1,104	325	3.4
Rawalpindi	3,364	1,920	1.8
Sahiwal	1,843	728	2.5
Sargodha	2,666	1,353	2.0
Sheikhupura	3,321	732	4.5
Sialkot	2,724	1,463	1.9
Toba Tek Singh	1,622	876	1.9
Vehari	2,090	968	2.2
North-West Frontier Province			
Abbottabad	881	859	1.0
Bannu	676	453	1.5
Batagram	307	51	6.0
Buner	506	202	2.5

<b>District (1)</b>	<b>Total Population (1998 Census) ('000) (2)</b>	<b>No. of LHWs in District (March 2004) (3)</b>	<b>No. of Persons per LHW (‘000) (2) ÷ (3)</b>
Charsadda	1,022	718	1.4
Chitral	319	422	0.8
Dera Ismail Khan	853	495	1.7
Dir (Lower)	718	412	1.7
Dir (Upper)	576	206	2.8
Hangu	315	81	3.9
Haripur	692	562	1.2
Karak	431	330	1.3
Kohat	563	281	2.0
Lakki Marwat	490	236	2.1
Malakand	452	419	1.1
Mansehra	1,153	742	1.6
Mardan	1,460	652	2.2
Nowshera	874	551	1.6
Peshawar	2,027	727	2.8
Shangla	435	121	3.6
Swabi	1,027	738	1.4
Swat	1,258	878	1.4
Tank	238	124	1.9
Sindh			
Badin	1,136	602	1.9
Dadu	1,689	1,386	1.2
Ghotki	971	478	2.0
Hyderabad	2,892	1,921	1.5
Jacobabad	1,426	813	1.8
Karachi	9,856	2,749	3.6
Khairpur	1,547	1,179	1.3
Larkana	1,927	1,793	1.1
Mirpur Khas	906	1,089	0.8
Naushahro Feroz	1,088	1,162	0.9
Nawabshah	1,072	795	1.3
Sanghar	1,453	921	1.6
Shikarpur	880	756	1.2
Sukkur	908	915	1.0
Tharparkar	914	435	2.1
Thatta	1,113	602	1.8
Balochistan			
Awaran	118	65	1.8
Barkhan	104	138	0.8
Bolan	288	77	3.7
Chaghai	203	174	1.2
Dera Bugti	181	21	8.6

<b>District (1)</b>	<b>Total Population (1998 Census) ('000) (2)</b>	<b>No. of LHWs in District (March 2004) (3)</b>	<b>No. of Persons per LHW (‘000) (2) ÷ (3)</b>
Gwadar	186	53	3.5
Jafarabad	433	230	1.9
Jhal Magsi	110	37	3.0
Kalat	238	145	1.6
Kech	413	368	1.1
Kharan	207	130	1.6
Khuzdar	418	285	1.5
Kila Abdullah	370	122	3.0
Kila Saifullah	194	100	1.9
Kohlu	100	56	1.8
Lasbela	313	215	1.5
Loralai	298	143	2.1
Mastung	165	117	1.4
Musakhel	134	93	1.4
Naseerabad	246	136	1.8
Panjgur	234	346	0.7
Pishin	367	139	2.6
Quetta	760	595	1.3
Sibi	180	108	1.7
Zhob	275	107	2.6
Ziarat	33	140	0.2

Sources: Government of Pakistan. 2004. PRSP Progress Report, 2003–04. Available: <http://www.finance.gov.pk/poverty/home.html>; and Government of Pakistan. 1998. *Population Census Data*. Islamabad: Federal Bureau of Statistics.