



ASIAN DEVELOPMENT BANK

**POVERTY IN PAKISTAN**  
**ISSUES, CAUSES AND INSTITUTIONAL RESPONSES**

JULY 2002

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Published by the Asian Development Bank  
Pakistan Resident Mission  
OPF Building, Shahrah-e-Jamhuriyat  
G-5/2, Islamabad, GPO Box 1863  
Pakistan.

Tel: (92-51) 2825011-16  
Fax: (92-51) 2823324, 2274718  
Email: [adbprm@adb.org](mailto:adbprm@adb.org)

Publication Stock No. 070302

## **FOREWORD**

Poverty reduction has always been an important objective for the ADB and the Bank's Poverty Reduction Strategy, approved in November 1999, articulated poverty reduction as ADB's overarching goal. In 2000, work on the poverty analysis for Pakistan was initiated as part of the process of developing the new Country Strategy and Program. This report describes the trends and key features of poverty in Pakistan, discusses its main causes, outlines existing programs and initiatives to reduce poverty, and gives a set of strategic options for ADB.

A draft of this report was discussed at a high-level forum by representatives of the Government, private sector, civil society, and international development agencies in April 2001. The poverty analysis provides the basis for ADB's Country Strategy and Program for Pakistan for the period 2002 to 2006, approved in May 2002. The key findings of the poverty analysis and the discussions during the high-level forum and subsequent consultations are the basis of a partnership agreement between the Government of Pakistan and ADB. The agreement will formalize a sustainable partnership that sets out a long term-vision and agreed targets and strategies for poverty reduction.

The report benefited from comments from the Government and other stake holders in Pakistan, and various ADB departments. The report was prepared by Safiya Aftab, Naved Hamid and Safdar Parvez. Roshan Ara, G. M. Arif, Muhammad Irfan, A.R. Kemal, Martin Rimmer, and Rehana Siddiqui also made important contributions to the report. M. Ali Shah guided the preparation of the report and advised on important issues. Lynette Mallery provided photographs for the cover page and Shaista Hussain edited the report.

Yoshihiro Iwasaki  
Director General  
South Asia Department

# ABBREVIATIONS

<b>ADB</b>	Asian Development Bank
<b>AKRSP</b>	Aga Khan Rural Support Program
<b>CBO</b>	Community-Based Organization
<b>CSP</b>	Country Strategy and Program
<b>EOBI</b>	Employees Old Age Benefits
<b>EPA</b>	Environmental Protection Agency
<b>FBS</b>	Federal Bureau of Statistics
<b>FY</b>	Fiscal Year (July-June)
<b>GDP</b>	Gross Domestic Product
<b>GER</b>	Gross Enrollment Rate
<b>HDI</b>	Human Development Index
<b>HIES</b>	Household Income Expenditure Survey
<b>HRCIP</b>	Human Rights Commission of Pakistan
<b>IPP</b>	Independent Power Producer
<b>IMF</b>	International Monetary Fund
<b>IMR</b>	Infant Mortality Rate
<b>IPRSP</b>	Interim Poverty Reduction Strategy Paper
<b>JICA</b>	Japan International Cooperation Agency
<b>KPP</b>	Khushal Pakistan Program
<b>MHCHD</b>	Mahbub-ul-Haq Center for Human Development
<b>MSU</b>	Multi-donor Support Unit
<b>NEQS</b>	National Environmental Quality Standards
<b>NGO</b>	nongovernment organization
<b>NRSP</b>	National Rural Support Program
<b>NWFP</b>	North West Frontier Province
<b>OPP</b>	Orangi Pilot Project
<b>PIHS</b>	Pakistan Integrated Household Survey
<b>PPAF</b>	Pakistan Poverty Alleviation Fund
<b>PRSP</b>	Punjab Rural Support Program
<b>RSP</b>	Rural Support Program
<b>SAP</b>	Social Action Program
<b>SAPP</b>	Social Action Program Project
<b>SBA</b>	Standby Arrangement
<b>SBFC</b>	Small Business Finance Corporation
<b>SCOPE</b>	Society for the Conservation and Protection of the Environment
<b>SME</b>	Small and Medium Enterprises
<b>SPDC</b>	Social Policy Development Center
<b>SRSP</b>	Sarhad Rural Support Program
<b>TFR</b>	Total Fertility Rate
<b>UNDP</b>	United Nations Development Program
<b>WHO</b>	World Health Organization

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## EXECUTIVE SUMMARY

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

### POVERTY PROFILE

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

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

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

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

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

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

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

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

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

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

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

## CAUSES OF POVERTY

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

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

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

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

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

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

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

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

## RESPONSES TO POVERTY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Improving governance is the central theme and the major focus of ADB's poverty reduction strategy for Pakistan. To this end, ADB will assist the Government to establish the legal and policy basis for governance reforms, build the capacity of governance institutions with special focus at province and local government levels, and promote efficient, equitable and accountable use of available resources.

In addition, the poverty assessment shows that sustained economic growth is critical for poverty reduction, and there are strong linkages between pro-poor growth on the one hand, and human development, good governance, and cross-cutting concerns such as private sector development and regional cooperation on the other. In this regard, under its pro-poor economic growth strategy, ADB will firstly support structural reforms in key sectors through promoting deregulation, privatization, and the creation of an enabling environment for private sector foreign investments. Secondly, recognizing that 75 percent of the poor in Pakistan live in rural areas, ADB will continue to support rural development initiatives through focusing on improving the institutional framework for rural development, increasing agricultural productivity, promoting non-farm employment opportunities, improving communications and rural infrastructure, and promoting rural financial intermediation. Thirdly, ADB will focus on promoting employment generation through

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

The poverty assessment also shows that a key factor in Pakistan's poor growth performance in the 1990s was its low level of human development. Experience in Pakistan shows that accelerating human development is as much an issue of increasing expenditure on social sectors as of improving the effectiveness of spending through better governance. ADB's strategy will thus be focused on making the Government's devolution plan a success, and the Bank will work towards capacity building at the local level to strengthen social service delivery mechanisms, in addition to financing incremental services and small-scale civil works targeted at making existing facilities operational, or improving their utilization. Furthermore, ADB's development strategy shall target the most vulnerable groups, particularly women, children and the indigent.

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

# INTRODUCTION

*The Poverty Assessment provides an overview of the poverty situation in Pakistan as well as an analysis of its causes and measures to alleviate it. The Assessment forms the basis of the Country Strategy and Program for Pakistan.*

The Asian Development Bank (ADB) has, in the past, funded projects on the basis that they contribute to one or more of the following objectives: economic growth, poverty reduction, improving the status of women, environmental protection, and supporting human development. Poverty reduction was always an important objective for ADB but in 1999 ADB rededicated itself to this goal. ADB's Poverty Reduction Strategy, approved in November 1999, articulated poverty reduction as ADB's overarching goal, and stressed the need to assess all ADB operations against this goal.

To implement ADB's Poverty Reduction Strategy it is necessary that the Country Strategy and Program (CSP) for each Developing Member Country must be oriented towards the overarching goal of poverty reduction. To ensure this, the preparation of the CSP must be

preceded and driven by the findings of a poverty assessment for the country. This study is a poverty assessment for Pakistan. The assessment provides an overview of the poverty situation prevailing in Pakistan, and analyzes the poverty impact of various policies and programs undertaken to reduce poverty. The draft assessment was discussed with representatives of the Government, private sector, civil society, and international funding agencies at a High Level Forum in April 2001. The draft assessment was then extensively revised, reviewed, and amended in light of these discussions and comments received from the stakeholders.

Chapter II of this assessment deals with the nature and trends of poverty in Pakistan. The discussion adopts a broad view of poverty in addition to the standard measures of income and consumption, and also considers human development. The

gender and regional dimensions of poverty are also discussed. Chapter III provides an analysis of causes of poverty, including the governance-related macroeconomic developments that have underpinned the evolution of poverty in Pakistan. Chapter IV deals with responses to poverty, including both public and private sector programs aimed at poverty reduction, for example, social security schemes for workers, microfinance, and Zakat. Finally, Chapter V highlights the key lessons that emerge from the preceding analysis.

## II. POVERTY PROFILE

*Poverty characteristics in Pakistan include high levels of income and asset poverty, economic and social vulnerability, gender disparity, and low levels of human capital development.*

The declining trend in poverty in Pakistan during the 1970s and 1980s was reversed in the 1990s. Most of this increase in poverty in Pakistan has taken place after Fiscal Year (FY) 1997, coinciding with the onset of a period of slow growth in the country. Poverty has consequently emerged as the central challenge of development for the Government of Pakistan. Recognizing this, the Government has prepared an Interim Poverty Reduction Strategy Paper (IPRSP) which lays down the framework for a poverty reduction strategy that ensures pro-poor growth through macroeconomic reforms, improved access to social services, governance reforms and targeted interventions.

Poverty is multidimensional, and is characterized as much by lack of

income and non-fulfillment of basic needs as by lack of access to social infrastructure and vulnerability. Although a great deal of research has estimated income or expenditure based poverty lines, there has been little systematic research on who the poor are and how they relate to private sector markets and public agencies at different levels. Perhaps most importantly, there is little understanding of how the poor perceive and react to barriers to moving out of poverty, or the circumstances determining their entry into poverty.

This chapter highlights principal findings from research on the incidence of poverty, patterns and trends of poverty in the country, and profiles key characteristics of the poor and the vulnerable in Pakistan.

### A. THE INCIDENCE OF POVERTY

The most commonly used standard for the measurement of income or consumption related poverty, involves calculating a poverty line (based on some minimum acceptable level of consumption) and estimating the proportion of population below that line. While Pakistan's Planning Commission has only very recently recommended an official poverty line<sup>1</sup>, historically there has never been a uniform methodology for estimating poverty and that has been the cause of considerable uncertainty with regard to the incidence of poverty in the country. Most studies on poverty in Pakistan are based on the Household Income and Expenditure Survey (HIES) data set. The HIES has been conducted by the Federal Bureau of Statistics (FBS) intermittently since FY1964, and with greater frequency in the 1990s.<sup>2</sup> The quality of data from the HIES is considered to be reasonably good, but because of methodological differences, each study generally

1. The Planning Commission has decided that the official poverty line for Pakistan will be estimated on 2350 calories per adult equivalent per day. This is based on an adult equivalent intake of 2150 calories in the urban areas and 2450 calories in the rural areas. The poverty line for Pakistan for FY1999 on this basis has been defined at Rs. 670 per capita per month.
2. In 1991, FBS started the Pakistan Integrated Household Survey (PIHS) incorporating a broader range of variables including education, health, fertility and family planning, and water supply and sanitation. From FY1999 the PIHS and the HIES surveys have been combined.

gives different estimates of the incidence of poverty.<sup>3</sup> Nevertheless, while there is no consensus on the precise level of poverty in the country at any given time, there is general agreement with regard to the trends in poverty since the 1960s.

The last four decades can be grouped into two broad periods with respect to poverty trends. The first period is from FY1964 to FY1988, while the second covers the years from FY1988 to FY1999 (the last year for which data is available). During the first period, poverty declined in the urban areas until FY1970, but increased in the rural areas leading to an increase in overall poverty in the country. Subsequently, between FY1970 and FY1988, poverty declined in both rural and urban areas. A number of factors, including the green revolution, increase in employment due to a boom in the housing and construction sectors, as well as rapid

expansion of the public sector, and the inflow of workers' remittances from the Middle East contributed to poverty reduction during this period.

During the second period, data from various studies indicates that the incidence of poverty increased from 22 - 26 percent in FY1991 to 32 - 35 percent in FY1999 as shown in Table 2.1.<sup>4</sup> As mentioned earlier, most of the increase in poverty in this period seems to have taken place between FY1997 and FY1999, a period of slow growth and macroeconomic instability in Pakistan. Since FY1999, growth has slowed even further, the fiscal squeeze has intensified, development spending has declined, and the country has experienced a severe drought. It is highly likely, therefore, that the incidence of poverty in Pakistan now is higher than in FY1999.

*Most of the increase in poverty in this period seems to have taken place between FY1997 and FY1999, a period of slow growth and macroeconomic instability in Pakistan.*

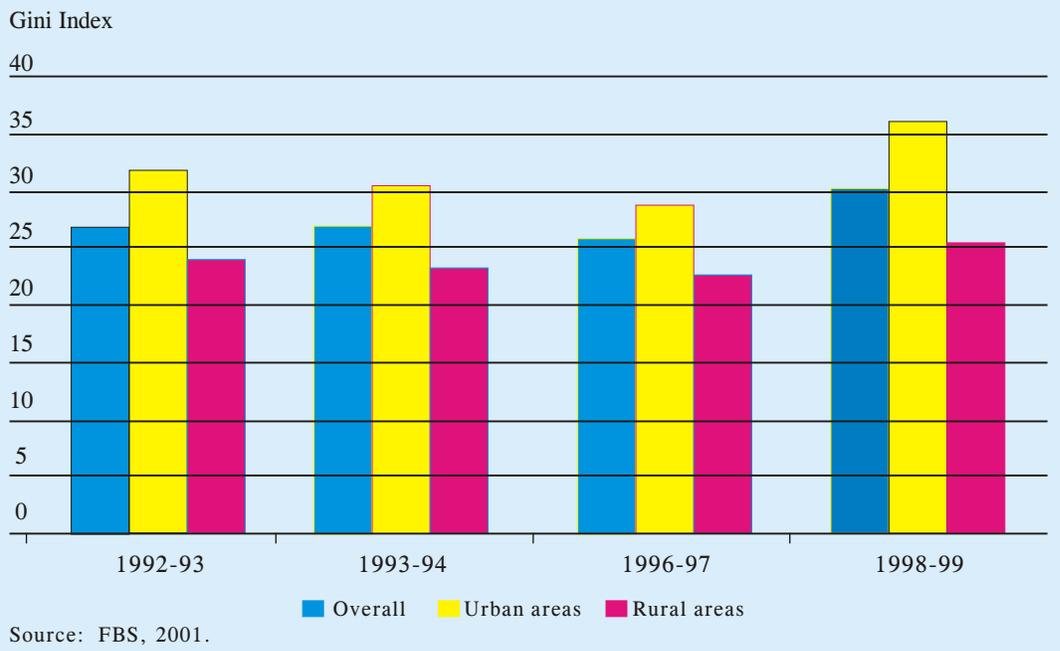
Table 2.1 Poverty Trends in Pakistan in the 1990s

Year	% below poverty line				
	Amjad and Kemal	Ali and Tahir	Jafri	FBS	Arif et al
FY91	22.1	23.0	26.1	-	-
FY93	22.4	28.1	26.8	26.6	27.2
FY94	-	27.9	28.7	29.3	27.4
FY97	-	-	-	26.3	29.6
FY99	-	-	-	32.2	35.2

Source: Amjad and Kemal (1997) Ali and Tahir (1999) Jafri (1999) Arif et.al (2000) FBS (2001)

- The HIES data for FY1991 was based on a very small sample size, and may not provide a good comparison with data for subsequent years.
- All of the studies reported in Table 2.1 are predicated on a minimum caloric intake based definition of the poverty line. To this end, the expenditure needed to meet the cost of the food bundle that would ensure the minimum caloric intake level is calculated; but to which is also added the average estimated non-food expenditure of households whose caloric intake is exactly at the defined minimum level. Food and non-food expenditures are then added up to arrive at the poverty line. The FBS study uses a variant to this methodology and regresses per equivalent adult total consumption expenditure against the estimated daily per-capita caloric intake to come up with the poverty line with the assumption that households that consume the minimum caloric requirement also meet their necessary non-food consumption needs. In practice, however, both methodologies measure poverty on the same definition. Most studies in the table (Amjad and Kemal; Ali and Tahir; FBS, and Arif et. al) define the minimum caloric intake level per adult equivalent at 2550 calories. Jafri's study, however, assumes this level at 2354 calories. The observed differences in poverty estimates even among the various studies that use the same minimum caloric level to define the poverty line are attributable to estimation variations.

Figure 2.1 Income Distribution in Pakistan in the 1990s

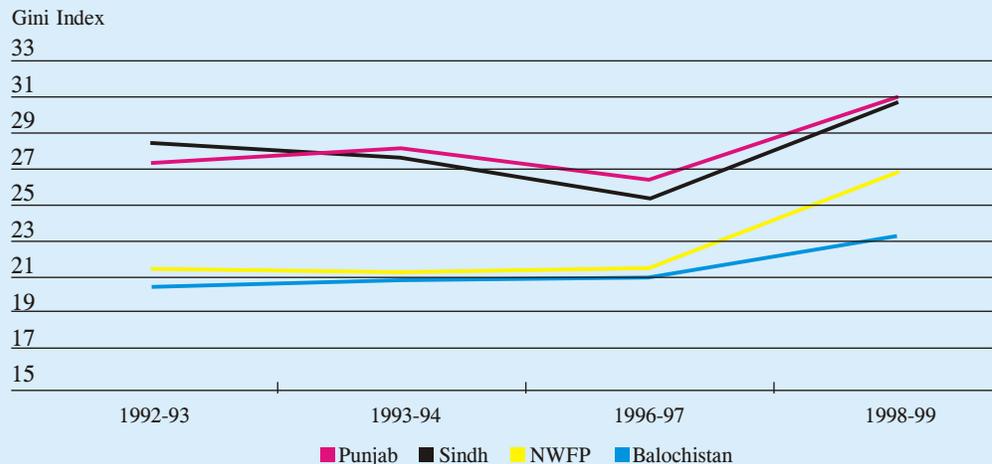


*Inequality increased after FY1997, in both urban and rural areas.*

Information on income distribution, often regarded as an indicator of relative deprivation, suggests that inequality increased after FY1997, in both urban and rural areas, with income distribution in urban areas being consistently more unequal than rural areas (Figure 2.1). Inequality also increased in all four provinces (Figure 2.2), except for a transitory decline in Punjab and Sindh between FY1994 and FY1997, with FY1999 being clearly the most unequal year

in all provinces. In FY1997, the income share of the bottom 20 percent of households had declined to 6.9 percent, from 7.9 percent in FY1987, and the income share of the bottom 40 percent of households declined from 20 percent to 18 percent. During the same period, the ratio of the share of the top quintile to that of the bottom quintile also increased to 6.5 from 5.2 for all areas.

Figure 2.2 Income Distribution Trends by Province



## B. SPATIAL DIMENSIONS OF POVERTY

Poverty in Pakistan has historically been higher in rural areas than in urban areas. In terms of the number of poor, about 35 million out of the total of 47 million people estimated to fall below the poverty line, live in rural areas. Poverty rose more sharply in the rural areas in the 1990s, and as a result the difference in the incidence of poverty between the urban and the rural areas increased from about 5 percentage points in FY1991 to 8 -14 percentage points in FY1999 (Table 2.2).<sup>5</sup> In the presence of robust agricultural growth in the 1990's (section 1), this increase in the poverty differential between the rural and urban areas could be attributed to a possible disproportionate impact of the economic slowdown in the rural areas caused by low economic growth, decline in public sector

development spending and lower worker remittances in this period.

### 1. Rural Poverty Links with Agricultural Growth

The disparity in incidence of poverty in urban and rural areas, and the higher rate of increase of poverty in the rural areas has prompted debate on growth and productivity trends in the agriculture sector. Although growth in agriculture averaged over 4 percent per year from FY1993 to FY1999, the incidence of poverty in rural areas is estimated to have increased by over 7 percentage points in this period. Thus growth in the primary sector on which rural livelihoods are based did not actually translate into a sustained increase in average rural incomes.

*Growth in the primary sector on which rural livelihoods are based did not actually translate into a sustained increase in average rural incomes.*

One possible reason for this anomalous

Table 2.2 Poverty Trends in Rural and Urban Areas

Year	% below poverty line				
	Amjad and Kemal	Ali and Tahir	Jafri	FBS	Arif Nazli and Haq
<b>Rural Areas</b>					
FY91	23.6	24.5	25.2	-	-
FY93	23.4	30.5	24.6	28.9	29.4
FY94	-	31.2	25.4	34.7	29.9
FY97	-	-	-	30.7	31.6
FY99	-	-	-	36.3	39.8
<b>Urban Areas</b>					
FY91	18.6	19.8	26.6	-	-
FY93	15.5	22.9	28.3	20.7	23.1
FY94	-	20.9	26.9	16.3	23.1
FY97	-	-	-	16.1	27.4
FY99	-	-	-	22.4	31.7

Source: Amjad and Kemal (1997), Ali and Tahir (1999), Jafri (1999), Arif et.al (2001), FBS (2001)

5. The difference between the two studies {Federal Bureau of Statistics (2001). *Pakistan Integrated Household Survey-Poverty in the 1990s*, Second draft. Islamabad. and Arif, G.M., Hina Nazli and Rashida Haq (2000). *Rural Non-agriculture Employment and Poverty in Pakistan*, PDR, Islamabad.} In the estimated level of urban poverty in FY1993 is not very large, but the implied trends are very different.

*Incidence of poverty increased in all provinces during the 1990s.*

finding is that although annual average growth in agriculture was relatively high in the period under discussion, the standard deviation of agricultural growth rates was also high at 5.3, relative to a mean of 4.7.<sup>6</sup> The volatility in the agriculture sector is likely to have caused considerable fluctuation in consumption in rural areas, as well as depletion of assets of the rural poor. The persistence of poverty in rural areas in spite of periods of robust growth is also closely linked to the pattern of distribution of assets, particularly land (see section on Vulnerability below and Chapter III for a discussion on impacts of inequality in land tenure).

## 2. Regional Differences in Poverty

At the province level, the incidence of poverty increased in all provinces during the 1990s (Table 2.3).<sup>7</sup> Inter-provincial comparisons indicate that, in FY1999, urban Sindh had the lowest level of poverty (16 percent), but differences between urban areas of other provinces (24 to 29 percent) were not statistically significant. In the rural areas, North West Frontier Province (NWFP) had the highest incidence of poverty (45 percent), while the difference between Punjab and Sindh was not statistically significant.<sup>8</sup> In addition, intra-provincial data available for Punjab

Table 2.3 Poverty Trends by Province

Province	FY93	FY94	FY97	FY99
<b>Urban Areas</b>	20.7	16.3	16.1	22.4
Punjab	22.0	18.1	16.9	25.5
Sindh	17.3	11.8	12.0	16.1
NWFP	25.3	26.9	27.2	29.2
Balochistan	31.8	16.8	23.0	24.3
<b>Rural Areas</b>	28.9	34.7	30.7	36.3
Punjab	26.5	33.9	28.3	36.0
Sindh	29.5	31.8	19.6	34.7
NWFP	37.0	40.0	43.4	44.9
Balochistan	28.1	37.9	42.5	22.5
<b>Overall</b>	26.6	29.3	26.3	32.2
Punjab	25.2	29.5	25.0	33.0
Sindh	24.1	22.6	15.7	26.6
NWFP	35.5	38.1	41.2	42.6
Balochistan	28.6	35.5	38.4	22.8

Source: FBS, 2001.

- 6 Agricultural production was particularly adversely affected in FY1993, a year characterized by the incidence of widespread devastating floods; and FY1997, characterized by widespread pest attacks on the cotton crop.
- 7 The poverty estimates for certain years (for example, urban Balochistan FY1993, rural Sindh FY1997, and rural Balochistan FY1999 among the provinces, and rural Northern Punjab FY1993 and urban Central Punjab FY1997 among the regions) are ignored in the discussion because they seem to be obviously affected by sample selection.
- 8 Social Policy Development Center (2001) [*Social Development in Pakistan Towards Poverty Reduction. Annual Review, 2000.* Oxford University Press] estimated 53 percent poverty in rural Sindh in FY1997, compared to 24 percent and 29 percent in NWFP and Punjab respectively, using a poverty line for Sindh which was 45 percent and 16 percent higher than those used for NWFP and Punjab respectively.

(Box 2.2) indicates significant variations in poverty levels among the various regions of the province.

### C. GENDER DIMENSIONS OF POVERTY

The gender discriminatory practices prevalent in Pakistani society shape men's

and women's choices and life opportunities differently. Prevalent gender role ideologies in Pakistan define women's roles primarily within the arena of the home as mothers and wives, and men's as bread-earners. The dichotomy between these roles has material implications for women as the family and the society invests far less in women than men, due to their perception of

*Prevalent gender role ideologies in Pakistan define women's roles primarily within the arena of the home as mothers and wives, and men's as bread-earners.*

#### Box 2.1 Regional Pattern of Poverty in Punjab

There is considerable diversity in the level of poverty in the rural and urban areas within provinces as well, but only the sample for Punjab is large enough to generate poverty estimates for regions within the province. Punjab has been divided into three regions: Northern Punjab (including Islamabad, Rawalpindi division, and the district of Mianwali), Central Punjab (including Sargodha, Faisalabad, Gujranwala, and Lahore divisions), and Southern Punjab (including Multan, Dera Ghazi Khan, and Bahawalpur divisions). There are substantial differences in poverty levels in the three regions. The incidence of poverty is consistently the lowest in Northern Punjab and the highest in Southern Punjab, both in the rural and urban areas. In FY1999, urban poverty was the highest in the country in Southern Punjab (35 percent), and almost three times more than in Northern Punjab. Urban areas in Northern Punjab had the lowest level of poverty in the entire country, while rural Northern Punjab had the lowest level of poverty (29 percent) among the rural areas of the country. Poverty in rural Southern Punjab (39 percent) was not significantly lower than NWFP, while rural Central Punjab had the same level of poverty (35 percent) as rural Sindh.

Important lessons can be drawn from this pattern. Northern Punjab, which has the lowest level of poverty in the country, is agriculturally a poor region with the lowest cultivated area per capita, and no irrigation. On the other hand, Southern Punjab, despite its highest cultivated area per capita and 100 percent irrigation, is one of the poorest regions in the country. One reason for this seemingly contradictory outcome is that rural areas in Northern Punjab on the other hand, are closely integrated with their urban centers, and have strong linkages with the services sector. Also the people of the region have a long tradition of employment in the public sector, particularly in the armed forces, as well as in-country and overseas migration. In contrast, Southern Punjab is the least urbanized region in the province, and mobility of local people in search of jobs outside the region or overseas has traditionally also been limited. It appears that, even more than agriculture production, non-farm employment opportunities, urban-rural linkages, agrarian structure, and labor mobility, in which literacy can play an important role, are amongst the key determinants of rural poverty in the country.

#### POVERTY TRENDS IN PUNJAB BY REGION

Region	FY93	FY94	FY97	FY99
<b>Urban Areas</b>				
Northern Punjab	10.0	9.7	13.3	12.8
Central Punjab	25.6	23.7	15.9	24.5
Southern Punjab	28.0	17.8	21.7	35.3
<b>Rural Areas</b>				
Northern Punjab	10.5	29.3	21.4	29.3
Central Punjab	27.9	31.6	26.2	34.5
Southern Punjab	33.2	41.1	32.9	39.7
<b>Overall</b>				
Northern Punjab	10.3	19.1	19.0	24.4
Central Punjab	27.5	29.9	22.6	31.0
Southern Punjab	31.6	34.6	30.7	38.9

Source: FBS 2001

women's future roles primarily in the reproductive sphere. Women suffer from poverty of opportunities throughout their life cycle. This is evident from gender disaggregated statistics whereby female literacy is only 29 percent in Pakistan as compared to a literacy rate of 55 percent for men. In higher education women form only 28.9 of the student body in the 26 public sector universities. There are only 10 vocational colleges for women out of a total of 172 in the country. Only 47 percent of girl children are fully immunized compared to 52 of boys. Forty percent of adult women in Pakistan suffer from anemia. Pakistan is also one of the few countries in the world where the sex ratio is biased in favor of men and there are 108 men to every 100 women. In legislative bodies, women have never constituted more than 3 percent of the strength of the legislature elected on general seats.<sup>9</sup>

Gender inequalities in education, skill attainment, and in the legal, economic and political sphere tend to shape women's access to productive resources and employment opportunities. In particular, women's participation in the labor market in Pakistan is determined by rigid gender role ideologies, social and cultural restrictions on women's mobility and occupational segregation, a segmented labor market and employers gender biases of employees that attach a lower value to female labor due to their family responsibilities. This explains why female labor force participation rates in Pakistan are exceptionally low at just 13.7

percent, compared to 70.4 percent for men.<sup>10</sup>

In general, the experience of poverty by men and women is different and unequal. In the absence of gender-disaggregated, poverty-related data, a systematic gender analysis of poverty processes remains elusive in Pakistan. However, it is increasingly evident from the studies on feminization of poverty that women bear a disproportionately high share of the burden of poverty within the family and the society. Women become impoverished through two distinct processes (a) when the family based household becomes poor through deterioration in its collective entitlements and (b) when the family unit breaks down.<sup>11</sup> In the former situation women and girl children experience intra-household discrimination in food distribution, health care and education. In the latter situation when the family unit breaks down, female headed households tend to regress into poverty due to low earning capacity of women resulting from the economic and cultural constraints on their labor.<sup>12</sup>

#### D. VULNERABILITY

The identification of vulnerable elements within the poor has also received little attention in earlier poverty assessments in Pakistan. Similarly, the different aspects of vulnerability have not been analyzed. This section focuses on two different facets of vulnerability, economic and social vulnerability.

*Women suffer from poverty of opportunities throughout their life cycle.*

9 The 1973 Constitution allowed reserved seats for women in both houses of parliament for a period of 20 years, thus ensuring that women would be represented in parliament regardless of whether or not they are elected on general seats. This provision lapsed in 1993, so parliaments elected subsequently did not have reserved seats for women. Reserved seats for women have been restored in the elections scheduled for October 2002, and will constitute 17 percent of the strength of Parliament.

10 Federal Bureau of Statistics, 2001: *Labour Force Survey 1999-2000*.

11 Kabeer, Naila (1994), *Reversed Realities*, Verso, London, p.141.

12 The universalization of the association between female headship and poverty has been contested by some researchers. Nevertheless, the tendency of female headed households to be poor does exist in Pakistan.

## 1. Economic Vulnerability

Vulnerability in its traditional sense is understood as the underlying susceptibility of economically deprived people to fall into poverty as a result of exogenous random shocks. Thus vulnerability is the ex-ante risk of falling below the poverty line (see Box 2.3 for a discussion of ex-post measures of household poverty). In this context, vulnerable households are generally found to have low mean expenditure levels coupled with a high variance of expenditure. Essentially households are vulnerable if they do not have the means to smooth out consumption expenditure in response to fluctuations in income.

Estimating income or consumption related vulnerability is a complex task, requiring an analysis of household consumption patterns over a period of time in relation to the occurrence of exogenous shocks. In general, vulnerability is likely to be high in households clustered around the poverty line. Coping strategies for vulnerable households depend primarily on

their sources of income. Thus, in areas where income sources are relatively diversified, exogenous shocks can increase reliance on non-agricultural wages. In areas where such diversification has not occurred, credit may be an important mean of sustaining consumption.

## 2. Social Vulnerability

While economic vulnerability is a key characteristic of the poor in Pakistan, there is increased recognition of the fact that vulnerability, in a broader and more encompassing sense, arises also from social powerlessness, political disenfranchisement, and ill-functioning and distortionary institutions, and that it is important to understand these factors as being among the primary causes of the persistence of vulnerability faced by the poor. This is evident from the fact that the poor rarely speak of just lack of income per se as being the key factor contributing to their vulnerability, but tend to focus more in this regard on the constraints that they face in managing their assets, whether human,

*Households are economically vulnerable if they do not have the means to smooth out consumption expenditure in response to fluctuations in income.*

### Box 2.2 Chronic and Transient Poverty

While economic vulnerability is an ex-ante measure of the risk of becoming poor, ex-post measures of household poverty cause households to be classified as either chronically or transitorily poor. Thus a household is defined as chronically poor if its mean expenditure level falls below the poverty line, and household expenditures have little variation. On the other hand, households that experience transitory poverty may have mean expenditure levels higher than the poverty line, but their expenditure levels fall below the poverty line a defined number of times in the period under consideration. According to at least one study,<sup>1</sup> based on a five-year panel data, which defined a household as transitorily poor if mean expenditure dropped below the poverty line at least once in the period under study, 74 percent of the poor households in the sample were transitorily, rather than chronically poor, and on average transitorily poor made up 54 percent of the poor in any one year covered by the study. The study also found that smoothing of incomes across just two years resulted in a 66 percent reduction in transitory poverty.

1 McCulloch, Neil., and Bob Baulch: *Distinguishing the Chronically from the Transitorily Poor: Evidence from Rural Pakistan*, IDS Working Paper 97, University of Sussex.

material, social or political. In addition, highlighted in the poor's perceptions of vulnerability is increasing insecurity arising from sectarian violence, communal clashes and deteriorating law and order. Vulnerability, in this broad sense, therefore, may be defined as the lack of capacity in the poor to access public entitlements, particularly political processes or goods and services which determine human development, where human development is defined as enlarging people's choices in a way that enables them to lead longer, healthier and fuller lives.

*Highlighted in the poor's perceptions of vulnerability is increasing insecurity arising from sectarian violence, communal clashes and deteriorating law and order.*

Vulnerability in Pakistan manifests itself in at least four ways. First, it is exacerbated by the everyday harassment, under-performance, exclusion and denial of basic rights by public officials of people who are disadvantaged by virtue of gender, ethnicity, and economic and political powerlessness. That citizens have started reacting to such treatment is evidenced by the number of complaints filed against key government departments in Pakistan, which more than tripled between 1985 and 1998.<sup>13</sup> These complaints could be placed in five categories: delay, inattention, neglect, arbitrary decisions and corruption. While alarming, these trends say nothing of those who cannot or do not file formal complaints but silently suffer nevertheless on account of the dysfunctionality and non-responsiveness of public institutions.

Second, vulnerability is much increased by local officials responsible to license and regulate economic activities who typically extract rent from informal sector workers, by imposing or manipulating regulatory controls over their livelihood activities. This is particularly marked with law and order entitlements: budgetary allocations to meet recurrent costs of police stations are so meager that it is accepted practice to solicit

contributions from the public to meet these expenditures.

Third, and well known, the vulnerability of the poor is continually reaffirmed by the corruption of local cadre/officials that hampers access to public goods/services such as health, education and land management. For example, it is common in Pakistan to find the poor turning to private sources of health care because they fear that a visit to a public facility would be unproductive. In this regard, the perception of the poor is that although private care is considered expensive, public sources may be no less expensive when there is a possibility of having to pay illegal fees, being serviced with expired drugs and dangerous diagnoses, and undergoing long delays in obtaining medical consultation due to frequent absenteeism of the concerned staff. Access to public services is also hampered by the need to provide documents such as national identity cards or domicile certificates, which are difficult to obtain.

Finally, the failure of state institutions to provide law and order and security is a function of the inefficiency in existing police, legal, and judicial structures. Studies suggest that the poor more frequently remark on the impact of a brutalizing police force and a corrupt judiciary than is apparent from official accounts of indicators and causes of poverty.

The poor recognize that the state has a responsibility to provide affordable, equitable and effective public goods and services, but feel that the state has failed to deliver. Dysfunctional institutions do not just fail to deliver services - they disempower, and even silence the poor through humiliation, exclusion and corruption. The persistent inability of the

13 Asia Foundation 1999: *Pakistan Legal and Judicial Reform Project, ADB, Integrated Report*, September, p. 145. Islamabad.

Government to rectify these conditions is arguably the most important constraint on long term growth prospects and inequality.

## E. HUMAN DEVELOPMENT

ADB's Poverty Reduction Strategy<sup>14</sup> describes poverty as a deprivation of essential assets and opportunities to which every human being is entitled. In this respect, the importance of building up human capital assets and enjoying access to basic education and primary health services is a given. The Mahbub-ul-Haq Centre for Human Development (MHCHD) has developed a broad index of poverty in Pakistan that takes into account deprivation in education and health, in addition to income.<sup>15</sup> Trends in this index (poverty of opportunity) for the period 1970 to 1995, as well as the three indices on which it is based, i.e., poverty of opportunity of health, education, and income, are presented in

Table 2.4. Poverty, according to all indices, declined throughout the period, (with the exception of income related poverty in the 1990s which has been on the increase), but the poverty of education opportunity index has always lagged behind the other indices. In 1990, at 62 percent, poverty of education opportunities was almost three times the poverty of income opportunities. The data also shows that, while poverty of opportunity declined for both men and women during this period, the decline for the latter has been slower than for the former. As a result the gender gap has increased consistently since 1980.

Another measure to evaluate the progress made by a country in achieving human development, as well as to make cross country comparisons, is the United Nations Development Program's (UNDP) human development index (HDI). To provide a context for past achievements and

*The poverty of education opportunity index has always lagged behind the other poverty of opportunity indices for Pakistan.*

Table 2.4 Trends in Poverty of Opportunity Indices

	Poverty of Health Opportunities (%)	Poverty of Education Opportunities (%)	Poverty of Income Opportunities (%)	Poverty of Opportunity (POPI) (%)	Male Poverty of Opportunities (%)	Female Poverty of Opportunities (%)	Male-Female Disparity in POPI Index
1970	55	77	40	61	56	67	100
1975	49	74	35	58	52	64	102
1980	46	73	38	56	51	62	101
1985	42	67	25	51	46	59	107
1990	36	62	20	46	41	56	114
1995	30	58	30	44	37	52	116
Reduction 1980 to 1995 (%)	35	21	21	21	27	16	

Source: Mahbub-ul-Haq Centre for Human Development, 1999.

14 ADB, 1999: *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy* p.5.

15 Education deprivation is a composite of the percentage of illiterate adults and percentage of primary school age children out of school. Health deprivation is percentage of people not expected to survive to 40, percentage without access to safe water, and percentage of malnourished children under 5. MHCHD / UNDP 1999. *A Profile of Poverty in Pakistan*, Islamabad.

*Pakistan's level of human development is low for its level of income.*

the current state of human development in Pakistan, it is useful to compare changes in HDI in the 1990s for the South Asian countries. It is clear from Table 2.5 that the HDI improved in all South Asian countries in the 1990s.<sup>16</sup> In 1999, the HDI for Pakistan was marginally above Bangladesh and Nepal, but substantially below India. Also, it is evident that Pakistan's level of human development is low for its level of income as indicated by the fact that its GDP per capita rank is higher than its HDI rank. In comparison with other South Asian countries, Pakistan did not appear to be worse off in terms of the health (life expectancy) index relative to most countries, but the education index for Pakistan was the lowest in South Asia. The fact that the education index in Nepal and Bangladesh, two countries with significantly lower per capita incomes than Pakistan, was 10 to 20 percent higher than

Pakistan is a clear indicator of the low priority accorded to education in Pakistan's development policies.

Trends in the key components of human development, such as literacy, education, basic health, and population welfare in the 1990s are discussed below.

### 1. Literacy

Literacy rates increased for both men and women in the 1990s, and according to the 1998 census, the adult (15 years and above) literacy rate was 42.7 percent (55.3 percent for men and 29 percent for women). During the period from FY1991 to FY1999 the gap in literacy rates between men and women was reduced somewhat according to the PIHS data, although it remains significant, especially in the rural areas.

An analysis of the current literacy age

Table 2.5 Human Development in South Asia

	Pakistan	Bangladesh	India	Nepal	Sri Lanka
Education Index	0.43	0.51	0.56	0.47	0.84
Life Expectancy Index	0.58	0.57	0.63	0.55	0.78
GDP per capita index	0.49	0.45	0.52	0.42	0.58
HDI Index					
1999	0.50	0.47	0.57	0.48	0.74
1990	0.44	0.41	0.51	0.42	0.72
1980	0.37	0.35	0.43	0.33	0.70
GDP per capita rank minus HDI rank*-1999	-5.00	-2.00	0.00	7.00	19.00

Source: UNDP, 2000.

\* A negative figure indicates that the human development rank is lower than the GDP per capita rank, a positive figure indicates the opposite.

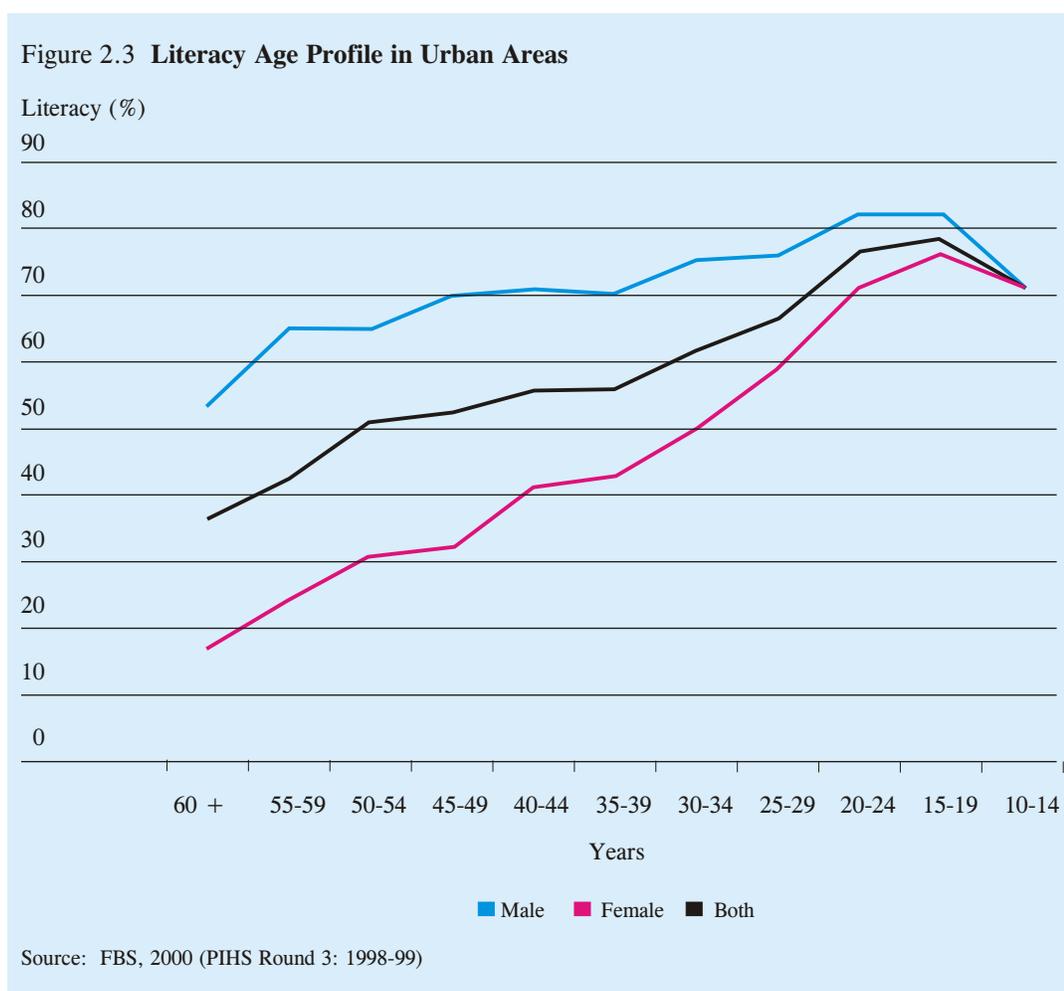
16 Sri Lanka, which has a level of human development comparable to a middle income country, is not included in these comparisons.

profile for Pakistan can provide very useful insights into the progress that has been made in improving literacy in the last 50 years.<sup>17</sup> The trends for urban and rural areas for both men and women are shown in the following two figures (Figures 2.3 and 2.4 respectively). In urban areas, literacy decreases with age (higher literacy in younger age groups). The female literacy rate increases at a much faster rate than that

for males, such that the gender disparity is almost eliminated for the 15 to 19 age group.<sup>18</sup> However, the male literacy rate seems to have leveled off at just over 80 percent, which may have important implications for future improvement in the overall literacy rate.<sup>19</sup>

In the rural areas as well, the long-term trend is for literacy to increase inversely with age for men and women, but the rate of

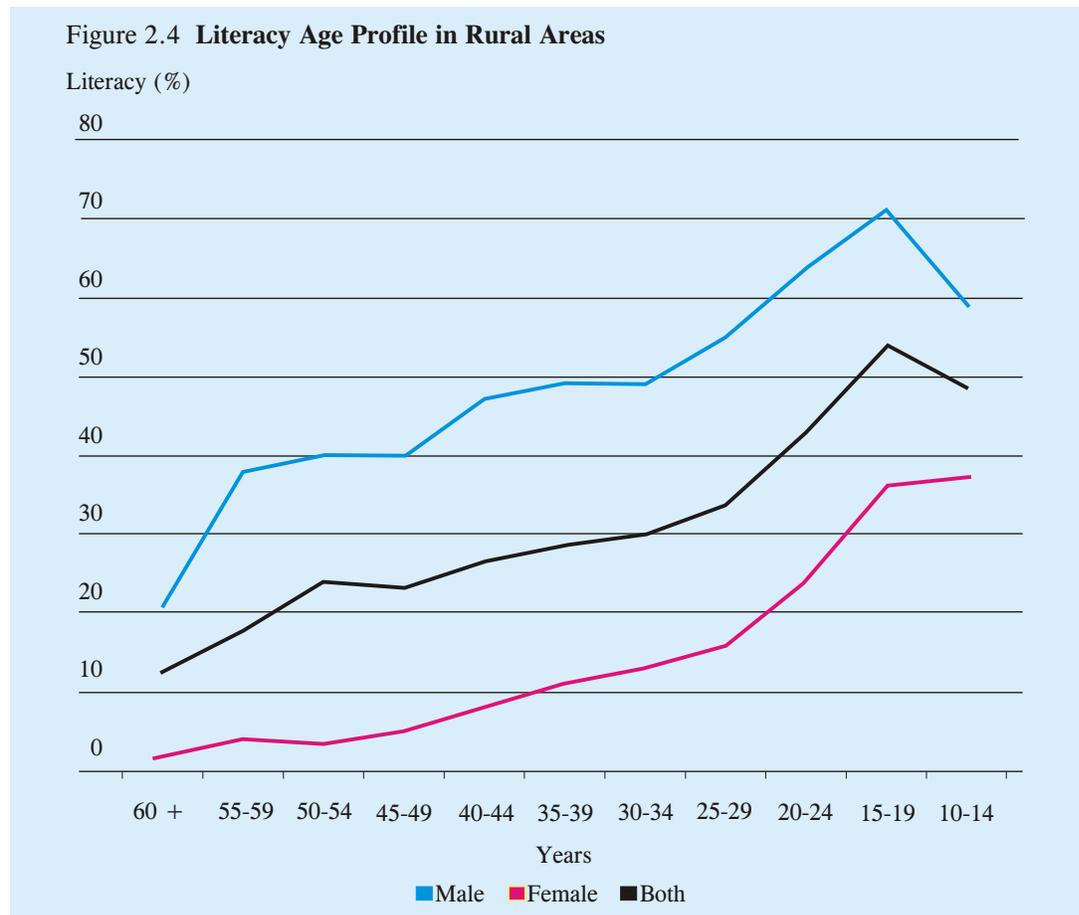
*In urban areas, the female literacy rate increases at a much faster rate than that for males, such that the gender disparity is almost eliminated for the 15 to 19 age group.*



17 This unusual but effective method is used in ADB's Program Performance Audit Report on the Social Action Program (SAP).

18 There is no significant difference between males and females in literacy among 10 to 14 years olds.

19 It is difficult to interpret the fact that the literacy rate for 10 to 14 years is significantly lower than that for the 15 to 19 age group across all categories (rural, urban, male and female) in all three rounds of PIHS, except for rural females in 1998-99. However, this finding probably indicates the inefficiency of the school system. In 1998-99, 69 percent of 10 to 14 year olds in Pakistan had been to school, but only 56 percent were literate. On the other hand, literacy skills may be acquired by a substantial proportion of the 15 to 19 age group outside the formal school system.



increase for women only accelerates in the last few age groups. The gender gap, which is the largest for the 20 to 24 age group (40 percentage points) remains substantial, but declines to 33 percent for 15 to 19 year olds and further to 22 percentage points for 10 to 14 year olds. It is increasingly clear that the gender gap in education exists not only because of parent's reluctance to send girls to school but also because of the non-availability of appropriate facilities for girls. Making educational facilities more easily accessible to girls and women may therefore result in significant gains in reducing the gender gap.

A similar pattern is observed for the urban-rural gap in literacy rates. While this gap for men declined from 27 percentage points for the 55 to 59 age group to 11

percentage points for the 15 to 19 age group, the urban-rural gap in the case of women first widened from the highest age group downwards before narrowing from 47 percentage points for the 20 to 24 age group to 34 percentage points for the 10 to 14 age group.

Pakistan today has 41 million adult illiterates and more are being added every year. Less than 50 percent of the girls in the 10 to 14 year age group in the rural areas are in school, and over 30 percent of all children will never go to school. Unless the issue of adult illiteracy is addressed through informal education programs, particularly for women, a target of 90 percent literacy will not be reached even in fifty years. Similarly, unless the number of children not attending school is reduced drastically, it

*Gender gap in education exists not only because of parent's reluctance to send girls to school but also because of the non-availability of appropriate facilities for girls*

will be almost impossible to increase the literacy rate beyond 70 to 80 percent.

## 2. Education

Despite the Social Action Program (SAP), primary enrolment in Pakistan has tended to stagnate, if not decline, during the 1990s. In FY1999, the primary school gross enrolment rate (GER) was 71 percent, as against 73 percent FY1991 (Table 2.6), while the net enrolment rate declined from 46 to 42 percent. However, some progress was made in reducing gender disparities in education over the period. The female GER increased from 59 percent to 61 percent, while the male GER declined from 87 percent to 80 percent. Thus the decline in the gender gap (from 28 percentage points to 19 percentage points) was largely because of declining boys' enrolment. Also, no progress was made in reducing rural-urban disparities. The gap in the case of girls

widened marginally over this period, and in FY1999 girls' GER was 50 percent in rural areas compared to 92 percent in urban areas. At the same time, the gap in the case of boys widened significantly, because the decline in boys' GER in the rural areas (from 83 percent in 1991 to 75 percent in FY1999) was much greater than the decline (from 97 percent to 95 percent) in the urban areas. The inescapable conclusion is that, apart from a welcome increase in girls' GER, little progress was made in expanding primary education coverage, particularly in rural areas, during the 1990s.

*Little progress was made in expanding primary education coverage, particularly in rural areas, during the 1990s.*

Mirroring trends observed at the overall national level, GERs in the two big provinces also witnessed a decline between FY 1991 and FY 1999. As is evident from Table 2.6, GER in Punjab fell from 80 percent to 75 percent; and in Sindh from 65 percent to 64 percent. GERs, in NWFP and Balochistan, however, increased during the

Table 2.6 Gross Primary Enrollment Rate - 1991 and 1999

	FY91			FY99		
	Overall	Boys	Girls	Overall	Boys	Girls
<b>Pakistan</b>	73	87	59	71	80	61
Urban	92	97	87	94	95	92
Rural	66	83	47	63	75	50
<b>Punjab</b>	80	91	69	75	82	68
Urban	98	100	95	94	91	97
Rural	74	88	57	69	79	58
<b>Sindh</b>	65	77	53	64	75	54
Urban	87	90	84	94	100	88
Rural	50	68	31	47	59	33
<b>NWFP</b>	67	92	44	70	84	54
Urban	82	109	58	90	97	83
Rural	64	89	41	66	82	49
<b>Balochistan</b>	46	69	27	64	77	43
Urban	62	81	42	88	99	76
Rural	44	67	25	61	77	42

Source: FBS, 2000 (PIHS Round 3, 1998-99) and Oxford Policy Management, 2001.

same period from 67 percent to 70 percent, and from 46 percent to 64 percent respectively. The main source of this increase in both provinces was the significant increase in GERs of girls, which increased from 44 percent to 54 percent in NWFP, and from 27 percent to 43 percent in Balochistan. GER of girls in Sindh marginally increased as well. The disparity in GERs between urban and rural areas also increased in all four provinces, but most notably so in Sindh, where urban enrollment rates increased but rural enrollment decreased during the FY1991-FY1999 period.

Enrolment statistics have to be considered together with the dropout rate to get a true picture of the magnitude of the problem of inadequate education coverage. The dropout rate is determined primarily by the quality of education imparted, and by parent's estimation of the stream of future benefits likely to accrue from time spent in school. For low income households, the opportunity cost of having a child in school are fairly high, and parents cannot be persuaded to bear this cost if they perceive that the quality of education is low, or that no significant benefits are likely to accrue from keeping children in school. A strong relationship exists, therefore between household income and the dropout rate. According to the PIHS 1998-99 data, 47 percent of children from the poorest quintile dropped out before completing primary education as compared to 23 percent from the richest quintile.

The percentage of children aged 10 to 18 years who left school before completing primary education declined slightly from FY1991 to FY1999, from 17 percent to 15 percent. Except for Balochistan where the percentage of children leaving school before completing primary education perceptibly increased from 2 percent to 12 percent

between FY1991 and FY1999, the dropout rate also decreased in the other three provinces. Nationally, the male - female gap in the dropout rate narrowed from 5 to 1 percentage points, while the urban/rural gap widened from 7 to 9 percentage points. The gender gap in dropout rates of all provinces declined as well, with the exception of NWFP where it increased as a result of a significant increase in the dropout rate for girls. The urban-rural gap in all the provinces increased in accordance with the national trend.

The education system is beset with learning deficiencies and low achievements (Box 2.4). Detailed statistics from one province, Punjab, reported in a World Bank document,<sup>20</sup> further illustrate problems in educational standards. From 1989 to 1998, the proportion of children passing from the first to the second grade in the province remained constant at 59 percent. Only 20 percent of children in the age cohort of 10-12 years were enrolled in middle schools, and of those who entered grade 6, only 56 percent went on to complete grade 8. Of every thousand children enrolled in primary school, only 264 completed middle school. In 1999, only 41 percent of public school students in Punjab who took the matriculation (or grade 10) examination got a passing grade. Since only 16 percent of the age cohort 15 to 19 reached the 10<sup>th</sup> grade, such a low pass percentage has disquieting implications.

Notwithstanding the generally disappointing situation noted above, significant changes are taking place in the education sector in Pakistan. Increasingly, parents prefer to enroll their children in private schools, even in rural areas. Consequently, the share of primary school enrolment in government schools (excluding kindergarten) fell between FY1991 and FY1999 from 86 percent to 75

*Increasingly, parents prefer to enroll their children in private schools, even in rural areas.*

20 World Bank (2001): *Pakistan: Reforming Punjab's Public Finances and Institutions*. Poverty Reduction and Economic Management Unit, South Asia Region.

percent. Even in rural areas, government primary school enrolment share fell from 95 percent to 86 percent; in this period. During the same period, in urban areas, the share of government primary schools in enrollment fell from 70 percent to 53 percent; that is, by FY1999, almost half of all primary education in urban areas was being delivered by private schools. It is also clear that both male and female students have been shifting from public to private schools.<sup>21</sup>

These are major shifts of great importance but the reasons why these are occurring are poorly documented. It is possible to speculate, however, that parents' decisions of educating their children in private schools are influenced by a combination of factors. These include the generally poor standard of government primary education (including high level of teacher absenteeism), problems of access and security (for girls), preference for English as a medium of instruction (generally offered by private schools), and lack of accountability in public schools (or a perception that private schools will be more accountable because services are paid for). A Multi-Donor Support Unit (MSU) survey on grade 5 student attainment

compared results from private and government schools in rural areas. The survey showed better performance by private school pupils: boys in private schools scored 13 percentage points more than boys in government schools while for girls the improved performance was even greater at 18 percentage points. The report notes the better performance of private schools is not due only to the presence of more competent teachers but also because better learning conditions and better management.

The fact that the shift towards private schools is occurring is especially noteworthy in light of the fact that the gap between average household expenditure per child for private and Government schools is significant, as shown in Table 2.7. For example, for primary education, the mean annual expenditure in private schools was about four times higher than that in Government schools in FY1999. For middle education, average annual expenditure in private schools is three times higher than in Government schools. The demand for private education indicates that there is a willingness to pay for education, provided that the quality of education is considered to be adequate.

*Better performance of private schools is not due only to the presence of more competent teachers but also because of better learning conditions and better management.*

### Box 2.3 Learning Deficiencies and Low Achievement in Education

Other measures indicate that there are serious problems in the quality of teaching and education. A one-time assessment of primary education achievement conducted in 1995 showed learning deficiencies in grade 5 students.<sup>1</sup> The study posed 22 basic mathematics and general knowledge questions to 11,563 students and 914 teachers from 527 schools. Results show that boys and girls were not able to answer 41 percent of the mathematics questions and 38 percent of the general knowledge questions correctly. Almost 20 percent of 10-14 years old, who had been to school were still illiterate.

1 Multi Donor Support Unit (1995). *Social Action Program: Determinants of Primary Students' Achievement: National Survey Result*. The survey sample included 782 teachers and 9901 students from 462 schools. Survey results had to be discarded for Sindh because of survey irregularities.

21 An estimated 3 percent of enrolled students (mainly boys) are also studying in madrassas or religious schools. However, it is not clear from the PIHS survey if these are included in private schools or not. Some madrassas also receive public funding.

Table 2.7 Household Annual Expenditure Per Student on Education, 1998-99

Parameter	Mean Annual Expenditure in Rupees					
	Government School			Private School		
	Fees	Other	Total	Fees	Other	Total
Overall	295	1,381	1,675	2,219	2,259	4,477
Primary Level	70	737	808	1,612	1,733	3,345
Middle Level	236	1,555	1,792	2,600	3,111	5,711
Secondary Level	441	2,456	2,898	2,705	3,052	5,756
Higher Level	2,039	4,673	6,712	7,183	5,154	12,337

Source: FBS, 2001.

Primary includes classes 0-5, Middle includes classes 6-8, Secondary includes classes 9-10, and Higher Level includes class 11 and all other higher education codes reported.

*Health indicators in Pakistan have shown some improvement over the past decade although they remain lower than indicators in other low income countries.*

Greater private sector involvement in primary education was part of the purpose of the SAP launched by the Government in 1992 (see Chapter IV for details). Therefore, the increased private sector share of provision is a very positive result. However it is evident that SAP did little or nothing to facilitate or encourage this development. While some relatively insignificant level of funding was directed to education foundations to promote NGO participation, this had almost no effect. A greater awareness of the importance of education is about the only possible cause and effect relationship between SAP inputs and greater private sector involvement in education. Almost certainly SAP would have had a much greater and more cost-effective impact had it promoted greater parental choice, genuine public-private partnerships (for example use of school buildings by the private sector), and direct support to private education providers to improve their already better quality service provision.

### 3. Health

Health was also one of the sectors targeted in the SAP. Health indicators in

Pakistan have shown some improvement over the past decade, although they remain lower than indicators in other low-income countries. The infant mortality rate (IMR) was estimated to have declined from 122 per 1000 live births in FY1991 to 89 per 1000 live births by FY1999 (Table 2.8). The IMR was 93 per 1000 live births for males and 85 for females, while for urban areas it averaged 73 per 1000 live births as opposed to 95 per 1000 live births for rural areas.

IMRs in the individual provinces also displayed a declining trend as is evident from Table 2.8. The IMR for Punjab fell from 116 per 1000 live births in FY1991 to 95 per 1000 live births in FY 1999; in Sindh from 124 to 95; in NWFP from 130 to 62; and in Balochistan from 172 to 86. By FY 1999, the IMR for females was less than the IMR for males in all provinces. IMRs declined in both urban and rural areas in the four provinces. Further, as per the trend at the national level, IMRs in urban areas were significantly lower than in the rural areas in all provinces except NWFP where the urban IMR was significantly higher.

Health data also shows a correlation between mother's level of education and infant mortality, and brings forth evidence

Table 2.8 Infant Mortality Rate - FY91 and FY99

	FY91			FY99		
	Overall	Male	Female	Overall	Male	Female
<b>Pakistan</b>	122	129	114	89	93	85
Urban	103	112	92	73	77	68
Rural	129	136	122	95	99	91
<b>Punjab</b>	116	130	102	95	100	91
Urban	92	108	73	70	78	61
Rural	125	138	111	106	109	102
<b>Sindh</b>	124	119	128	95	97	93
Urban	102	97	108	69	63	76
Rural	137	134	131	114	122	106
<b>NWFP</b>	130	143	116	62	67	57
Urban	156	177	135	79	101	57
Rural	125	136	113	59	61	57
<b>Balochistan</b>	172	138	204	86	90	81
Urban	206	217	195	134	143	124
Rural	166	124	205	80	83	76

Source: FBS, 2000 (PIHS Round 3, 1998-99) and Oxford Policy Management, 2001.

that infants born to the least educated mothers have twice the risk of dying within the first year after birth compared to those born to more educated women.<sup>22</sup> A similar relationship exists for the incidence of malnutrition, for which PIHS data shows that there is 60 percent more chance of finding malnourished children in households where the mother is illiterate compared to households where the mother has at least had high school education. Overall, there has reportedly been little improvement in the average nutritional status of children over the last twenty years.

Maternal mortality rates are also very high at about 300-400 per 100,000 births, largely because over 80 percent of total births take place at home, under the care of traditional birth attendants. Less than a third

of expectant mothers typically undergo prenatal checks, while only one in ten mothers have post natal checks and consultation.

The PIHS for 1996-97 reports some improvement in the Total Fertility Rate (TFR), which had declined from 6.8 births per woman in the mid 1980s to about 4.5 births per woman by 1997. In this regard, fertility rates were estimated to have declined in all provinces except Balochistan. However, the PIHS study cautions that this data is prone to reporting error and the TFR is likely to be higher. Nevertheless, information from multiple sources does indicate that fertility is on the decline. Once again, the bulk of the reduction appeared to have taken place in urban areas, and has been largely attributed to an increase in the average marriage age,

*There is 60 percent more chance of finding malnourished children in households where the mother is illiterate.*

22 Naqvi, Zareen F. (2000). *Poverty in Pakistan: Review of Recent Literature*. South Asia Poverty Reduction and Economic Management Unit, The World Bank, Islamabad.

*Although the percentage of children between 12 and 23 months who were fully immunized increased to 49 percent in FY1999, this was considerably short of the 90 percent coverage target set by the government.*

although the PIHS also reports an increase, between FY1991 and FY1997, in the percentage of households that use contraceptives.

There has also been significant improvement in the rate of immunization between FY1991 and FY1999. As shown in Table 2.9, the percentage of children between 12 and 23 months who were fully immunized increased from 37 to 49 percent based on recall and record measures; however, this still fell considerably short of the 90 percent coverage target that had been set by the Government for achievement by 1998. Nevertheless, immunization rates in children significantly improved across both genders and in both urban as well as rural areas during this period.

The percentage of immunized children

was reported to have appreciably increased in all the four provinces. This percentage increased from 44 percent to 55 percent in Punjab; from 16 percent to 38 percent in Sindh; from 41 percent to 54 percent in NWFP; and from 1 percent to 34 percent in Balochistan. The PIHS data also showed a strong correlation between income and immunization as approximately three-quarters of children in the upper income quintile were fully immunized against only one quarter in the bottom quintile.

Three factors, communicable infectious diseases, reproductive health problems, and nutritional deficiencies are purported to account for almost 60 percent of the burden of disease in Pakistan, when measured in terms of life-years lost.<sup>23</sup> All of these are preventable or easily treatable problems, but because of the low quality of health

Table 2.9 **Immunization Trends in the 1990s**

	Percentage					
	FY91			FY99		
	Both	Male	Female	Both	Male	Female
<b>Overall</b>	37	40	33	49	52	47
Urban	43	47	39	64	64	36
Rural	34	37	30	45	47	42
<b>Punjab</b>	44	44	45	55	57	52
Urban	50	47	54	64	62	68
Rural	42	43	41	52	56	47
<b>Sindh</b>	16	20	12	38	42	35
Urban	33	51	20	60	66	54
Rural	5	3	6	27	31	24
<b>NWFP</b>	41	50	31	54	52	56
Urban	63	49	24	77	82	74
Rural	42	50	32	51	49	54
<b>Balochistan</b>	1	3	0	34	36	32
Urban	10	20	0	51	51	52
Rural	0	0	0	32	35	29

Source: FBS, 2000 (PIHS Round 3, 1998-99) and Oxford Policy Management, 2001.

23 World Bank, 2001. *Pakistan: Reforming Punjab's Public Finances and Institutions*. Poverty Reduction and Economic Management Unit. South Asia Region.

services is so inadequate, the incidence of such diseases and the mortality rate remains high. This is in spite the curative health care system expanding at a fairly appreciable pace over the last two decades. For example, the number of registered doctors increased by almost 88 percent over the 1990s, while the number of registered nurses more than doubled, and the number of lady health visitors increased by over 80 percent.<sup>24</sup> Consequently, the population per doctor fell from 2082 in 1990 to 1529 by 2000, while the population per nurse fell from 6374 in 1990 to 3732 by 2000, a decrease of 41 percent.

The role of the private sector in delivery of health services is quite significant, although the proportion of private health provision has not changed much over the last decade. This is evident from the fact that PIHS data shows that in FY1999 only 28 percent of patients with diarrhoea consulted a Government health practitioner first. The FY1999 PIHS also inquired why people first consulted a private practitioner. The principal reason cited by respondents was that the government facility was too far away while the private practitioner was near. This was followed by the availability of the doctor, the ability of the private practitioner to treat complications, and that staff were in private facilities were helpful.

#### 4. Population Welfare

Population welfare was also one of the key areas addressed under the SAP, and almost 3 percent of SAP-I funds were given for family planning initiatives. A family planning and primary health care program was launched in 1994 at the national level in order to provide primary and reproductive health care services to the masses. To run the program countrywide, the government has established 1,658 family welfare

centers, 106 reproductive health services centers and 131 mobile service units.<sup>25</sup> Approximately 12,000 village based family planning workers and 43,000 lady health workers are providing basic primary health services in the urban and rural areas.

The inter-censal population growth rate for Pakistan (that is, the annual average growth rate from 1982 to 1998) was estimated at 2.6 percent, which was less than the earlier forecast of an average annual growth rate of over 3 percent in this period.

According to the PIHS, the national contraceptive prevalence rate increased from 7 percent in 1991 to 17 percent in FY1999. Contraceptive prevalence rates registered increases in all four provinces in this period: in Punjab, from 7 percent to 16 percent; in Sindh, from 8 percent to 19 percent; in NWFP, from 9 percent to 10 percent; and in Balochistan, from 5 percent to 7 percent. However, PIHS data is considered to have underestimated this indicator. The Pakistan Fertility and Family Planning Survey reports higher levels of contraceptive practice, with FY1997 levels of about 24 percent against a 1990 level of 12 percent. Despite this, contraceptive use in Pakistan still remains far below the rates in other South Asian countries. Nevertheless, married women of reproductive age who know of at least one family planning method increased overall from 78 percent in FY1991 to 94 percent in FY1999. In rural areas, this proportion increased from 59 percent to 91 percent. The IPRSP reports the awareness of one method of family planning to be around 97 percent while the prevalence rate of contraceptives is reported at 28 percent. The present fertility rate reported by IPRSP at 4.8 is still high comparing with other Asian countries.

*The role of the private sector in delivery of health services is quite significant.*

*Contraceptive use in Pakistan still remains far below the rates in other South Asian countries.*

24 Government of Pakistan, *Economic Survey 2000 - 2001*

25 IPRSP, 2001: Op cit (page 46)

The private sector is playing a major role in family planning practice. About 50 percent of family planning users received their contraceptives from a non-government supplier during the SAP - I period. The current program of family planning seeks the support of independent media and advocacy campaigns through NGO involvement to make it more effective.

## F. ENVIRONMENT

As in the case of many developing countries, the environment-development nexus and consequently the environment-poverty nexus is strong in Pakistan. Growth in the agriculture sector, which contributes about 25 percent to GDP, is strongly reliant on the state of the environment, particularly on the country's land and water resources. The industrial sector, which contributes about 17 percent of GDP, is dominated by agro-industries, for which the agricultural sector provides the bulk of the raw material. However, there is general agreement that the environmental situation in the country has been deteriorating. To this end, environmental issues and concerns across all sectors need to be addressed as a matter of priority which, in turn, requires urgent attention and action on the part of all stakeholders including Government, the private sector, and NGOs and other civil society organizations.

Current environmental problems in Pakistan include land degradation due to erosion, use of agro-chemicals, water logging and salinity, depletion of forest and water resources, and pollution associated with industrial and domestic activities. On account of extensive use of agro-chemicals, with fertilizers and pesticides in the lead, pollution is constantly increasing in severity. In the industrial sector, the textile industry is a major consumer of chemicals

such as soda ash, sulfuric acid, and caustic soda. Most of the chemical waste is disposed off either into the nearby drains and/or other outlets, with obvious adverse environmental impacts. In this context, it is important to note that while adequate control measures exist for production, processing and import of fertilizers, pesticides and other chemicals, no legal instruments are available for their disposal, registration or de-registration, or their quality control. The 1997 Pakistan Environmental Protection Act excludes 'pesticides' in its definition of hazardous substances. Similarly, no legal instrument exists to manage the industrial or consumer chemicals except that by the use of Explosives Act 1884, and/or Factories Act 1934.<sup>26</sup> Moreover, there are no ambient air quality standards, air quality indices, standards for various uses of water, or water quality indices in Pakistan, an absolute must for monitoring air and water quality.

It has been variously reported that between the years 1980 and 1996, carbon dioxide emissions have more than doubled in Pakistan from 31.6 metric tons to 94.3 metric tons, doubling from 0.4 to 0.8 metric tons in terms of per capita emissions. During the same period, the discharge of organic water pollutants increased from 75,125 kg/day to 114,726 kg/day. Moreover, it has been noted that, only 39 percent of the population has access to sanitation facilities.<sup>27</sup>

Investigations of toxic substances by Federal Environmental Protection Agency (EPA) in leather, automobile, battery, paint, steel manufacturing, metal cutting, steel pipes, petroleum refinery, tube lights, chemicals industries and the underground water in Karachi has revealed that all these industries do not control their waste water effluents through process control, waste

*There are no ambient air quality standards, air quality indices, standards for various uses of water, or water quality indices in Pakistan.*

26 Federal EPA/UNITAR (2000). *National Profile on Chemical Management in Pakistan*. Islamabad.

27 IPRSP, 2001: Op cit.

recycling, or end-of-pipe treatment.<sup>28</sup> The test results of liquid effluents showed that not a single industry meets the National Environmental Quality Standards (NEQS). Significant among the toxic metals which far exceeded NEQS and imposed severe health hazard were cadmium (all industries), lead (battery), chromium (leather, chemical), mercury (leather, petroleum refinery, tube light, chemical), arsenic (all except leather, paint, tube light), and cyanide (all except leather, paint, steel). Similarly, biological oxygen demand, chemical oxygen demand, total suspended solids, total dissolved solids were also noted to far exceed NEQS in all industries. A study carried out by Japan International Cooperation Agency (JICA)<sup>29</sup> on air and water pollution in Lahore, Rawalpindi, and Islamabad concluded that urban air quality in the three cities presented an alarming situation as the levels of several critical air pollutants (CO, SO<sub>2</sub>, NO<sub>x</sub>, PM<sub>10</sub>, and Lead) exist in higher levels than the World Health Organization (WHO) limits. Similarly, water quality analysis also showed high levels of contamination, as out of 40 samples tested, only one was found to be fit for human consumption. The study recommended setting up of ambient air quality standards, and promulgation of Clean Air and Clean Water Act.

The forests, which cover only 4.2 million of the 85 million hectares of the land, are shrinking at one of the highest rates in the world (2.5 - 3.1 percent annually), resulting in severe reduction in biological diversity, and threatening not only the ecological balance but adding to the perils

faced by threatened and endangered species. In terms of loss of biological diversity, Pakistan has 13 species of mammals, 25 species of birds, 14 species of higher plants and 6 species of reptiles classified as threatened.<sup>30</sup> These include the Greyleg Goose, Shadduck, the Indus Dolphin, Antelope, Ibex, Houbara and Markhor.<sup>31</sup>

The existence of the poverty-environment nexus points to the need for making concerted efforts to mainstream environmental concerns and issues in development policy given their central importance to the quality of life and the sustenance of key sectors of the economy. The need for investment in environment and natural resource management tends to be obscured because there is insufficient research on the economic costs of environmental degradation. Environmental degradation can generate strong negative externalities affecting the commodity producing sectors, including agriculture and agro-based industry. While there is limited information on the costs of such pervasive externalities, the cost of environmental disasters such as floods and droughts are now becoming increasingly apparent for the economy as a whole and for the poor in particular. Encouragingly, evidence from community based environmental programs suggests that local institutions can play an important role in mitigating the effects of environmental degradation, while instituting resource use practices that decelerate or even reverse environmental damage.

*The need for investment in environment and natural resource management tends to be obscured because there is insufficient research on the economic costs of environmental degradation.*

28 Federal EPA/JICA/OECC (2001). *Investigation on Actual Contaminated Conditions by the Industrial Toxic Substances in Karachi*.

29 JICA (2000). *Investigation of Air and Water Quality* (Lahore, Rawalpindi, Islamabad).

30 Asian Development Bank. 2001. *Country Strategy Program (CSP) Update*, Table A.2.2 (Environmental Indicators).

31 ADB. 2001. *Country Environmental Policy Integration Study for Pakistan*.

## G. CHARACTERISTICS OF THE POOR

There are a number of attributes, besides location, which characterize the poor in Pakistan. In terms of the various attributes of poverty detailed in this chapter, one that is the most characteristic of the poor is their low education and literacy level. Other characteristics include larger than average household size, few physical assets, and a disproportionate reliance on informal sector employment opportunities. Some of the key characteristics of the poor in Pakistan are discussed in this section.

### 1. Education

Data on poverty indicates that there is a strong correlation between illiteracy, or the level of education, and the incidence of poverty. In FY1999, the literacy rate of the household head (27 percent) in poor households was about half of that in non-poor households (Table 2.10). The result holds for all provinces and regions. The contrast in urban Northern Punjab is particularly dramatic, where 82 percent of the heads of non-poor households were literate, compared with only 27 percent in poor households. Similarly, those households whose heads had no formal education had about three times the incidence of poverty compared to those households whose heads had completed 10 years or more of schooling (Arif, et. al., 2001).

### 2. Demography

Large households are more likely to be poor than small ones. As can be seen from Table 2.11, the incidence of poverty for households with 7 or more members was more than three times that for households with 4 or less members. Poor households on average had 35 percent more family members, and 75 percent more children under the age of 10 than non-poor households. With respect to age of the

household head, an inverted U shape poverty pattern is observed. The turning point seems to be somewhere around the mid-40s, and the probability of the household being poor declines with age after that. Finally as Table 2.11 shows, incidence of poverty was found to be lower among those households whose head's current place of residence was different from the place of birth. However, it is not clear if migration was a means for the poor to move out of poverty, or whether it is only the non-poor who can afford to migrate.

### 3. Assets and Sources of Income

The poor usually lack both income and assets. According to the FBS data for FY1999, there is a significant and large difference in the amount of land per capita owned by poor and non-poor households. Similar differences exist in the ownership of livestock, housing, and other assets. The poor also have limited access to infrastructure. For example, the data showed that only 9.4 percent of poor households had access to gas connections, and 59.6 percent had electricity connections. Asset ownership is inversely correlated with poverty in both urban and rural areas (Box 2.5). Although there are no comprehensive studies on livelihood of the poor, some data by occupation, sector, and employment status is available from the latest PIHS. In terms of occupation, the incidence of poverty is the highest among household heads with elementary occupations in both urban (38 percent) and rural (49 percent) areas. Elementary occupations, which include day labor in agriculture, construction, trade, and transport, are precarious and contain a lot of disguised unemployment. In terms of sector of employment, construction, transport and storage are sectors in which the proportion of workers belonging to poor households is significantly high, particularly in urban areas. Finally, with regard to employment status, incidence of poverty is high among

*There is a strong correlation between illiteracy, and the incidence of poverty.*

**Table 2.10 Percentage of Poor and Non-Poor Literate Household Heads, 1998-99**

Province and Region	Non-Poor	Poor
<b>Urban Areas</b>	69.51	36.66
Punjab	69.23	35.44
Sindh	72.06	43.74
NWFP	58.77	26.49
Balochistan	59.33	38.95
<b>Rural Areas</b>	42.42	24.89
Punjab	41.78	24.23
Sindh	50.04	33.09
NWFP	36.79	19.27
Balochistan	37.41	26.20
<b>Overall</b>	51.51	27.18
Punjab	50.43	26.58
Sindh	60.92	35.70
NWFP	40.70	19.99
Balochistan	40.00	27.85

Source: FBS, 2001

the self-employed, which includes street vendors in urban areas, and sharecroppers in the rural areas.

#### 4. Dependence on Women's Labor

The relationship between dependence of the family on women's labor and poverty has not been explored adequately. However, studies indicate that the poorer the household, the higher is the likelihood of its dependence on female labor. At the same

time, micro-level studies in rural communities indicate that in those households where women's productive labor is critical for the survival of the family, there is more impoverishment due to the low economic value of female labor. This is in turn, due to the relatively lower skills base of women generally, and their restricted mobility, as a result of which they find it difficult to compete for access to social and productive assets on an equal footing with men.

*The poorer the household, the higher is the likelihood of its dependence on female labour.*

#### Box 2.4 "Ladder of Poverty Reduction"

The relationship between characteristics of the poor and poverty reduction was presented in the form of a "ladder of poverty reduction" in a recent publication Social Policy Development Center (2001). *Social Development in Pakistan Towards Poverty Reduction*. Annual Review, 2000. Oxford University Press. It shows that in rural areas, if a household possesses physical assets like land or livestock, the incidence of poverty tends to fall by as much as 55 percent. Access to employment reduces poverty incidence by another 18 percent. This implies that, in the short to medium term, microfinance and community works programs, which create assets and employment, can be effective instruments for addressing poverty in the rural areas. In urban areas, access to employment reduces the incidence of poverty by 45 percent, while education and physical assets contribute another 12 percent and 9 percent reduction respectively. The study thus concludes that in the urban areas there is a need to focus on promoting growth in employment generating sectors such as construction and the small and medium enterprise (SME) sector. Low-income housing and slum upgradation projects could also have a significant effect on poverty, given that they enable the poor to acquire or enhance physical assets.

Table 2.11 Demographic Characteristics of Poverty, 1998-99

Demographic group	Proportion of population	Incidence of poverty
<b>Household size</b>		
1-4	26.8	15.9
5-6	27.5	31.1
7-8	24.0	47.5
9+	21.6	57.4
<b>Age of household head</b>		
<40	28.6	36.1
40-49	24.5	43.9
50-59	23.9	33.7
60+	23.0	32.7
<b>Gender of household head</b>		
Male	91.8	36.9
Female	8.2	34.1
<b>Migration</b>		
Non-migrant	64.6	40.5
Migrant	35.4	29.6

Source: Arif, et. al., (2001)

*Deterioration of the natural resource base has a devastating impact on the poor.*

## 5. Vulnerability to Environmental Degradation

The poor are also characterized by their vulnerability to environmental degradation and deterioration of the natural resource base that has a devastating impact on the poor, given that they tend to be strongly dependent on the exploitation of such resources. As population grows, and the quantity and quality of renewable resources

decline, resource captures that occur in powerful groups alter the distribution of resources in their favor. Resources are in effect appropriated by the elite, increasing environmental scarcity among poorer or weaker groups as a result. Groups experiencing this scarcity are then often ecologically marginalized as they migrate to rural or urban regions that are also ecologically fragile.

### III CAUSES OF POVERTY

*Poor governance is the key underlying cause of poverty in Pakistan. However, economic and social factors such as the slowdown in GDP growth in the last decade, and the persistence of a regressive social structure, stemming from the highly unequal distribution of land, have also contributed to the increase in poverty witnessed in the 1990s.*

Poverty is impacted by a number of factors. Some of these may be general in that they may serve to create or intensify privation across all sectors of the economy, and across different population groups. Other causes of poverty may be more specific or localized, and their effects may be more apparent in particular population groups, or in populations associated with specific sectors of the economy. The factors or causes of poverty can, furthermore, be grouped into categories based on the channels through which they affect poverty levels. Thus, for example, they may originate from issues of governance and the structure of institutions or be economic or social in nature. In most cases, however, poverty is likely to be the result of several mutually reinforcing factors that together define its scope and pervasiveness. The prime causes of

poverty in Pakistan are detailed in this chapter.

#### A. POOR GOVERNANCE

Governance is defined as the manner in which power is exercised in the management of a country's social and economic resources for development<sup>1</sup>. Good governance implies a capacity to turn public income into human development outcomes. Good governance is an essential pre-condition for pro-poor growth as it establishes the enabling regulatory and legal framework essential for the sound functioning of land, labor, capital and other factor markets.

By the end of the 1990s, governance had clearly emerged as Pakistan's foremost development concern. Corruption and political instability resulted in waning business confidence, deteriorating

economic growth, declining public expenditure on basic entitlements, low efficiency in delivery of public services as discussed in the earlier section on human development, and a serious undermining of state institutions and the rule of law. The lack of public confidence in state institutions, including the police and judiciary, eroded their legitimacy and directly contributed to worsening conditions of public security and law and order. The present Government has committed to thorough reforms to restore the legitimacy and performance of all institutions, political, administrative, and judicial.

#### 1. Governance, Political Instability and Poverty

Political stability is fundamental to the creation of an enabling environment for growth and development. Economic agents, particularly investors, must be reassured with regard to the continuation of policies, should have confidence in the government's credibility in order to operate effectively, and in the case of investors, be induced to take risks. The perceived security threat on its eastern border which has dominated Pakistan's political culture has resulted in the domination of the military in politics, excessive public

1. Asian Development Bank, 1995: *Governance: Sound Development Management Policy*.

*Three of the last four civilian governments that were in power in the 1990s were dismissed prematurely by successive presidents on charges of corruption.*

spending on defense at the expense of social sectors, and erosion of the rule of law. Politically, Pakistan has alternated with regularity between democratic and military governments. Between 1947 and 1988, military governments were in power for 24 out of the 41 years. During the period of parliamentary democracy between 1988 and 1999, there were four national elections and nine changes of government. In addition, Pakistan's involvement in the war during the 1980s and 1990s in Afghanistan was responsible for the growth of extremist groups, spread of weapons, and frequent breakdowns of internal security. The uncertainty created by these frequent changes of government, the associated economic policies and lapses in internal security has had a negative impact on private investment and growth.

Three of the last four civilian governments that were in power in the 1990s were dismissed prematurely by successive presidents on charges of corruption<sup>2</sup>. Although the accountability drives that followed each change of government were flawed in many respects, there is little doubt that corruption was pervasive through much of the last decade<sup>3</sup>. The incidence of corrupt practices, as well as the atmosphere of uncertainty that followed the fall of each successive government, were not conducive to the growth or use of sound business practices. These and other factors not only discouraged private investment, but prompted capital flight, as businessmen either migrated in large numbers (most notably to Canada), or shifted assets to more favorable locations (such as the United Arab Emirates).

The change of governments in the 1990s was also characterized by extreme policy reversals as well as one sided and non-

transparent accountability drives that have sapped the morale of public servants and private entrepreneurs alike. The most relevant example of the effects of reversal of policy is the renegotiation of agreements with independent power producers IPPs which started in 1997. The resulting disputes took four years to resolve, and had extremely adverse impacts on foreign investment inflows into the country. Other examples of policy inconsistency in the 1990s include the reversal of decisions on withdrawal of tariff concessions and incentives for certain industry groups in at least one case, an industrial zone, the Gadoon Amazai project. All these factors have in turn affected growth, and subsequently poverty levels in the country. In general, political instability and macro-economic imbalances have been reflected in poor creditworthiness ratings, even compared to other countries of similar income levels, with resulting capital flight and lower foreign direct investment inflows<sup>3</sup>.

## **2. Non Transparency in Resource Allocation**

The lack of transparency in public sector planning, budgeting and allocation of resources in Pakistan has ensured that those who do not constitute the political elite are unable to make political leaders and the Government responsive to their needs or accountable to promises. This has led to a supply driven approach to service provision, with development priorities being determined not by potential beneficiaries but by the bureaucracy and a political elite which may or may not be in touch with the needs of the citizens. The results manifest themselves in, for example, the existence of "ghost schools" (which

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2. While the immediate causes of the dismissals in each case may have been tensions in the centers of power, the reasons for dismissal cited in each case were the prevalence of corrupt practices in government.
  3. Pakistan was ranked the second most corrupt country in the world by Transparency International in 1996. Its ranking had improved to 12th most corrupt by 2001.

exist only on paper), absenteeism of health and education staff in rural areas (who are not held accountable by the authorities, and are often political appointees rather than public functionaries appointed on merit)<sup>4</sup> and deterioration in the quality of services wherever they do exist. Poor service delivery and the restriction of access of the poor to services are key determinants of long term poverty and serve to exacerbate the vulnerability of the lowest income groups in recessionary periods. In addition, the absence of a public debate on resource allocation, and allocation within the social sectors has resulted in distortions such as the emphasis on provision of tertiary services in urban areas rather than primary services in rural areas.

On a larger scale, non-transparency in the management of public accounts has led to a distortion of development priorities and a tendency to safeguard the interests of specific groups at the expense of the larger public interest. Examples include the government's hesitance to impose agricultural income tax; the tendency to frequently grant concessions or exemptions on taxes and tariffs, which often benefit powerful pressure groups; and ad hoc decision making on imports and exports as well as pricing in the agricultural sector, which can favor hoarding and speculation.

### 3. Weak Public Sector Capacity

Public sector capacity in Pakistan, considered in the 1960s to be in league with that of the top performing Asian countries, has eroded significantly for several reasons. This is despite the massive growth in the numbers of staff employed by the public sector over these years. The first and foremost reason for this decline in capacity

has been the inability of the public sector to remain competitive in attracting better qualified and competent people owing to the dismal financial and career incentives offered. Secondly, there has been a steady weakening of meritocratic selection procedures in recruitment of staff as a consequence of rampant systemic corruption and nepotism. This has worsened in the last decade, during periods of elected civilian governments, when recourse to political interference and influence became common and, in fact, almost a pre-condition in getting public sector jobs. As a consequence, the autonomy and objectivity of institutions such as the Federal and Provincial Public Service Commissions charged with carrying out recruitment for a major proportion of public sector jobs has been affected, and confidence of citizens in these institutions has weakened. Finally, training, capacity development, and skills enhancement opportunities across the board have historically been very limited due to which there is no serious and systematic effort at capacity upgrading of in-service employees in most public sector departments. Somewhat ironically, however, together with this declining capacity to deliver, the State assumed added functions in a number of different areas and sectors that were perhaps best left to the private sector. This has led to an unsustainable and unnecessary over-extension of the public sector with the result that whatever internal capacity there was had to be more thinly spread over in diverse sectors rather than being concentrated in a few key ones such as regulation and law and order. The result of this development has been the realization of diseconomies of scale in the public sector (as is evidenced from the many examples of loss-making state-owned

*On a larger scale, non-transparency in the management of public accounts has led to a distortion of development priorities and a tendency to safeguard the interests of specific groups at the expense of the larger public interest.*

4. During a recent monitoring exercise for the SAP, some 19 percent of primary school teachers were not present at school and only 38 percent of schools could be classified as functional' according to a minimal criteria. Research also revealed that 21 percent of health staff are absent from basic health facilities. See Rimmer, M. 2000: *Reducing Poverty in Pakistan: Priorities for the Asian Development Bank*, Working Papers, Poverty Assessment. Unpublished report, p. 47.

enterprises), and an accompanying disenfranchisement of the private sector that has given rise, as mentioned earlier, to the flight of capital and of entrepreneurship from the country.

Finally, over-centralization in the public sector has led to inefficient delivery of social sector related and other services with the resulting disenchantment of the citizenry in the ability of the State to provide effective and accessible services. At the same time, the role of the private and civil society sector has not been systematically encouraged to build synergistic public-private partnerships to achieve greater scale and coverage in the delivery of these services.

#### 4. Inadequate Access to Justice

Inadequate access to justice is widely perceived in Pakistan to be a key governance issue that directly contributes to the powerlessness of the poor and reinforces social and economic inequities widely prevalent in the institutional fabric of society. With the general deterioration of public sector institutions in the country, and their uncontrolled politicization, those providing judicial services could not have been expected to remain insulated from this trend. Consequently, the state and level of public confidence in the ability of these institutions to administer justice in a fair and equitable manner has been compromised. One important result of the weakening of judicial institutions has been a general decline in the vitality and effectiveness of regulatory frameworks in the country on account of which the enforcement and protection of property rights, especially those of the poor, has suffered. Side by side, ineffective regulation and lack of timely

judicial arbitration on matters of conflict has eroded confidence of investors and contributed to the observed stagnation in business activity in the country.

The constraints to effective dispensation of justice in the country are well known, and summarized recently in an ADB project document<sup>5</sup>. These include the weak governance and administration of the judicial system; lack of professional management; inadequate budgetary resources and basic infrastructure; long delays in court case decisions; absence of client focus; absence of grievance redressal procedures; and gender imbalances and under-representation of women in the judiciary. In addition, the access to justice of the citizenry at large is severely restricted by an inefficient and corrupt police system that is often accused of playing in the hands of the influentials and victimizing the poor and the underprivileged. In this regard, harassment by the police and its indiscriminate and exploitative abuse of power has been repeatedly reported by the poor to be a major source of insecurity and vulnerability for their lives and livelihoods.

#### B. ECONOMIC DETERMINANTS

The slowdown in economic growth in Pakistan during the 1990s was a key factor in rising poverty during the period. Growth declined in all sectors in the 1990s and there was also much greater volatility in the growth rate, particularly in agriculture. In addition, growth was slower than the average in labor intensive sectors, such as construction and wholesale and retail trade, and faster than the average in capital intensive sectors, such as electricity and gas distribution. Thus not only was growth slow, but was also not pro-poor<sup>6</sup>.

*One important result of the weakening of judicial institutions has been a general decline in the vitality and effectiveness of regulatory frameworks in the country on account of which the enforcement and protection of property rights, especially those of the poor, has suffered.*

5. Asian Development Bank: *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to the Islamic Republic of Pakistan for the Access to Justice Program*, November 2001.

6. The increasing inequality of incomes in the 1990s also points to the non-pro-poor nature of growth during this period.

The causes of the slowdown in growth may be divided into two categories, i.e. structural and others. Among the structural causes, the burgeoning debt burden and declining competitiveness of the Pakistan economy in the increasingly skill-based global economy are the most important. While the former occurred due to economic mismanagement, the latter was because of Pakistan's low level of human capital development.

Increasing debt service requirements resulted in a growing fiscal squeeze, which in turn led to a declining proportion of GDP being spent on development and social sectors in the 1990s. Falling public investment, together with unsuccessful attempts at macroeconomic stabilization also adversely affected private investment. At the same time, reduction in tariffs, exhaustion of simple import substitution opportunities, and elimination of export subsidies in the 1990s meant that international competitiveness became an increasingly important determinant of investment opportunities in Pakistan. Because of the low level of human development and poor state of physical

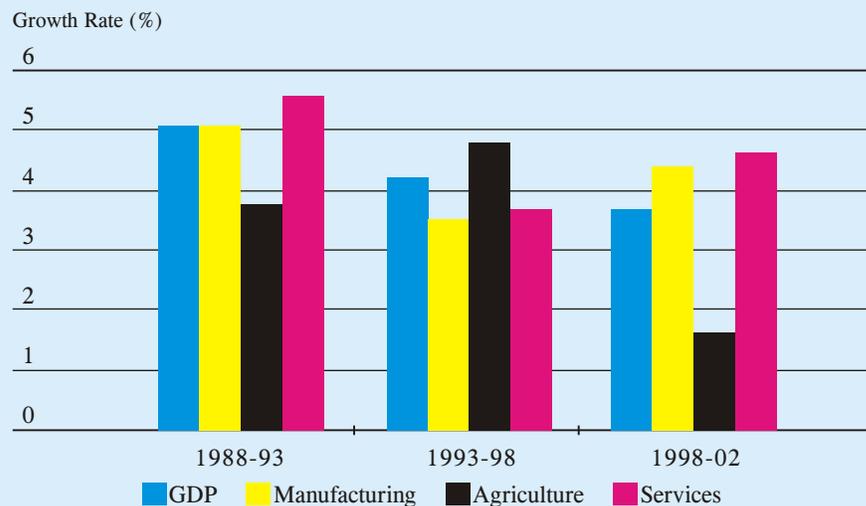
infrastructure, areas where Pakistan was competitive were not many. As a result, total fixed investment declined significantly, bringing about a fall in the economic growth rate.

The adverse impact of structural factors was reinforced by other problems such as ethnic and sectarian violence, poor state of law and order, and a high degree of economic and political uncertainty because of the many changes in government. Throughout the 1990s, the Government was implementing a series of medium term structural adjustment programs under the aegis of the International Monetary Fund (IMF). However, because of frequent changes in government, adherence to the adjustment program was unsatisfactory, and as a result, the 1990s can be characterized as a decade of stop-go stabilization policies, with the attendant negative impact on growth, but without the desired improvement of macroeconomic fundamentals.

As shown in Figure 3.1, annual compound growth rates of GDP in Pakistan have declined from 5 percent for the first period of adjustment, to 3.6 percent for the

*The 1990s can be characterized as a decade of stop-go stabilization policies, with the attendant negative impact on growth, but without the desired improvement of macroeconomic fundamentals.*

Figure 3.1 Sectoral Growth Rates in the 1990s



Source: Government of Pakistan, *Economic Survey*, Various Issues.

most recent period. Manufacturing growth has been adversely affected by deficiencies in infrastructure, as well as by sluggish domestic demand. In the most recent period of our analysis, agricultural growth rates have been particularly low at just 1.6 percent. This sharp decline has been mainly due to the unprecedented drought, precipitated by inadequate rainfall, that the country experienced from 1999 to 2001.

The present Government, soon after coming into power, initiated an ambitious program of reforms to address outstanding macroeconomic, structural and governance problems. In October 2000, Pakistan began implementing a far-reaching macroeconomic stabilization and restructuring program under an IMF standby arrangement (SBA) which was successfully completed in September 2001. Following the successful implementation of the SBA, the IMF approved in December 2001 a \$1.3 billion Poverty Reduction Growth Facility to be implemented during 2002-2004. Also in December 2001, the Government of Pakistan successfully negotiated a debt restructuring agreement with the Paris Club which is expected to reduce the net present value of total debt by at least 30 percent. While the above developments have made it possible for Pakistan to achieve sustained, high growth in a much shorter period than earlier thought possible, the experience of the last decade suggests that reviving growth and reducing poverty is strongly dependent on the Government's ability to stay the course of macroeconomic and structural reform.

Trends in the key economic variables that have an impact on poverty are discussed in more detail as follows.

### 3. Investment

Investment is a key driving force for GDP growth, and declining investment levels point to low GDP growth rates. The

early 1990s were characterized by the intensification of deregulation and privatization policies. Foreign resources in terms of loans, investment and foreign currency accounts supplemented domestic savings, which are typically low at an average of 14 percent of GDP, and helped in enhancing investible resources and reducing investment risks. Resultantly, private investment during this period increased from 7.4 percent of GDP in FY1988 to 10 percent by FY1993 (Table 3.1). Public investment averaged just over 8.4 percent of GDP in this period, and total investment increased from 17.3 to 19.9 percent.

The period from FY1993 to FY1998 was characterized by a lack of continuity in economic policy and political uncertainty. Fiscal deficits averaged 6.7 percent of GDP in this period and further constrained public finances (see Table 3.3). This was reflected in investment trends, as the adjustment burden fell on public investment, which fell drastically from 9 percent of GDP in FY1993 to just 4.9 percent in FY1998 because of inadequate resource mobilization efforts. Private investment fluctuated around an average of 9.3 percent in this period, after having reached a peak of 10 percent of GDP in FY1993. Total investment declined from 20.6 percent to 17.1 percent of GDP.

In subsequent years, the investment climate deteriorated even more significantly as a result of the imposition of sanctions on the country after the nuclear tests of 1998, and related policy decisions such as the freezing of foreign currency accounts. Total investment declined from 17.1 percent of GDP in FY1998 to just 14.7 percent in FY2001. This decline was entirely due to a sharp fall in private investment, which declined from 9.6 percent of GDP in FY1998 to 7.5 percent in FY2001. Initial estimates suggest that total investment further declined in FY2002, to 13.9 percent of GDP, primarily due to the post 11

*The experience of the last decade suggests that reviving growth and reducing poverty is strongly dependent on the Government's ability to stay the course of macroeconomic and structural reform.*

Table 3.1 Trends in Investment - 1988 to 2001

Years	Total Investment	Fixed Investment	Public Investment	Private Investment	Share of Private Sector in Fixed Investment
	% of GDP	% of GDP	% of GDP	% of GDP	%
FY1988	17.3	15.8	8.5	7.4	46.5
FY1989	18.3	16.7	8.7	8.0	48.2
FY1990	18.2	16.6	8.0	8.6	51.7
FY1991	18.5	17.0	8.3	8.7	51.3
FY1992	19.9	18.4	8.7	9.7	52.7
FY1993	20.6	19.0	9.0	10.0	52.5
FY1994	19.4	17.8	8.3	9.5	53.6
FY1995	18.3	16.8	8.2	8.6	51.3
FY1996	18.7	17.1	8.1	9.0	52.5
FY1997	17.7	16.2	6.8	9.4	58.0
FY1998	17.1	14.5	4.9	9.6	66.2
FY1999	15.0	13.3	5.3	8.0	60.2
FY2000	15.0	13.4	5.3	8.1	60.4
FY2001	14.7	13.1	5.6	7.5	57.3

Source: Government of Pakistan, *Economic Survey*, Various Issues.

September regional conflict, the military standoff with India and a further deterioration in internal security.

Growth depends not only on the level of investment, but also the pattern. Trends in

the pattern of investment, as given in Table 3.2, show that investment in agriculture has consistently declined over the period under review, from an average of 1.8 percent of GDP in FY1988 to just 0.9 percent in FY2002. Investment in manufacturing has

*Growth depends not only on the level of investment, but also the pattern.*

Table 3.2 Pattern of Investment in the 1990s

Sector	Investment (% of GDP)			
	1987-88	1992-93	1997-98	2000-01
Agriculture	1.8	1.5	1.3	0.9
Manufacturing	2.9	4.7	2.1	2.5
Power	2.0	2.5	2.7	1.4
Total Fixed Investment	16.5	19.1	14.5	13.0

Source: Government of Pakistan, *Economic Survey*, Various Issues.

fluctuated, and reached a peak of 4.7 percent of GDP in FY1993 because of the implementation of deregulation policies and privatization. However, by FY1998 it had declined to 2.1 percent of GDP. In the last period of our analysis, there was a modest improvement in investment in the sector largely as a result of balancing and modernization in the textile sector, which was preparing for the removal of restrictions on international trade in textiles by 2005 under the World Trade Organization.

Investment in the power sector increased from 2 percent of GDP in FY1988 to 2.7 percent in FY1998, as a policy geared towards attracting foreign investors as IPPs was implemented, and attracted significant amounts of foreign direct investment. However, investment in the sector declined to 1.4 percent of GDP by FY2002 as a result of the emergence of excess capacity in the power sector as well as disputes on tariffs between the Government and the IPPs.

The patterns of investment indicate that investment in agriculture, which employs 47% of the labor force, has been low and falling in the last decade, while investment in industry has fluctuated sharply. Total investment in the power sector has, however, been quite high, even surpassing investment in manufacturing in FY1998. Foreign direct investment, in particular, has been concentrated largely in this sector, which is highly capital intensive. Thus not only has investment in the last decade generally been low and declining, but has also been concentrated in capital intensive rather than labor-intensive sectors. The growth witnessed since the early 90s has not, therefore, been "pro-poor", and has not served to alleviate poverty to a significant extent.

#### 4. Fiscal Policy

Pakistan's increasing debt servicing requirements in the 1990s exerted

considerable pressure on the fiscal account and budget deficits averaged over 7 percent for the decade. As Pakistan was required to reduce the size of the budget deficit to less than 5 percent in this period under the IMF's structural adjustment program, the requirements of public debt servicing placed serious constraints on the government's budget allocation priorities, leaving very limited resources available for development projects. As revenue generation efforts remained largely unsuccessful, successive governments attempted to reduce the deficit by controlling development expenditure, which led to a declining proportion of GDP being spent on development and social sectors in the 1990s.

The pattern of public expenditure in the 1990s is shown in Table 3.3. The tradeoff between development expenditure and expenditure on interest payments becomes apparent as development expenditure declined from 6.4 percent of GDP in FY1991 to 3.9 percent in FY1998 and further to 2.8 percent in the last fiscal year. Interest payments have however increased from 5.5 percent of GDP in FY1991 to 8.2 percent in FY1998 as the Government increasingly resorted to short term commercial borrowing, and have fluctuated around 8 percent since then. In constant terms, development expenditure in the country has declined almost continuously from FY1992 to FY2001, with the exception of one year, FY1998, when expenditures registered a significant increase. Development expenditure has fallen in real terms from Rs. 65.3 billion in FY1991 to Rs. 47.6 billion in FY2001, crowded out by expenditure on interest payments and defense. Although expenditure levels have fluctuated, the annual compound growth rate of development expenditure in real terms averages 3.1 percent for the last decade.

The Government's fiscal options have, in the last decade in particular, been significantly constrained because of the

*Not only has investment in the last decade generally been low and declining, but has also been concentrated in capital intensive rather than labor-intensive sectors.*

need to meet debt obligations, and the policy of sustaining expenditure on defense. Expenditure on defense and interest payments together accounted for 88 percent of total tax revenue in FY1991. From FY1998 to FY2000 expenditure on these two heads has remained at over 90 percent of tax revenue. In the absence of a political settlement with India, the government has little flexibility in reducing expenditures on defense<sup>7</sup>. Furthermore, defense expenditure has the potential to rise sharply if tensions between the two countries are exacerbated. In FY2002, for example, defense spending was higher than anticipated (Rs. 151.6 billion as against the targeted Rs. 131.6 billion) as a result of the military standoff with India. The successful negotiation of

terms for debt rescheduling with the Paris Club has, however, created some fiscal space for the Government, with estimated cash flow savings of \$2.7 billion until FY2004.

While rigidity in expenditure is one constraint on the Government's resource allocation policy, the failure to mobilize additional revenue is the other side of the coin which has had equally damaging effects. Pakistan's tax-GDP ratio has remained more or less stagnant at low levels over the past decade. It was recorded at 11 percent in FY1991, rose marginally to 13 percent in FY1996, and was estimated at 10.9 percent in FY2002. The Government is committed to major reform and restructuring of the Central Board of

*Expenditure on defense and interest payments together accounted for 88 percent of total tax revenue in FY1991. From FY1998 to FY2000 expenditure on these two heads has remained at over 90 percent of tax revenue.*

Table 3.3 Revenue and Expenditure Trends - 1998 to 2001

Years	Total Revenues	Tax Revenues	Total Expenditure	Development Expenditure	Interest Payments	Fiscal Deficit
	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
FY88	17.3	13.8	26.7	6.9	6.9	8.5
FY89	18.0	14.3	26.1	6.2	5.0	7.4
FY90	18.6	14.0	25.7	6.5	6.9	6.5
FY91	16.9	12.7	25.7	6.4	5.5	8.8
FY92	19.2	13.7	26.7	7.6	5.8	7.5
FY93	18.1	13.4	26.2	5.7	6.6	8.1
FY94	17.5	13.4	23.4	4.6	6.4	5.9
FY95	17.3	13.8	22.9	4.4	5.8	5.6
FY96	17.9	14.4	24.4	4.4	6.8	6.5
FY97	15.8	13.4	22.3	3.5	7.1	6.4
FY98	16.0	13.2	23.7	3.9	8.2	7.7
FY99	15.9	13.3	22.0	3.4	8.0	6.1
FY00	16.9	12.8	23.4	3.2	9.0	6.5
FY01	16.4	13.6	21.8	2.8	8.0	5.3

Source: Government of Pakistan, *Economic Survey*, Various Issues

7. Figures from the Economic Survey 2000-01 show that expenditure on defense has remained more or less stagnant in real terms since FY1997. However, independent analysts surmise that this may be partially because salaries and pensions of defense personnel were grouped under General Administration in the budget for FY2001.

Revenue to make it more efficient, more responsive to taxpayers and more transparent in its operations, but progress on this issue has been slow. The Government has initiated a series of fiscal reforms, however, including effecting the separation of the audit and accounts functions, the reestablishment of Public Accounts Committees, and, from FY2003, the introduction of a self-assessment scheme for income tax. The effects of these reforms on revenue collection and expenditure management will be closely monitored over the medium term.

### 5. Subsidies

In FY1991, federal and provincial government subsidies amounted to Rs. 10.7 billion and constituted 4.1 percent of total expenditure. Thereafter, subsidies fell significantly in terms of constant 1990 rupees until FY1994, when expenditure on subsidies was just 1.4 percent of total expenditure. Subsequently, subsidies followed a fluctuating trend, rising to 3.8 percent of total expenditure in FY2000, and estimated at 3.0 percent of total expenditure in FY2002.

From a poverty assessment perspective, it is more revealing to look at the breakdown of subsidies. Subsidies in Pakistan are generally divided into two heads, current subsidies and development subsidies. Current subsidies include subsidies on wheat, sugar and edible oil as well as payments made by the government to bodies such as the Cotton Export Corporation and the Pakistan Steel Mill. Development subsidies consist of subsidies given to the fertilizer industry, primarily in the form of reduced prices for the use of natural gas as feedstock. Subsidies on wheat, sugar and edible oil are considered as poverty related subsidies, as expenditures on these items are

estimated to constitute over a third of total household expenditure for the lowest income brackets.

Expenditure on these subsidies fell steadily from FY1991 to FY1995, but then increased in subsequent years as wheat imports rose from 1.97 million metric tons in FY1996 to 4.1 million metric tons in FY1998. In July 1997, the government launched an Atta Subsidy Scheme for families living on incomes of less than Rs. 1500 per month<sup>8</sup>. In FY2001, expenditure on poverty related subsidies was 21 percent lower in real terms as compared with FY1991.

### 6. Employment

Pakistan's labor force is expanding at an annual rate of 2.4 percent, and the average annual GDP growth rate of 4.5 percent during the 1990s was insufficient to generate the necessary additional employment. The average employment elasticity in Pakistan is estimated to be 0.4, which means additional jobs created in the 1990s would have provided employment to only about two-thirds of the new entrants into the labor force. It is estimated that about 0.6 million people are being added to the ranks of the unemployed every year. In the absence of a formal social security system, this does not fully translate into an increase in the unemployment rate, but adds to the large number of under-employed workers in the informal sector, and a growing number of working poor.

The official unemployment rate had increased to 7.8 percent by 2000 - 6.1 percent for men and 17.3 percent for women (see Box 3.1)<sup>9</sup>. However, unemployment statistics in Pakistan are generally unreliable because of the relatively high incidence of disguised unemployment, and the fact that a

*In FY2001, expenditure on poverty related subsidies was 21 percent lower in real terms as compared with FY1991.*

8 Government of Pakistan 1999: *Economic Survey, 1998-99*. Economic Adviser's Wing, Finance Division.

9. Federal Bureau of Statistics, 2001: *Labour Force Survey, 1999-2000*.

### Box 3.1 Women in the Labour Force

The majority of women in the formal sector of the economy are concentrated in low paid jobs with limited opportunities for upward mobility. Thus 56 percent of female workers are concentrated in the category of "skilled agricultural and fishery workers" compared to 37 percent of male workers, while 22 percent are classified as unskilled workers compared to 18 percent of male workers. Female labor force participation rates in the informal sector, which offers more flexible work conditions, are estimated to be higher, but once again they tend to be heavily concentrated in low wage earning categories, operate primarily from their homes, and have limited access to the market as they rely on middlemen and contractors to procure work. While research on women's employment is limited, there are indications that with the increase in the number of women acquiring high school and college level education, there is a steady increase in the number of women entering the labor force. This trend has been accentuated by the slow growth in the economy, increase in unemployment of males and decline in real wages, all of which have prompted more and more women to look for employment in both the formal and informal sectors.

The disparity in male-female unemployment rates could be attributed to a number of factors, including the fact that more women may have entered the labor force in recent years due to increasing levels of education amongst urban women in particular, and the fact that the downturn in the economy has necessitated the entry of more members of a typical household into the labor force. Unemployment amongst women may also be higher because women tend to be concentrated in lower level positions, and are thus more susceptible to retrenchment. In general, the increased participation of women in the labor force not only has positive effects on household incomes, but can also serve as a safety net, preventing the household from falling into poverty.

significant proportion of total employment even outside agriculture is generated in the informal sector. In general, the capacity to absorb labor in the economy is expected to have declined over time, given declining GDP growth, and increasing capital intensity in the commodity producing sectors.

## 7. Inflation

High inflation acts as a regressive tax on household incomes by eroding purchasing power, and has particularly adverse impacts on households dependent on fixed salaries, as well as low-income households in general. Pakistan experienced double digit inflation from FY1991 to FY1997<sup>10</sup> a period when the size of the fiscal deficit averaged 7 percent of GDP and rate of growth of money supply averaged over 17.5 percent<sup>11</sup>. As is

clear from Figure 3.2, however, there has been a declining trend in inflation since FY1997, which is obviously beneficial to the low-income groups.

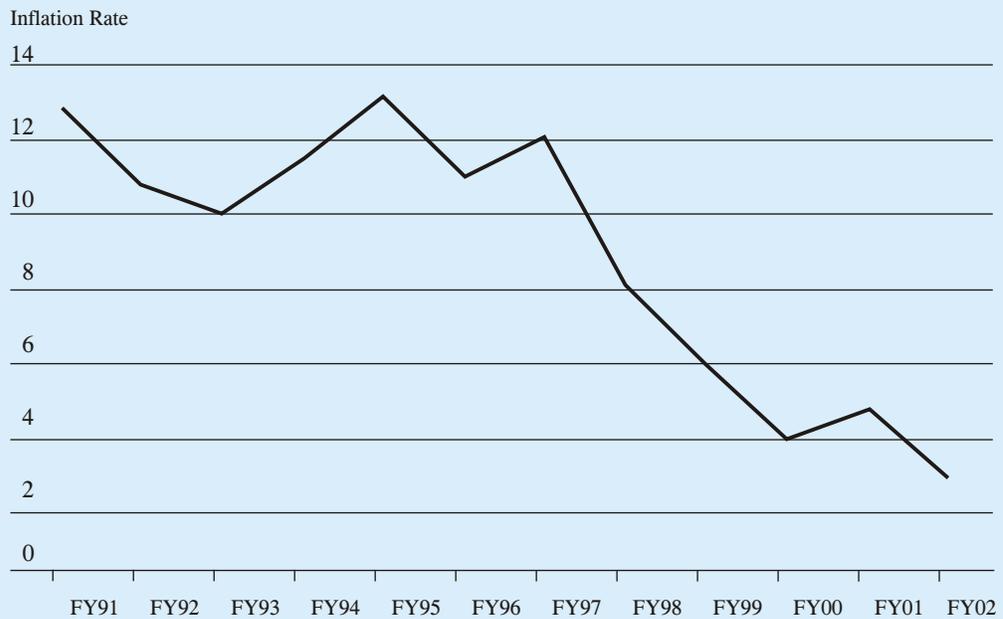
Inflation fell significantly, to 7.8 percent in FY1998, and has continued to decline thereafter, largely because of macroeconomic management in the form of reduction in the budget deficit and a reduction in the average rate of increase of money supply to 9 percent between FY1998 and FY2001. In FY2002, inflation was estimated at 2.6 percent for the first ten months of the year, with food price inflation estimated at 1.4 percent. Inflation has also been controlled because of low average international prices of key commodities like petroleum and petroleum products, and because of improved supply of food items in markets all over the country.

*Inflation fell significantly, to 7.8 percent in FY1998, and has continued to decline thereafter, largely because of macroeconomic management in the form of reduction in the budget deficit and a reduction in the rate of increase of money supply.*

10 The inflation rate here refers to the Consumer Price Index.

11. Borrowing from the banking sector has been the government's preferred method of financing the fiscal deficit in Pakistan, a policy that limits the government's option of using monetary policy as a tool to lower inflation or encourage investment.

Figure 3.2 Inflation Rate in the 1990s



Source: Government of Pakistan, Economic Survey, Various Issues.

## 8. Remittances

Remittances from overseas, particularly from the Middle East, played a key role in poverty alleviation through most of the 1980s. The migration to the Middle East was unique in a number of ways. Firstly, rather than whole families migrating (as happened in the case of migration to the United Kingdom in the 1960s for example), the principal migrants in this case were young males, the primary breadwinners in households, who subsequently sent a bulk of their earnings to their families in Pakistan. Secondly, the bulk of the migrants were unskilled workers from low-income households, for whom the remittances were a windfall, enabling their families to set up small businesses, acquire real estate and make substantial improvements in their standard of living.

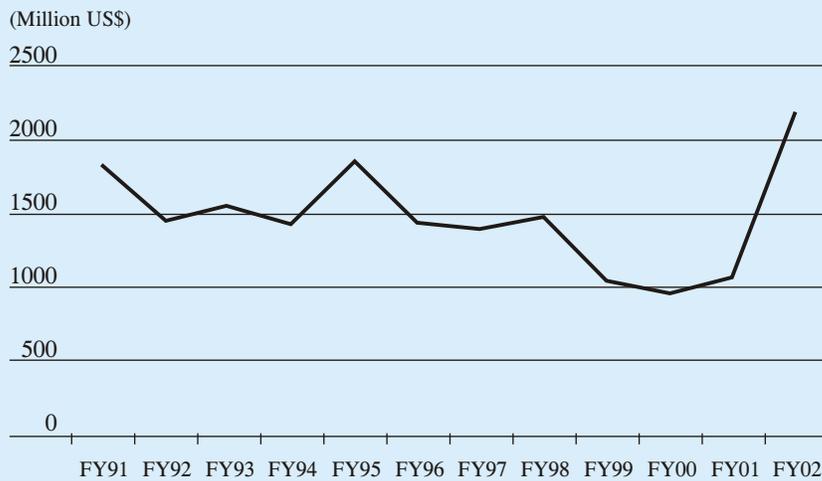
As such the migration to the Middle East served to protect the lower income groups from the vicissitudes of the Pakistani

economy to some extent. No such opportunities presented themselves to the unskilled labor force of Pakistan in the 1990s. The construction boom in the Middle East, which had fueled the migration slowed down in the early 1990s. The decrease in employment opportunities overseas for unskilled workers was thus a factor in the increase in poverty particularly in parts of NWFP and Punjab in the 1990s.

Remittances peaked in the mid 1980s, and thereafter fluctuated, averaging just over US \$1.4 billion through the 1990s. Figure 3.3 shows the trend in official remittances in the last decade. Actual remittances were larger, however, because a substantial portion came into the country through informal money markets (the *hundi* system). In the post 11 September period, however, when controls on informal money markets have been tightened, the inflow of remittances through banks has increased significantly to \$2.2 billion in FY2002 compared to \$1.09 billion in FY2001.

*In the post 11 September period, however, when controls on informal money markets have been tightened, the inflow of remittances through banks has increased significantly to \$2.2 billion in FY2002.*

Figure 3.3 Trend in Worker Remittances



Source: Government of Pakistan, *Economic Survey*, Various Issues.

### C. SOCIAL DETERMINANTS

The economic determinants of poverty are key to understanding the circumstances that can intensify poverty, or increase the proportion of people falling below the poverty line. The existence of pervasive poverty, wherein a significant proportion of the population remains poor over an extended period of time, is attributable more to social than to economic factors. The impacts of economic causes of poverty tend to be accentuated under a regressive social structure, and rigid societal mores can act as impediments to the equitable distribution of the benefits of growth. Some of the social determinants of poverty are discussed as follows.

#### 1. Land Tenure Systems

Access to land, which is the basic factor of production, is crucial to reduce poverty in rural areas. Data from the Agricultural Census of Pakistan conducted in 1990 shows that cultivated land is highly unequally distributed in Pakistan. About 47

percent of the farms are smaller than 2 hectares, accounting for only 12 percent of the total cultivated area. Approximately 19 percent of farms are of 5 hectares or more and account for 61 percent of the total cultivable land. Table 3.4 details the data. The disaggregated data by province shows that NWFP has a predominance of small farms, with almost 70 percent of farms having an area of less than two hectares. In Balochistan, a province characterized by vast expanses of land and strong tribal society, the proportion of small farms is less than a quarter of the total. In Sindh, a province where the rural society is dominated by a feudal elite, the proportion of small farms is just above a third.

The data indicates that in 1990, 73 percent of farms were owner operated, while the remaining operated under tenancy agreements. Where farms are tenant operated, sharecropping, an arrangement in which the cultivator and the owner divide the responsibility for provision of inputs, and then allocate output accordingly, is the

*The impacts of economic causes of poverty tend to be accentuated under a regressive social structure, and rigid societal mores can act as impediments to the equitable distribution of the benefits of growth.*

Table 3.4 Farm Classification by Size of Farm

Province	Less than 2 Hectares		Greater than 2 and Less than 5 Hectares		5 Hectares and Above	
	Farms(%)	Area (%)	Farms(%)	Area (%)	Farms(%)	Area (%)
Punjab	45	12	34	29	21	61
Sindh	34	9	47	34	19	58
NWFP	69	24	21	29	9	47
Balochistan	23	3	35	12	43	86
Pakistan	47	12	34	27	19	61

Source: Agricultural Census Organization (1994). *Census of Agriculture, 1990*. Ministry of Food, Agriculture and Livestock.

*In general, areas with a high degree of absentee landlordism, or feudalism, tend to have high levels of rural poverty.*

most commonly observed tenurial arrangement as detailed in Table 3.5. However, the form of the contract between the owner and the cultivator can vary considerably and is an indicator of how equitable the agricultural production systems are. In general, areas with a high degree of absentee landlordism, or feudalism, where sharecropping arrangements are structured to favor the landowner, tend to have high levels of rural poverty. Examples include southern

Punjab, southern NWFP and the bulk of rural Sindh, the province that also has the lowest proportion of owner operated farms<sup>12</sup>.

Ownership of even small landholdings can significantly increase the owner's capacity to absorb economic shocks, and ensure food security for the household. Land ownership is also the key factor determining access to credit from the formal banking sector, thereby decreasing the

Table 3.5 Tenure Classification of Farms

Province	Total Farm	Owner Operated	Tenant Operated			
	Area in Million Acres	% of Total Area	Area in Million Acres	Sharecropped %	Leased %	Other %
NWFP	5.83	80	1.15	77	21	3
Punjab	27.11	72	7.57	69	29	2
Sindh	8.60	65	3.00	76	23	2
Balochistan	5.78	86	0.81	89	7	2
Pakistan	47.32	73	12.54	72	26	2

Source: Agricultural Census Organization (1994). *Census of Agriculture, 1990*. Ministry of Food, Agriculture and Livestock.

12. Disaggregated data on incidence of poverty is limited, but studies in this area (quoted in Naqvi: 2000) show that northern Punjab, where rainfed agriculture is prevalent, is the most prosperous region of Pakistan. This seems to indicate that access to non-agriculture income earning opportunities is a key determinant of poverty.

dependence of the poorest sections of society on informal credit markets, which can be singularly exploitative. Unequal land tenure patterns do not just have implications for income distribution, but can also have adverse impacts on agricultural productivity. The prevalence of an unequal land distribution system is thus a major cause of poverty.

## 2. The Structure of Society

Pervasive inequality in land ownership intensifies the degree of vulnerability of the poorest sections of rural society, because the effects of an unequal land distribution are not limited to control over assets. The structure of rural society, in areas where land ownership is highly unequal, tends to be strongly hierarchical, with large landowners or tribal chiefs exercising considerable control over the decisions, personal and otherwise, of people living in their area, as well as over their access to social infrastructure facilities<sup>13</sup>.

The system of intermediation is also likely to persist in cases where the private

sector or development agencies attempt to make inroads into a particular area. For example, implementation of infrastructure and development projects in areas where feudal domination is strong, only proceeds after local landowners and tribal chiefs have given their full concurrence to the activity. Very often, they are asked to nominate people for employment opportunities generated by the project.

The feudal elite has also been courted by all mainstream political parties in the country, and has invariably constituted the bulk of the strength of the elected legislatures, both national and provincial<sup>14</sup>. The composition of the legislature may have been the major factor in each successive elected government's inability to design and implement land reforms or even institute a tax on income from agricultural holdings. Analysts confirm that the predominance of the feudal elite has persisted in the recently held local bodies elections. The structure of society in Pakistan thus contributes significantly to perpetuating poverty in rural areas, through a combination of social, political and economic factors.

*The composition of the legislature may have been the major factor in each successive elected government's inability to design and implement land reforms or even institute a tax on income from agricultural holdings.*

### Box 3.2 Power Patronage in Rural Pakistan

The system of patronage is deeply entrenched in rural Pakistan, and encourages the concentration of power. Wherever this concentration of power exists, it has had serious implications for the vulnerability of the rural population, and particularly their ability to exploit whatever limited economic opportunities are available to them. Local influentials tend to act as intermediaries between the poor and the public functionaries assigned to their area, and limit direct contacts between the public and the systems of governance. There have also been significant instances of resistance on the part of the local elite to organizations/individuals working to bring about social development in such areas. Public functionaries are often beholden to the power elite, who have been known to exert considerable pressure on them, and in extreme cases, effect transfers for officials who are not responsive to their demands. As a result, the lower bureaucracy and service provision network is highly politicized, with decisions on the location of facilities, staffing and recruitment etc. being taken not on the basis of financial considerations or merit, but to oblige local influentials and key government functionaries.

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13. A recent study on rural primary schools shows a significant association between the existence of a highly differentiated social system and participation in schooling. Gazdar 2000: *State, Community and Universal Education: A Political Economy of Public Schooling in Rural Pakistan*. Asia Research Center, London School of Economics.
14. This has been true even for the populist government of Zulfikar Ali Bhutto (1972-1977) which was elected to implement a socialist agenda.

### 3. Low Level of Human Development

A country's future growth potential and ability to reduce poverty is strongly dependent on its stock of social capital, and investments made to increase that stock. The level of human development in Pakistan is currently very low, and little improvement has taken place during the 1990s. As detailed in Chapter II, Pakistan lags behind other South Asian countries with respect to its social indicators. The social sectors have been consistently neglected in Pakistan, with the bulk of budgetary expenditure being concentrated in defense and debt servicing. The limited resources allocated to the social sectors also tend to be used ineffectively, and social service delivery is largely inefficient and substandard. The quality of service provision has declined sharply over the last decade, and served to enhance the vulnerability of the users of public facilities who have had to contend with inadequate services, and have had no recourse for redress of their grievances.

*The limited resources allocated to the social sectors also tend to be used ineffectively, and social service delivery is largely inefficient and substandard.*

The persistent neglect of the social sectors has effectively translated into the disempowerment of a vast section of society. To the extent that poverty is defined as a limitation on the right to make decisions to improve one's quality of life, and an inability to take advantage of opportunities, this in itself is a manifestation of poverty. Since the poor are strongly reliant on public social services, the lack of attention to provision of widespread, quality social services has particularly adverse impacts on the poor.

It has been convincingly argued that the critical constraint to growth in Pakistan is not the financing gap (i.e. the fiscal deficit

and deficit on the balance of payments account) but the "social gap", where the latter is defined as the gap between social indicators of developed and developing countries<sup>16</sup>. In Pakistan's context, the social gap can also be defined as the difference in social indicators across income classes, urban and rural areas, and the sexes. The current slowdown in growth, which has persisted for much of the last decade, and has exposed precipitous state of the country's public finances, has also served to highlight the critical role that investment in health, education and social infrastructure can play in sustaining long term economic growth. The consistent neglect of the social sectors has resulted in a lack of productive potential in the economy. That this lack of productive potential exists in spite of years of relatively high economic growth in the 1960s and 1980s in particular is an indicator of the skewed priorities of policy makers in the past.

Growth in the last decade has been disappointing, and Pakistan's long term growth potential is being seriously undermined by its poor social indicators. Low levels of education ensure that the bulk of the labor force is unskilled, thus placing limitations on the structure of the economy, which rests on low value production in agriculture and agro-based industry. In a rapidly integrating global economy, countries need to diversify their export base, and encourage low cost production of more value added high technology products to stay competitive. This in turn requires the mobilization of a highly skilled and specialized labor force. If this key resource has not been developed, as is the case in Pakistan, the economy tends to be mired in a low value production mode.

16 Easterly, W., 2001: *Pakistan's Critical Constraint: Not the Financing Gap but the Social Gap*. Background Paper for Pakistan Poverty Assessment 2000-01. Development Research Group. World Bank. Unpublished.

A high population growth rate, which in turn is fuelled by the lack of access to educational facilities, and health and population planning services, effectively erodes gains in GDP growth. The population growth rate has also served to magnify inadequate social sector service provision, as limited resources tend to be spread more thinly to accommodate ever-increasing demand. The relatively high dependency ratio (43 percent of the population was below the age of 15 according to the 1998 census) in turn places additional pressure on the working population, and effectively serves to keep average household incomes at subsistence levels.

The data also points to persistent gender discrimination in the country. The proportion of elementary school age girls enrolled in a primary school was 40 percentage points lower in Pakistan than in other comparable countries in 2000. The gender differential persists in all social indicators, and ensures that women face a disproportionately high share of the poverty burden. The low level of female education, in particular, has manifold implications. There is a high degree of correlation between adult female literacy and lower infant mortality, higher primary school enrolment and lower dropout rates, and higher contraceptive prevalence rates. Female literacy may thus be the single most important determinant of the state of human development in a society, and significant improvements in this one indicator can lead to an across the board improvement in human development in the long term.

Societal gender inequality has also succeeded in keeping female labor force participation rates in the formal sectors low, as women are typically not qualified, or not

allowed to participate in the formal labor market. As mentioned earlier, overall female labor participation for the country is estimated at barely 14 percent<sup>17</sup>. However, this understates female participation in the agriculture sector and in the informal economy in urban areas where women often do home based contract work. Some studies indicate that in urban areas, female labor force participation rates in the market for professional labor have increased to 20 percent<sup>18</sup>. Nevertheless, participation rates, particularly in the formal sector, remain low compared to other South Asian countries. This in turn serves to keep dependency ratios high and average household incomes low. It also translates into labor costs that are higher than the average in low-income countries, which have higher female labor participation rates, thus reducing Pakistan's international competitiveness.

#### 4. Ethnic and Sectarian Conflicts

The increasingly strong nexus between economic and social factors, and the importance of the latter as determinants of growth was apparent in Pakistan for the period from 1985 onwards, when Pakistan's largest city and industrial center, Karachi, intermittently remained in the grip of civil strife. The continued unrest in the city, which is the country's financial capital, only seaport, and houses the bulk of Pakistan's manufacturing capacity, has been cited as at least one of the factors prompting the average annual growth rate of large scale manufacturing to slump to 3.5 percent in the 1990s, from an average of over 6 percent in the previous decade.

In general, ethnic and sectarian divisions have been exploited for political purposes over the last twenty years, which has led to an increase in ethnic and sectarian

*The proportion of elementary school age girls enrolled in a primary school was 40 percentage points lower in Pakistan than in other comparable countries in 2000.*

17 Federal Bureau of Statistics (2001): *Labour Force Survey 1999-2000*, Islamabad.

18 Naqvi, Zareen F. (2000). *Poverty in Pakistan: Review of Recent Literature*. South Asia Poverty Reduction and Economic Management Unit, The World Bank, Islamabad.

### Box 3.3 Trends in Growth and Human Development in Pakistan

Pakistan has experienced a marked lopsidedness in its development history, that is, good growth in the 1960s and 1980s, but weak progress in human development. The 1990s, however, have been characterized by slow GDP growth as well as slow progress in human development. The causes of the economic downturn have been discussed in detail earlier in this section. However, the low level of human development may, in the long run, prove to be of far more consequence for both macro-economic outcomes and poverty than the fiscal and current account deficits and the low investment levels that have characterized the economy. Indeed, it has been convincingly argued that the growth slowdown is related to insufficient investment in education, health, and other social services, and in improving the governance systems necessary to convert increased resources into human assets<sup>1</sup>.

1. Easterly, W. (2001). *Pakistan's Critical Constraint: Not the Financing Gap but the Social Gap*. Background Paper for Pakistan Poverty Assessment 2000-01. Development Research Group. World Bank, Washington D.C. Unpublished.

tensions, and recurring episodes of violence. Of late, the violence has extended to sections of society who have not traditionally been targeted in such conflicts. Thus the city of Karachi, for example, has witnessed the targeted killings of over 200 doctors belonging to the Shia community in the last two to three years, prompting many members of the medical community to migrate either to other cities, or out of the country altogether. Similarly, incidents of random attacks on church congregations and worshippers in mosques, shootings of prominent (and often apolitical) members of society and bomb blasts etc. have occurred all over the country. Such incidents are a major symptom of the deteriorating law and order situation in the country, and heighten the sense of uncertainty and lack of security that pervades big cities. This uncertainty is an important factor in the declining private investment and economic growth rates witnessed in the last decade. Ethnic and sectarian conflicts have thus served to stifle growth and employment opportunities and may have significantly contributed to poverty, particularly in urban areas. The law and order situation has also precluded the development of industries such as tourism which is a potentially high foreign

exchange earning sector, and can generate considerable employment opportunities in remote areas.

## D. ENVIRONMENTAL DEGRADATION AND POVERTY

A two-way causality exists between environmental degradation and poverty, and the two states reinforce each other as well. These linkages are further explored as follows.

### 1. Impacts on Health and Linkages with Poverty

The most commonly cited indicators of environmental degradation in Pakistan are increasing air pollution and contamination of ground and surface water. Empirical work on the measurement of air and water pollutants is limited in the country, but recent studies suggest that emissions of particulate matter in Pakistan exceed WHO recommended standards. Emissions of pollutants like nitrogen oxides, carbon monoxide and lead, from both stationary and mobile sources are on the increase, and according to some estimates may be costing

*Ethnic and sectarian conflicts have thus served to stifle growth and employment opportunities and may have significantly contributed to poverty, particularly in urban areas.*

Rs. 25 billion in health costs in urban areas<sup>19</sup>.

In Pakistan, the environment-poverty nexus manifests itself most particularly in health effects. For example, water borne diseases are widespread because 17 percent of the urban and 47 percent of the rural population do not have access to clean drinking water. Such diseases may in fact contribute to 30 percent of hospital cases, and 60 percent of the recorded infant deaths<sup>20</sup>. The prevalence of diseases like cholera and typhoid can also be linked to solid waste management being minimal, with only a quarter of estimated waste generated actually being collected for disposal.

The poor also tend to be more vulnerable to the effects of air and water pollution, both in rural and urban areas, given their limited access to quality health care. Extended exposure to such pollutants is likely to have significant impacts on health in the form of skin and respiratory diseases, eye infections and in extreme cases, disorders of the central nervous system. The prevalence of disease exacerbates poverty firstly by compelling the poor to devote ever increasing proportions of a limited income to health costs, and secondly by reducing productivity and working days.

## 2. Effects of Degradation of Natural Resources

The degradation of natural resources can have a devastating impact on the poor,

given that they tend to be strongly dependent on the exploitation of such resources. The rural economy in particular is built around the sustainable use of natural resources, particularly water and cultivable land. In Pakistan, the effects of land degradation have been apparent for the last few decades, and may have been intensified by the increased use of fertilizers and pesticides following the green revolution of the late 1960s. Unsustainable exploitation of groundwater has led to serious drawdown in the level of aquifers in areas such as Balochistan. Similarly, high rates of siltation in denuded watersheds and the degraded state of the irrigation system have led to inefficiencies in water use and wastage of freshwater resources. Around 25 million acre feet of water is lost every year due to low water management efficiency<sup>21</sup>. The rural poor are particularly vulnerable to collusion between rent-seeking Irrigation Department bureaucrats and powerful local feudal elements, and even illegal diversion is resorted to in ensuring this<sup>22</sup>.

The rural population, particularly small landholders bear a disproportionate part of the costs of environmental degradation in the form of lower crop yields and reduced productivity of agricultural land. The poor also bear the brunt of the degradation of rangelands, which increasingly support smaller herds, and of forest lands from which they meet their fuelwood needs. The high rate of deforestation in the country has endangered biodiversity and may have devastating effects on the livelihoods of communities in mountain areas, who are

*The rural population, particularly small landholders bear a disproportionate part of the costs of environmental degradation in the form of lower crop yields and reduced productivity of agricultural land.*

19 Federal Environmental Protection Agency, 2000: *Pakistan Country Report to Male Declaration on Control and Prevention of Air Pollution and its Likely Transboundary Effects for South Asia* and Government of Pakistan, 2001: *Economic Survey 2000-01*. Economic Adviser's Wing, Finance Division, Islamabad.

20 Government of Pakistan, 2001: *Economic Survey, 2000-01*.

21 Government of Pakistan, 2001: *Three Year Poverty Reduction Program, 2001-2004*, Planning Commission, Islamabad.

22 Dinar, A, et al, (2001): *Political Economy and Political Risks of Institutional Reforms in the Water Sector, Rural Development Department*, World Bank, Washington DC.

dependent on forests for their energy and fodder needs, in addition to putting medicinal plants and herbs found in forests to a variety of uses.

The poor are also more vulnerable to the effects of climate change, which in the short term may manifest itself in the form of increased incidence of floods, droughts, cyclones and other natural disasters and in the long term could have potentially serious

effects on water resources and cropping patterns. The effects of climate change can thus cause widespread loss of the assets of poor communities in the short run, which tend to be more vulnerable to natural disasters. In the longer term, climate change can potentially have negative effects on the yields of crops such as cotton which are grown in areas where heat stress is high, and rice which requires the regular provision of adequate water supplies.

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33. Government of Pakistan, 2001: *Economic Survey, 2000-01*. Economic Adviser's Wing, Finance Division Islamabad. Cultivable waste is defined as land available for cultivation, but not cropped in the last two years.

## IV RESPONSES TO POVERTY

*The government, NGOs and private sector are implementing programs aimed at improving governance and accountability of public institutions to be able to better respond to the needs of the poor, assisting them economically through creating income and employment opportunities, and improving their access to basic services.*

There is no general or universal social protection system in Pakistan. Neither is there an umbrella institution that would extend social protection and social safety nets to the poor and the vulnerable. However, a number of programs aimed at improving governance and accountability of public institutions to be able to better respond to the needs of the poor, assisting them economically through creating income and employment opportunities, and improving their access to basic services are being implemented by the government, NGOs and the private sector. Each of these sectors operates in a distinct manner as discussed in this section.

### A. PUBLIC SECTOR

To mitigate the causes of poverty, the Government has recently introduced several important governance-related reforms to improve the functioning

of State institutions and strengthen their capacity and accountability with an aim to provide greater public access to better quality social sector related, judicial, and other services. Historically, various other poverty-targeted policy interventions and programs have also been initiated from time to time in the public sector in Pakistan, which can be categorized into three broad sectors: public works programs for asset creation and employment generation; micro finance programs to promote income opportunities; and social protection programs. In the paras that follow, the major elements of governance reforms introduced by the Government are discussed first, followed by a discussion on the policies and programs undertaken within the latter three sectoral areas. An assessment of an ambitious public sector social sector development initiative, the SAP is then presented. The section concludes on a

discussion of the present Government's poverty reduction strategy.

### 1. Governance Reforms

#### a. Devolution Plan

The Devolution Plan announced in March 2000, is a fundamental governance reform that aims to replace the existing highly centralized and control oriented government with a three tiered local government system that institutes "people-centered, rights and responsibility-based, and service oriented" government structures. Under the aegis of the Plan, elected local governments took power on 14 August 2001 in 96 districts in the four provinces.

The bulk of basic 'poverty focused' services, like health and education, have been devolved to district and lower local governments under the Plan. Provinces, once predominantly responsible for service delivery, will assume new responsibilities to support and supervise the performance of local governments, not as administrative appendages of the provincial bureaucracy, but as independent corporate bodies accountable to the electorate through political leaders.

In addition to elected councils, the Local Government Ordinance 2001 provides a number of

institutionalized opportunities for citizen's participation in council affairs. Citizen Community Boards (CCBs), and Public Safety and Justice Committees will monitor local government activities. CCBs are also empowered to prioritize investments for up to 25 percent of the local development budget for basic infrastructures and services.

Given the need to utilize available resources more effectively in order to improve social indicators in the medium term, the Government is relying heavily on the Devolution Plan to make a difference by promoting competition, ownership and accountability in delivery of public services, and by involving people more actively in community issues. However, international experience has shown that devolution takes time to have an impact. Also, technical and institutional capacity at the district and local levels is extremely weak, and unless a major capacity building initiative to address this problem is implemented quickly the expected improvements will not be forthcoming.

#### **b. Access to Justice**

The Government has introduced several reforms, and is in the process of initiating others (Box 4.1), to improve the administration of, and access to, justice in the country. Foremost among them is the separation of the judiciary from the executive, and the placement of the executive magistracy under the judiciary

following the abolishment of the office of the Deputy Commissioner as part of the local Government reforms. Further, the Government has proposed building on the strengths of existing local conflict resolution systems such as the *Panchayats* to establish new institutions, to be called *Masalihat Anjumans* (Conciliation Committees), for quick resolution of private disputes at the respective local levels.

The Government has also committed to reduce the large time-lag between filing of court cases and finalization of case decisions that has historically existed in the judicial system. As a first step in this direction, priority attention has been paid to cases pending before the courts that were filed under the Family Laws. It is reported that, consequently, only those family law cases that were filed in year 2000 are still pending before the courts. Further, the proposed reorganization of the police system with an aim to upgrade its professional standards and enhance its accountability at the local level is a welcome step in the direction of improving access of the citizenry to better law and order and security services, and creating greater checks and balances to put an end to the often reported cases of police harassment of the poor and less influential people. These efforts to improve the functioning of the judiciary and the police are, however, still at their initial stages, and will require concerted action and commitment by the Government in the medium term to see them through.

*In order to improve social indicators in the medium term, the Government is relying heavily on the Devolution Plan to make a difference by promoting competition, ownership and accountability in delivery of public services.*

#### **Box 4.1 Access to Justice Program**

The ADB is supporting judicial and police reforms being carried out by the Government under its Access to Justice Program loan. The key objectives of the judicial reforms being supported are: improving policy-making for a more efficient and people-responsive judicial sector; strengthening the independence of the judiciary through effecting complete separation of the executive from the judiciary; ensuring dispensation of timely and inexpensive justice; legally empowering the poor and the vulnerable; and improving human resource management systems in the judiciary. Under police reforms, the main objectives are to ensure an independent and accountable police service; establishing an independent prosecution service; creating an independent police authority; fostering better police-citizen relations; and creating greater gender and human rights awareness in the police system.

### c. Civil Service Reforms

A number of civil service reforms have been introduced by the Government to strengthen public sector departments and institutions and make them more accountable and responsive to the citizenry. In this regard, the issue of improving the financial management system in the country has received particular attention. Prominent actions taken by the Government to this end include the separation of audit and account functions and the appointment of a Controller General of Accounts under the Ministry of Finance; the setting up of ad-hoc federal and provincial Public Accounts Committees; the institutional strengthening of the Central Board of Revenue; the establishment of the National Accountability Bureau to check corruption and misappropriation; and the plan to publish fiscal accounts on a quarterly basis to facilitate public access to information on the state of Government finances. Further, as part of the reform agenda, the Government has committed itself to promote merit in recruitment for public service, and, for this purpose, the Federal Public Service Commission has been granted further autonomy and mandate to be able to discharge its functions without fear of political interference. Other civil service reforms are also underway. However, notwithstanding this good start, it is clear that the commitment to, and pace of, the reforms effort would have to be sustained in the medium term to achieve the desired results.

Governance reforms in Pakistan have been opposed by powerful pro-status quo vested interests and the severe fiscal constraint puts additional restraints on a reform agenda. However, the government's record of implementing reform commitments made in 1999, in particular providing a legal basis for devolution and police reforms, ensuring the complete separation of judicial and executive powers, and completing on schedule the local

government elections, suggests readiness to confront issues that eluded Pakistan since independence.

## 2. Public Works Programs

The history of public works programs dates back to 1953 when the first such program was launched under the name of Village AID (Agricultural and Industrial Development). Village AID was an income generation initiative and was started to utilize surplus labor in rural areas to increase agricultural production as well as village based industrial production. The program also included funding for schools, health centers and water supply and sanitation facilities. As governments keep changing, successive rural development programs were launched with essentially similar objectives. These have taken various names such as the Rural Works Program, Peoples' Works Program, Integrated Rural Development Program, Five Point Program and the Tameer-e-Watan Program. In this series of programs, the present Government most recently launched the Khushhal Pakistan Program (KPP), that is described in more detail in the following paragraph.

The KPP is an integrated small public works program. The program was initially launched for a period of two years (Jan 2000-Dec 2001), with a budget of Rs. 20 billion, but was extended till the end of FY2002. The program finances public works whose cost ranges from Rs 0.05 million to Rs 5 million per scheme in rural areas and Rs 0.05 million to Rs 8 million per scheme in urban areas. It targets employment creation through the construction of essential local infrastructure in rural areas and low-income urban areas. It is implemented through a three-tier government structure in collaboration with local authorities and communities. The program attempts to involve local people in the identification, management and implementation of these small projects and inculcate a spirit of ownership among the

*Governance reforms in Pakistan have been opposed by powerful pro-status quo vested interests and the severe fiscal constraint puts additional restraints on a reform agenda.*

*The objective of PPAF's credit and enterprise program is to enable the poor to gain access to capital to finance investment in income generating activities.*

beneficiaries. The program funds are to be spent on productive purposes and not as administrative expenditure. At the end of 2001, a sum of Rs. 11.5 billion had been released for the program and a large number of farms to market roads, water supply schemes, and schools had been constructed or renovated. The program has provided job opportunities to around 2 million people. The budget allocation for the program for FY2002 was Rs. 7.5 billion and it was estimated that 0.5 million people would be provided employment under the program during the year. Following the events of 11 September 2001, the allocation for the project was doubled, and Rs. 8.5 billion has already been spent under the Program in the first eight months of FY2002.

### 3. Microfinance

In Pakistan, microfinance has historically been provided by NGOs, with the Aga Khan Rural Support Program (AKRSP) playing a pioneering role in this regard. In the early 1990s, the government supported the replication of the AKRSP model nationally by providing grant funding to set up the National Rural Support Program (NRSP) and the Punjab Rural

Support Program (PRSP). However these essentially operate as NGOs<sup>1</sup>, and are discussed in the section on civil society.

More recently, the government has played a direct role in promotion of microfinance in Pakistan. Two major programs in this regard are the Pakistan Poverty Alleviation Fund (PPAF) and the Khushali Bank (see Box 4.2). PPAF was set up by the Government in 1997, with an initial equity of Rs. 100 million, and with a \$100 million loan from the World Bank assistance to set up a credit line. The objective of PPAF's credit and enterprise program is to enable the poor to gain access to capital to finance investment in income generating activities. Operating through NGOs and the Rural Support Programs (RSPs), PPAF provides loans to the poor that are in the range of Rs. 9,500 to Rs. 10,000 and have no collateral requirements. However, a market interest rate is levied on all loans. As of June 30, 2001 PPAF had disbursed Rs. 471 million worth of loans to 46,260 beneficiaries. Approximately 28 percent of loans were estimated to have directly benefited women. PPAF also has two other program components, community physical infrastructure and human resource

#### Box 4.2 The Khushali Bank

A key initiative of the Government in the microfinance sector is the creation of the Khushali Bank, a microcredit bank established in 2000 with ADB support. Its aim is to benefit the poor through income generation activities/small-scale enterprise and small infrastructure projects. Its mandate is to act as facilitator and micro finance manager to expand the network of microfinance in the country. It is expected that the Khushali Bank will be able to cover 30 districts, and have a loan portfolio of Rs 7.6 billion, covering 600,000 households throughout the country within the next five years. The average loan size of the Bank is in the range of Rs 3,000 - 30,000 and is provided in the form of individual and group loans without any collateral. By the end of 2001, the Bank had disbursed an amount of Rs. 100 million to 15,000 beneficiaries. 30 percent of the Bank's borrowers are women. The Bank also supports social mobilization activities within poor communities and development of infrastructure such as water channels and link roads in the neglected rural areas. The Bank has recently launched its urban program in the city of Rawalpindi.

1. However, AKRSP's microfinance portfolio is now part of the newly established First Microfinance Bank Limited; which has been established by the Aga Khan Development Network as the first private sector microfinance bank set up in the country.

development. By mid-2001, PPAF had supported 796 physical infrastructure schemes at a total cost of Rs. 252 million.

Amongst older institutions, the Small Business Finance Corporation (SBFC) was established to provide credit to borrowers from small and cottage industries. The SBFC also started the Youth Investment Promotion Scheme to disburse credit to unemployed youth. During FY2000, it disbursed Rs. 202 million to 492 beneficiaries and is estimated to have generated employment for 1,476 persons. SBFC and Regional Development Finance Corporation have been merged to form the Small and Medium Enterprises (SME) Bank, that has been set up to support the financing needs of small and medium scale enterprises. The financing limit of the SME Bank has an upper ceiling of Rs 30 million.

#### 4. Social Protection Programs

##### a. Formal Systems of Pension and Social Security

The Employees Social Security Scheme introduced in March 1967 was the first formal initiative. Initially, this scheme specifically covered workers in the textile industry with the objective of providing protection against contingencies of sickness, maternity, work-related injury, invalidity and death. In 1969, the coverage of the scheme was expanded with the inclusion of workers from commercial and other industrial establishments having ten or more employees. The scheme was reorganized on provincial lines in 1970. Social security institutions in each province extend medical coverage to secured workers and their dependents. In addition to medical coverage which accounts for around 70 percent of the total benefits under these schemes, the secured workers are also entitled to cash benefits in the event of sickness, employment injury, partial and

total disablement pensions, and death grants to dependents.

The Workers Welfare Fund Scheme and the Worker's Children Education Ordinance were initiated during the early 1970s. These schemes provide for education, matrimonial and housing related benefits to workers in the formal sector. Through the Workers Welfare Fund, 6,900 houses and 3,950 flats for workers had been constructed, and 34,000 residential plots developed by May 2000. The estimated number of beneficiaries of those projects is about 45,000. In addition around 17,000 students are enrolled in the 50 schools run by the Fund.

In 1976, the Employees Old Age Benefits Institution (EOBI) was established as a federal scheme to provide old age benefits, invalidity and survivor's pensions as well as old age grants to those eligible. It covers formal sector establishments, employing ten or more workers. Presently the total number of establishments registered with the institution is 44,704. Since its inception in 1976, the EOBI had insured 1.6 million workers with Rs. 14.8 billion contribution as of May 2001. The employers contribute at the rate of 5 percent of the wages of the insured employees. From 1983-2001, approximately 133,000 workers benefited from pensions and around 56,000 workers benefited from survivor's pensions and old age grants from EOBI.

None of these schemes cover workers from the agriculture sector, the informal economy and those in the formal sector who are either employed temporarily or through contractors or are employed in establishments with less than ten workers. In 1991-92, the coverage of these schemes was approximately 3 to 4 percent of the total employed labor force and in 1998-99 this had declined to 2.3 percent. Permanent employees of the federal and the provincial governments, estimated to be

*None of these schemes cover workers from the agriculture sector, the informal economy and those in the formal sector who are either employed temporarily or through contractors or are employed in establishments with less than ten workers.*

about 4 million, receive pensions and other benefits such as provident fund, on retirement, at the age of 60 or after 25 years of pensionable service.

#### **b. Zakat and Bait-ul- Maal**

Zakat, a donation to charity obligatory for Muslims, is Pakistan's main social welfare or protection system. The formal system of collection of Zakat was initiated with the Zakat and Ushr Ordinance of 1980. An amount of 2.5 percent is deducted from bank deposits and other financial instruments annually for payment of Zakat. The Zakat fund is administered by an autonomous Zakat council that is responsible for the disbursement of funds to institutions at the national level. At the province and district level, local Zakat committees are responsible for determining needs and allocation of funds to the deserving. Local committees can provide grants of up to Rs 10,000 while an amount larger than that is approved by the district committee. Monitoring committees at district, tehsil and local levels are entrusted to report on the functioning of the Zakat committees. The central and provincial committees are supposed to have quarterly meeting to review progress and implementation. Zakat distribution covers institutions and individuals both. Fifty percent of Zakat disbursement goes to eligible social, health, education, and religious institutions, while the remaining to needy individuals.

In FY2001, the Zakat collection was estimated at Rs 5 billion, and the number of estimated beneficiaries were about 1.9 million. The disbursement figures for Zakat for 2001 show that the highest portion (60 percent) of Zakat funds consist of the *Guzara* (subsistence) allowance going to 1,324,268 beneficiaries, followed by 18 percent for educational stipends benefiting 354,254 students. Religious educational stipends constitute 8 percent of the disbursement and reach 56,604 persons,

while disbursements for health constitute 6 percent of the total and have reached 115,649 patients. Four percent each of disbursements are for social welfare and marriage assistance, and are estimated to benefit a total of 43,632 individuals.

In 2001, the Zakat system was revamped to focus more on rehabilitation rather than relief, with Zakat funds assisting in the establishment of small scale commercial activities, or trades. In FY2002, a special allocation has been made for rehabilitation grants for starting up small-scale business or trade in 44 specified categories or business sectors. The Zakat fund comprising of savings from Zakat proceeds, which is used primarily to disburse grants for rehabilitation, has risen to Rs 24 billion in 2001. An additional number of about 1.5 million beneficiaries are expected to be added to the list as Zakat recipients in FY2002.

Pakistan Bait-ul-Maal was established in 1992 to provide assistance to the needy not covered by Zakat, i.e. the minorities. Funds for the Bait ul Mal are allocated by the federal government in the form of non-lapsable grants and small grants from the Central Zakat Fund and the Provincial Governments. Pakistan Bait ul Mal provided support of Rs 327 million to the needy during the past financial year for a number of purposes such as medical support, and education stipends.

#### **c. Food Support Program**

The food support program runs on a small scale and has limited coverage. It is designed to mitigate the impact of the increase in wheat prices that has followed the withdrawal of subsidies on wheat flour. Wheat is the staple diet of the population, and a rise in its price can have a significant impact on household budgets, particularly of the poorest income groups. So far, 1.2 million poor households who have an income equal to or less than Rs 2,000 per

*In 2001, the Zakat system was revamped to focus more on rehabilitation rather than relief, with Zakat funds assisting in the establishment of small scale commercial activities, or trades.*

month have been reached through the food stamp scheme. Under the program, a cash payment of Rs 2,000 is given to poor households in two bi-annual installments. Three percent of the total allocation is reserved for minority families. The program is implemented at the federal and district levels and is going to be linked with the Zakat system in future. The total disbursement under the food support program was Rs 837 million in FY2001 that had increased Rs. 1.08 billion in the first half of FY2002.

## 5. Social Action Program

A comprehensive program for improving social indicators was initiated by the government in 1992 in the form of the SAP<sup>2</sup>. SAP focused on four major areas: elementary education (primary and middle schooling), primary health care, drinking water supply & rural sanitation and population welfare. The total estimated cost of SAP was \$7.7 billion that was financed with the help of multilateral donors such as the ADB, the World Bank, and the European Union and various bilateral donor agencies. The estimated cost for the first phase was \$4 billion, with the Government providing 76 percent of total cost and the balance being provided by the donors. Donor financial support for the Social Action Program Project (SAPP) was

estimated at \$418 million with a further \$552 million to be provided as disbursements from ongoing and planned projects in the SAP sectors. The donor funding was jointly used to reimburse a proportion of the operational expenditure of provincial departments (Departments of Education, Health and Public Health Engineering) and federal ministries delivering SAP services. The Ministry of Planning and Development was responsible for executing the project through the SAP Secretariat with the provincial departments as the implementing agencies. A multi-donor support unit was established to act as a focal point to assist in monitoring the SAP.

The first phase of SAP was completed in 1996 at a cost of Rs 106.4 billion, with 64 percent of the total funding allocated for primary education (see Table 4.1). The remaining funds were allocated between primary health care (19 percent); rural water sanitation (14 percent); and population welfare (3 percent).

The impact of the first phase of SAP was mixed (as would also appear from the analysis of the state of human development in Pakistan carried out in Chapter II of this report), with some improvement in health indicators but no appreciable development in primary education and rural water supply and sanitation. In spite of the problems encountered in the first phase, government

*The impact of the first phase of SAP was mixed, with some improvement in health indicators but no appreciable development in primary education and rural water supply and sanitation.*

Table 4.1: SAP-I Sectoral Allocation

Parameter	Percent Share
Primary Education	64
Primary Health Care	19
Rural Water Supply & Sanitation	14
Population Welfare	3

Source: SPDC, 1999.

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

Table 4.2: SAP-II Sectoral Expenditure

Parameter	Rs. Billion	Percent Share
Elementary Education	329.2	66.0
Primary Health	96.9	19.4
Rural Water Supply and Sanitation	49.0	9.8
Population Welfare	19.0	3.8
Participatory Development Program	2.4	0.5
Monitoring and Evaluation	1.4	0.3
Technical Assistance	0.9	0.2
Total	498.8	100.0

Source: SPDC, 1999.

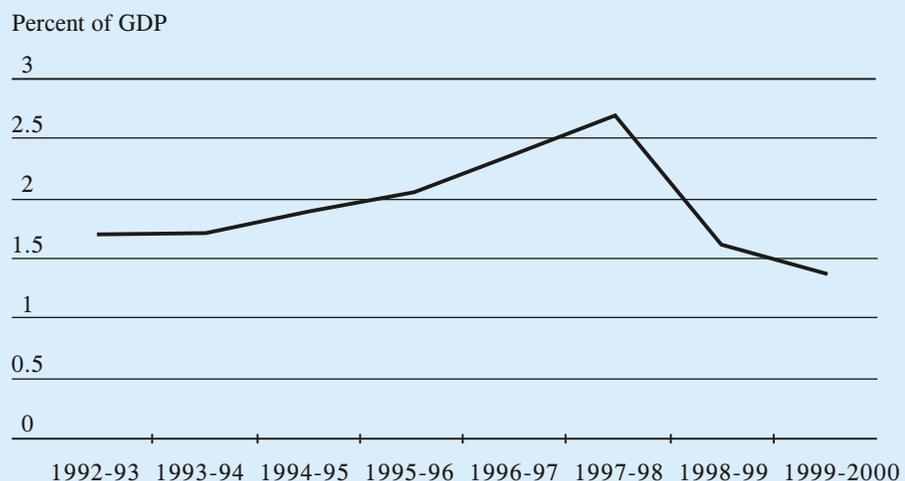
*A policy shift was taken in SAP-II with emphasis diverted from expansion to consolidation and improvement in quality of service delivery at the grassroots level, with renewed emphasis on transparency.*

and donors, recognizing the importance of continuing support to the social sectors, agreed to continue with the program. The second phase was formulated to cover a five and half year period (January 1997 to June 2002) and with a budget allocation of Rs 498.84 billion (Table 4.2), of which Government was financing 79.8 percent. A policy shift was taken in SAP-II with emphasis diverted from expansion to consolidation and improvement in quality of service delivery at the grassroots level, with renewed emphasis on transparency. The

physical scope was expanded to cover middle schools and non-formal education, health and nutrition, and water supply and sanitation in urban slums.

One of the overriding objectives of both SAP-I and SAP-II was to increase government spending on the social sectors, but as shown in Figure 4.1 below, expenditure on social sectors although having increased from FY1993 to FY1998, declined subsequently to pre-program levels.

Figure 4.1 SAP Expenditure Trends



Source: SPDC, 1999.

Table 4.3 SAP Achievements, 1991-99

Parameter	(Percent)		
	1991 (Baseline)	FY96	FY99
Primary Gross Enrolment Rate	73.0	75.0	71.0
Male	86.0	85.0	80.0
Female	59.0	64.0	61.0
Government Schools Enrolment (Percent of Total)	86.0	79.0	75.0
Male	87.0	80.0	76.0
Female	85.0	78.0	74.0
Full Immunization	25.0	45.0	49.0
Male	29.0	46.0	52.0
Female	22.0	45.0	47.0
Infant Mortality	102.0	101.0	89.0
Male		105.0	93.0
Female		97.0	85.0
Total Fertility Rate		5.6	4.5

Source: FBS. PIHS Round-3 (1997-98) and SPDC, 1999.

Successive Pakistan Integrated Household Surveys (PIHSs) show that while health indicators have improved somewhat over the SAP period, education indicators improved only marginally from 1991 to 1996, and deteriorated from 1996 to 1999. Thus, as is clear from Table 4.3, while immunization almost doubled between 1991 and 1999, and infant mortality and the fertility rate declined<sup>3</sup>, overall gross

enrolment rates fell in this period (although with some improvement in girls' enrolment). The overall outcomes of SAP were, therefore, mixed (Box 4.3).

By June 2001, the donors supporting SAP were expressing concern not only about low allocation and expenditure constraints in the social sectors, but also about major governance and financial

*While health indicators have improved somewhat over the SAP period, education indicators improved only marginally from 1991 to 1996, and deteriorated from 1996 to 1999.*

#### Box 4.3 SAP's Mixed Outcomes

SAP was successful in terms of putting the social sector on the priority agenda of the federal and provincial governments, in building capacity at these levels and in improving planning and evaluation. SAP helped increase girls education and health and family planning services, often in combination with private services. However, the Government and donors did not fully anticipate the serious and entrenched neglect of public social services and how difficult it would be to improve implementation and efficiency. Social sector development requires a social transformation and a radical change in the way social services are managed, with full recognition of the roles of communities and the private sector, and this aspect of ownership and participation was missing in SAP. The SAP review in 2000 concluded that inadequate resources, lack of trained staff, absenteeism, inadequate and unreliable supplies of inputs and weak monitoring taken together at large contributed to the lack of significant improvement in social indicators.

3. However, as discussed in Chapter II, the PIHS report cautions that data on the fertility rate is unreliable due to reporting errors

*The Strategy has identified five major areas of intervention for poverty reduction in the country. These are revival of economic growth, income generation, creation of employment opportunities, human development, strengthening of social safety net programs to reduce vulnerability, and improvement in governance.*

management problems at the district and local levels. It was also clear that the project would have to be redesigned to ensure consistency with the proposed Devolution Plan. The SAP experience highlighted the need to have a strong system of governance, including improved financial controls, decentralizing control of services to district and community level and improved incentive for service providers. Most SAP donors, including the ADB and the World Bank, have decided not to continue funding the Program beyond June 2002, and to concentrate on working with the Government to strengthen capacity for social service delivery at the local level. This is because, the improvement of Pakistan's social indicators is an overriding concern for the Government and the donor community alike. The Government has reaffirmed its commitment to improving the level of human development in Pakistan during the Human Development Forum held in Islamabad in January 2002. The Government initiated the development of programs for education and health sector reforms in 2000, and launched both in 2001. The Education Sector Reforms aim to address issues of resource mobilization and utilization, in addition to introducing institutional reforms at all levels of education. The health sector reforms in turn, focus on ten specific areas for reform including the reduction of widespread prevalence of communicable disease, addressing inadequacies in primary and secondary health care services, promoting gender equity and reducing urban-rural disparities. These reform programs have now been incorporated into a broader policy framework for structural reform and poverty alleviation, the IPRSP, discussed in the next section. The IPRSP, in turn, is to be implemented in consonance with wide-ranging governance reforms, to be carried out under the Devolution Plan.

## 6. Poverty Reduction Strategy

The Government's medium term development agenda is focused on reducing poverty in Pakistan, and bringing about significant improvements in the level of human development. To implement this agenda the Government prepared its Poverty Reduction Strategy during 2001. The first draft of the Poverty Reduction Strategy Program on which the Interim Poverty Reduction Strategy Paper (IPRSP) is based, was released for discussion in February 2001. This formed the basis for consultations between the Government, civil society and donor agencies. The IPRSP, completed in November 2001, incorporates the results of these consultations, and formed the basis of the Government's negotiation of the PRGF with the IMF in December 2001. The IPRSP encapsulates the Government's medium term program of structural reforms. It is to be developed into a full Poverty Reduction Strategy Paper after the elections of October 2002.

The Strategy focuses on reforming formal institutions of governance while working towards attainment of specific human development goals in the areas of education, health, population welfare, water supply and sanitation. It incorporates the key features of the education and health reform programs launched in 2001, while addressing a broader agenda of structural reform. The Strategy has identified five major areas of intervention for poverty reduction in the country. These are revival of economic growth, income generation, creation of employment opportunities, human development, strengthening of social safety net programs to reduce vulnerability, and improvement in governance.

The Strategy identifies four sectors, agriculture, SMEs, information technology and energy (primarily gas and coal) to lead

the revival of economic growth. It also outlines an ambitious governance reform agenda, including reform of public audit and accounting systems, implementation of the Devolution Plan for improved social service delivery, judicial and legal reforms and reducing corruption. The Strategy also emphasizes the need to create more employment opportunities for the poor, and improve their access to credit, land and housing. It identifies Zakat as the Government's central social protection program and stresses the need to use Zakat funds for rehabilitation. To reduce vulnerability among the poor the Strategy also envisages more efficient utilization of Zakat funds in addition to the institution of a food support program.

The Strategy is a comprehensive one, but its implementation will depend on the provision of adequate financial resources for public sector interventions in the key areas identified. An elaborate framework for tracking pro-poor public expenditure and poverty monitoring has been established under the IPRSP. The monitoring system has three components including expenditure tracking, output mapping and outcome monitoring, all of which are relevant to track progress in the achievement of the Millennium Development Goals. A Center for Research on Poverty Reduction and Income Distribution has been established at the Planning Commission to monitor the progress and performance of the strategy, along with the Poverty Alleviation Section of the Planning and Development Division and the IPRSP Monitoring Cell in the Ministry of Finance.

## B. NON-PROFIT SECTOR AND CIVIL SOCIETY

The non-profit sector has emerged as an important player on the development scene in Pakistan in the last two decades. Its emergence as an active development entity is widely perceived to be a response to the failure of the State in providing effective and efficient basic social services, and in its general suppression, especially during periods of previous military regimes, of organized activity and expression in the country. In relation to the latter issue, it could be argued that there continues to be a degree of dismissiveness and resistance among some Government circles with respect to the role of the non-profit and civil society sector as an important contributor to national development. Overall, however, today there is much greater general recognition and acceptance than ever before among all stakeholders, including Government, the society at large, and donors as regards the role of the non-profit sector in promoting participatory, equitable and sustainable development. This has resulted in a growing trend towards public-private partnerships in development that has, in turn, led to an increase in activities of NGOs and civil society organizations in the 1990s. Yet, the exact dimensions of the non-profit sector in Pakistan are not known because of multiple laws<sup>4</sup> under which NGOs and civil society organizations can be registered with no centralized system of record-keeping in Government agencies, and because many organizations are not registered with any agency. A recent study conducted by the Social Policy and

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4. NGOs in Pakistan are able to register under five different legal sets of regulatory schemes. These are the Societies Registration Act of 1860; the Trust Act of 1882; the Cooperative Societies Act of 1925; the Voluntary Social Welfare Agencies Registration and Control Ordinance of 1961; and the Company Ordinance of 1984.

**Box 4.4 SPDC Study on Pakistan's Non-Profit Sector**

Preliminary findings of a study carried out by SPDC reveal important information on the dimensions of Pakistan's non-profit sector. Of the estimated 45,000 non-profit organizations in the country, 46 percent were projected to be working in the area of education and research; 18 percent in civil rights and advocacy; 8 percent in the social services; 6 percent in health; 5 percent in religion; and the remaining non-profits were dispersed in several other sectors in small percentages. It is important to note that of the non-profit institutions working in education and research, about 64 percent were classified as those that had their principal focus on mainly imparting religious education (although many of them could also be organizing basic primary education). The study also estimated that 78 percent of all non-profit organizations were based in the urban areas. In terms of provincial distribution, 56 percent of non-profits were projected to be based in the Punjab, 34 percent in Sindh, and 5 percent each in NWFP and Balochistan. Of the total estimated membership of 6 million in non-profit organizations, 35 percent were projected to be members of civil rights and advocacy organizations, 27 percent of business and professional associations, and 16 percent of education and research organizations. Relatively lower total membership levels were estimated in the other activity sectors. The study found that financial support for non-profit organizations came from community contributions, local and international donors, and the Government. Non-profits were estimated to raise almost 50 percent of their total cash revenues from fees and user charges (including membership fee; 37 percent from private indigenous philanthropy; 7 percent from private foreign philanthropy; and only 6 percent from Government sources.

*Some NGOs are purely welfare oriented, others are involved in poverty reduction which includes mainly community-based strategies to improve income-generation opportunities, skills development, savings & credit type initiatives, and social sector development.*

Development Center (SPDC), discussed in Box 4.4, has, however, attempted to systematically estimate the number of non-profit organizations. The study estimates that there are about 45,000 registered and non-registered non-profit institutions in the country that collectively employ 264,000 people and have an operating annual cash expenditure of Rs. 12,959 million.

NGOs are working throughout Pakistan in a wide-ranging set of activities, offering a diverse portfolio of opportunities. Some NGOs are purely welfare oriented, and were formed primarily as charity organizations. Many others are involved in poverty reduction which is a loosely defined objective that may include mainly community-based strategies to improve income-generation opportunities, skills development, savings and credit type initiatives, social sector development, and other activities falling under the broader objective of reduction in poverty of the target population. NGOs in this category are mainly engaged in direct service delivery as well as facilitating service delivery through linkages with Government line agencies. There are also some NGOs that exclusively

work on undertaking policy advocacy in specified areas. A discussion on these broad categories of NGOs follows.

**1. Welfare Oriented NGOs**

Welfare oriented NGOs are primarily philanthropic institutions working with vulnerable groups. Examples of leading welfare organizations in Pakistan are the Edhi Welfare Trust and the Ansar Burney Welfare Trust. The Edhi Welfare Trust, for example, runs a network of relief services all over the country and has been recognized internationally, while the Ansar Burney Welfare Trust started as a human rights advocacy group working for legal reform, particularly jail reforms, but has since branched out into a range of welfare activities targeted at prisoners and their families in particular.

**2. Social Sector Service Delivery NGOs**

NGOs and other civil society organizations focusing on social sector development, or those limited to a sectoral focus in health or education, are numerous.

These include such prominent organizations as the Family Planning Association of Pakistan, Social Marketing Pakistan, the Aga Khan University community health programs, Aga Khan Health Service, Aga Khan Education Service, the Society for Advancement of Health and Education, Bunyad Literacy Council, the Hamdard Foundation and many others. Most NGOs are engaged in direct service delivery as well as facilitating service delivery through linkages with Government line agencies. Besides these NGO efforts, there are other private initiatives such as the Shaukat Khanum Hospital, the Kidney Center, and the Layton Rehmatullah Benevolent Trust, which are very active.

### 3. Rural Support Programs and Other Development NGOs

A number of NGOs are implementing integrated rural and urban development programs in different parts of the country and provide a range of development services. Most of these have adopted a participatory approach and work closely with local communities. Amongst the more prominent development NGOs are the RSPs, Sungi Development Foundation, and the Orangi Pilot Project (OPP).

The RSPs include the AKRSP, NRSP, PRSP, Sarhad Rural Support Program (SRSP), the Baluchistan Rural Support Programme, and the Thardeep Rural Development Program.

The organizational model upon which the RSPs in Pakistan are based, consists of three key elements: a program, willing participants, and a support organization. The RSP approach is to bring these three components together by developing a participatory program that serves the needs of the beneficiaries or participants through fostering community organizations at the grassroots. The RSP itself serves as a support organization that provides interventions through these community

organizations. Interventions or "packages" are tailored to meet the needs of the rural communities through a process of participatory identification, planning, implementation and management that is undertaken through the community organization platform. Broadly, the RSPs use a threefold approach that emphasizes social mobilization or organization, building up of capital through regular savings, and human resource development to increase the capacities of the rural communities to undertake their own development. In recent years, this approach has broadened in scope to include a fourth component that is to promote and strengthen linkages between community organizations and other development partners (including Government).

The AKRSP, the first RSP, was established in 1982 by the Aga Khan Foundation, and is based in the Northern Areas and the Chitral district in NWFP. AKRSP's goal is to promote economic and social development to improve the quality of life of the local people of this region through developing an institutional and technical model for grassroots development. AKRSP has been involved in organizing village-level institutions, providing support for small infrastructure schemes, running a microfinance program, supporting small enterprise development, and implementing natural resource management and training programs. AKRSP has fostered more than 4,000 village and women's organizations that are providing collective platforms for local people to implement and manage activities for their self-development. Through the medium of these institutions, communities have been able to strengthen their financial base through accumulating Rs. 430 million in private savings. AKRSP has also extended loans worth Rs. 1450 million to members of village and women's organizations. In addition, the Program has implemented small infrastructure projects in collaboration with local communities,

*Broadly, the RSPs use a threefold approach that emphasizes social mobilization or organization, building up of capital through regular savings, and human resource development to increase the capacities of the rural communities to undertake their own development. In recent years, this approach has broadened in scope to include a fourth component that is to promote and strengthen linkages between community organizations and other development partners (including Government).*

*Sungi operates through a range of inter-linked activities such as community-based institutional development, gender focus initiatives, natural resource management, small sustainable village infrastructure projects, health and sanitation interventions, capacity building, small rural enterprise development through savings, credit and crafts promotion among others.*

which have benefited over 150,000 people. In this regard, land development projects have brought 21,000 hectares of land under cultivation. In terms of economic impact, the Farm Household Surveys of AKRSP show that per capita income in the program area increased by almost 55 percent during 1991-97. As a result, it is claimed that poverty declined from 49 percent in 1991 to 32 percent in 1997.

The AKRSP's success spawned a number of Programs seeking to replicate the AKRSP model in other parts of the country. The first such program was the Sarhad Rural Support Corporation, later redesignated as the SRSP which started operations in the NWFP in 1989. The establishment of the SRSP was followed by the establishment of NRSP in 1992 and the PRSP in 1998. NRSP, being the largest of the RSPs in terms of coverage, is discussed in more detail as follows.

The NRSP started operations in 1992, and was established with the help of a Rs. 500 million grant from the federal government. This grant set a unique precedent in the country's development history, as it was the first time that the Government had allocated funds for the establishment of an organization that was essentially to operate as an NGO. By establishing NRSP, the Government signaled its commitment to a new development strategy that would be more grassroots based, and could serve to form linkages between government institutions and communities. NRSP started work in nine districts of the country, and was set to expand coverage to eight more in the second year of operations, when a change of government occurred and the grant of funds to the Program was questioned at the highest levels. The Program was, however, eventually allowed to continue although no additional funding was provided to it, and its operations have now expanded to about 30

districts. NRSP has succeeded in forming and working with over 12,000 community organizations with a collective membership of over 260,000. NRSP also has the largest microfinance program of the RSPs and has advanced loans worth Rs. 2,504 million to beneficiaries in target communities.

At the end of 1999, the various rural support programs covered 62 districts. The Programs have developed a trained cadre of 107,257 activists with managerial, technical and vocational skills. They have mobilized savings of Rs. 697 million and disbursed credit worth Rs 3 billion.

Among the other prominent development NGOs are the Sungi Foundation and the OPP. Sungi was established in 1989 as primarily an advocacy oriented NGO, working on social development issues. After the floods of 1992, which caused widespread destruction in Hazara, the organization expanded into a development NGO implementing an integrated multi-sectoral rural development program in the Hazara division of NWFP. Sungi operates through a range of inter-linked activities such as community-based institutional development, gender focus initiatives, natural resource management, small sustainable village infrastructure projects, health and sanitation interventions, capacity building, small rural enterprise development through savings, credit and crafts promotion among others. Although it is a grassroots based program like the RSPs, its approach differs from that of the RSPs in that it does not seek to formulate village or community organizations in target villages, but works with existing CBOs. A discussion on OPP appears in Box 4.5.

#### **4. Microfinance Institutions**

The concept of using microfinance as a tool for poverty alleviation has gained

**Box 4.5 Orangi Pilot Project (OPP)**

Orangi is the largest squatter settlement of the city of Karachi, with an estimated one million inhabitants. The inhabitants of Orangi, like many other such settlements, have limited access to public services, particularly sanitation facilities. The OPP was started in 1980 with the objective to improve living conditions in the area, particularly with regard to development of a sanitation system, and to develop a model for replication in other areas. Known as one of the most successful NGO sanitation provision projects, this community-owned, community-managed infrastructure upgrading program has helped over one million people to improve sanitation facilities, leading to significant reduction in water borne diseases in the area.

Following its initial success with the sanitation system, OPP has developed a number of model programs for the area including a basic health and family planning program, a program to improve the housing construction industry in the area, a credit program for small family enterprises, a program to upgrade the physical and educational conditions in schools established in the area by the private sector, and a program for women garment workers to inculcate managerial skills and cooperative action. In 1988, OPP was upgraded into four autonomous institutions including the OPP-RTI which is the research and training institute of the OPP, the Orangi Charitable Trust which handles the OPP's microcredit program, the Karachi Health and Social Development Association which handles the public health program and the OPP Society which channels funds to the three institutions.

OPP's experience shows the importance of promoting concepts of self-reliance in communities and limiting dependence on the public sector. Nevertheless, OPP is now re-orienting its approach to work closely with Government agencies so that barriers faced by communities in this regard are gradually broken down. In the case of the provision of sewerage lines for example, OPP's efforts were in danger of being invalidated by the Government's inability to provide primary sewerage disposal lines and treatment plants. A more integrated approach, in which public agencies are more involved in the development program of a community can yield even greater dividends, without sacrificing the primary philosophy of self-reliance which drove the OPP initiative.

credibility following the example set by the Grameen Bank in Bangladesh. While microfinance is an important component of the development approach of RSPs and other institutions discussed above, there are several other NGOs in Pakistan that have concentrated on microfinance as the prime focus of their activities. Some of the main ones in this regard are the Kashaf Foundation, the Taraqee Trust, the Community Support Concern, Development Action for Mobilization and Emancipation, and the Awami Committee

for Development. Kashaf's pioneering microfinance program is discussed in more detail in Box 4.6.

An important recent development in the microfinance sector has been the establishment of the first private sector microfinance bank in the country by the Aga Khan Development Network. Licensed by the State Bank to operate nationally, the First Microfinance Bank will be providing both savings and credit services to clients through 30 bank branches that are planned

*While microfinance is an important component of the development approach of RSPs there are several other NGOs in Pakistan that have concentrated on microfinance as the prime focus of their activities.*

**Box 4.6 Kashaf Foundation**

Kashaf's major activity is microfinance and associated savings activities that are targeted to exclusively benefit women. Potential loan recipients are identified through door-to-door surveys and are then organized into groups of four to six members and registered. Functional training is a core component of the program. Mandatory half-day borrower training is given to all group members to define and agree on program objectives as well as terms and conditions of borrowing. Leadership training is given for group management, record keeping and program monitoring. Kashaf also provides groups with marketing support in the form of information on market opportunities. Savings are compulsory for group members at the rate of not less than Rs. 30 per month. Groups must complete two monthly savings cycles before they become eligible for loans.

*Many NGOs mobilize communities in order to channel their interventions through a participatory method. However, the CBOs also include local welfare- and development-oriented groups that emerge out of organic local processes through the initiative of local community leaders.*

to be setup in various parts of the country in the next five years. AKRSP's microfinance program in the Northern Areas and Chitral will also now form part of the Bank's portfolio of operations.

## 5. Community Based Organizations

In addition to the major NGOs some of which have been described above, community-based organizations (CBOs) and other forms of grassroots and local development institutions are large in number and widespread. The majority of CBOs are based in rural areas. The nature of CBOs is such that many NGOs implement their interventions through CBOs and other local institutions at the community level.

Some CBOs can be characterized as simple village-level institutions that are organized around a set of project interventions to be the "receiving mechanism". Many NGOs mobilize communities in order to channel their interventions through a participatory method. However, the CBOs also include local welfare- and development-oriented groups that emerge out of organic local processes through the initiative of local community leaders. It is this latter kind which often proceed to register formally.

## 6. Advocacy Groups

A number of advocacy groups became active in Pakistan in the 1980s, during the martial law period. As political activities remained suspended, NGOs and advocacy groups took on the role of "watchdogs" and formed pressure groups to lobby on specific issues. Subsequent to the elections of 1988, advocacy groups continued to disseminate information on a range of issues, and a number of new NGOs were formed as restrictions of freedom of speech and expression were lifted. Advocacy groups broadly deal with human rights, women's and child rights and environmental issues, although some have broader development

agendas in addition to their advocacy-related activities.

Amongst the more prominent advocacy groups is the Human Rights Commission of Pakistan that works on a broad range of human rights issues in the country. In addition, there are several NGOs working exclusively on women's rights issues such as the Women's Action Forum, Aurat Foundation, the All Pakistan Women's Association, and Shirkat Gah, although Shirkat Gah is also working on women's general development issues as well. Some institutions like Bedari and War Against Rape are providing counseling services to female victims of abuse. More recently, child rights have become a focus of attention: NGOs like Sahil are dealing with issues of child abuse.

NGOs such as the Society for the Conservation and Protection of the Environment and the Urban Resource Center have been active in raising awareness on urban environmental issues. A number of other NGOs like the Sungi Development Foundation, and the Sustainable Development Policy Institute, a policy research organization, are also active on environmental advocacy issues in addition to other human rights issues. Finally, institutions such as The Citizen Alliance in Reforms for Efficient and Equitable Development, which was formed in response to the proposed privatization of the Karachi Water and Sewerage Board, and the Pakistan Institute of Labor Education and Research focus on advocacy on issues such as the impacts of deregulation on society and the economy.

## 7. Key International NGOs

Several leading international NGOs have operations in Pakistan, of which some focus more on direct implementation, others on capacity building of local institutions, while some attain to balance the two approaches. Invariably, however,

international NGOs undertake most of their work in conjunction with local CBOs and NGOs. Key international NGOs active in Pakistan include the two major environment and conservation NGOs, World Conservation Unit and World Wide Fund for Nature, development NGOs such as Action Aid, Save the Children Foundation, and the Asia Foundation; and those in social service provision such as the Marie Stopes Society and Medecins du Monde.

The regulatory environment for international NGOs is flexible and undefined. Those receiving bilateral donor funds in Pakistan are, however, required to obtain a protocol agreement with the Economic Affairs Division. They are all registered in their respective countries of origin.

## 8. Umbrella/Support Organizations

As more NGOs have come into operation, donors have increasingly come to rely on umbrella or support organizations to channel funds to grassroots organizations and development NGOs. Organizations such as the Trust for Voluntary Organizations, the Aga Khan Foundation, the Asia Foundation, and the Pakistan Poverty Alleviation Fund provide financial and technical support to local CBOs and NGOs for implementation of development activities.

There are other non-Government umbrella organizations that do not provide funding, but undertake policy, research and advocacy, and training activities for, and on behalf, of their respective member organizations. One example of such an organization is the Pakistan Microfinance Network (PMN) that was established in 1999, comprising of all major non-profit microfinance providers in the country. The

PMN has been active on policy and regulatory issues as well as training and capacity building related to provision of sustainable microfinance services. Another such umbrella support organization is the RSP Network, which was set up to meet the need for program quality guidance and strategic support to the RSPs, and is also emerging as a technical guidance, research, and policy-oriented organization. In addition, there are also a number of coalitions, such as the Pakistan NGO Forum and Punjab NGO Coordinating Council that work on specific development and advocacy issues.

## 9. Indigenous Philanthropy

As estimated in an SPDC study (Box 4.4, page 64), private indigenous philanthropy accounts for 37 percent of the revenue base of NGOs, and after fees and user charges, is the largest source of their income. Given, therefore, the importance of national philanthropy as a source of funding for the NGO sector, a brief discussion on its trends is presented here. Based on a recent report on indigenous philanthropy in Pakistan, it is estimated that in 1998 alone, individual contributions amounted to Rs. 41 billion in cash and goods (Table 4.4)<sup>5</sup>. This amounts to about two-thirds of public spending on social sectors which is estimated to be about Rs. 60 billion annually. In addition to this, it is estimated that about Rs. 30 billion were given in terms of time through volunteerism during the same period, which shows that there is a significant spirit, tradition and capacity of volunteerism in Pakistan that could potentially be harnessed to further contribute towards poverty reduction efforts.

Much of the philanthropic giving is ad hoc and through informal channels, often by

*As more NGOs have come into operation, donors have increasingly come to rely on umbrella or support organizations to channel funds to grassroots organizations and development NGOs.*

5. Aga Khan Development Network, 2000. *Enhancing Indigenous Philanthropy for Social Investment*, Islamabad.

Table 4.4 Estimates of Philanthropic Contributions by Individuals in 1998  
(Rs. Billion)

Forms of Giving	Given to:		
	Organizations	Individuals	Total
Monetary Giving (1+2)	15.144	25.972	41.116
1. Money (1.1+1.2)	10.353	19.444	29.797
1.1 Non-Zakat	9.369	6.647	16.016
1.2 Zakat	0.984	12.797	13.781
2. Gifts in Kind (value)	4.791	6.528	11.319

Source: Arshad Zaman Associates, 1999.

*There is a lack of an institutional mechanism to advise and guide this philanthropic giving so that it can be channeled to well-meaning public sector efforts.*

individuals and groups of individuals directly to relief and social welfare efforts, but more often to local initiatives where there is a sense of knowing that the money is being used for the purposes intended. There is a lack of an institutional mechanism to advise and guide this philanthropic giving so that it can be channeled to well-meaning public sector efforts<sup>6</sup>. However, any "institutional" or formal body should not "control" the indigenous philanthropic efforts and traditions, but rather it should undertake policy-driven research that can advise on effective programs that require funding support. The Government and such institutions should work together to make use of the local philanthropy tradition and sources to give them options for funding viable and transparent poverty reduction initiatives.

## 10. Other Transfers

Information and analysis on other transfers, which may have significant impacts on poverty, particularly when they extend beyond the nuclear family, has been reported in the year 2000 annual report of the Social Policy Development Center. Based on available data<sup>7</sup> at the time, the report estimates that total informal transfers received by households in Pakistan

amounted to over Rs 71 billion (3 percent of the GDP) in FY1997. About 84 percent of informal transfers were estimated to be in the form of remittances. Of these, internal remittances amounted to a total of Rs 36.1 billion in FY1997, of which 78 percent was estimated to have accrued to households in the rural areas. The reason for this significant inflow to the rural areas is that these remittances are largely sent by workers who have migrated to cities in search of jobs. External remittances amounted to Rs 23.5 billion FY1997, of which 48 percent was found to have been remitted to rural households.

## C. PRIVATE SECTOR

The provision of basic social sector services is by and large the constitutional mandate and responsibility of the public sector. However, due to various reasons such as efficiency, quality, and reliability, the private sector has started to play an increasing role in the delivery of social sector services. Although in urban areas there has always been a small presence of private provision, usually catering to the better off, this in recent years has expanded to service the middle class and even low income groups, as well as the people in peri-urban and rural areas. In particular, the

6. Recognizing this gap, the Aga Khan Development Network has recently conceptualized and set up the Pakistan Center for Philanthropy.

7. Federal Bureau of Statistics, 1998: *Household Integrated Economic Survey 1996-97*. Islamabad.

mushrooming of private schools throughout the country is astonishing, as families are opting for an education service where there is reliability of teacher availability and some semblance of a quality-oriented teaching environment. The health sector has also seen a growth of private sector practitioners, medical dispensaries and drug stores in urban, peri-urban and in rural areas.

### 1. Private Sector Role in Education

Non public institutions involved in the provision of educational facilities may be profit-oriented enterprises or non-profit ones. To keep the analysis simple, both types of enterprises are discussed under the heading of 'private sector institutions' in this section. The following sections describe the profile of and trends in the provision of education services in urban and rural areas.

Based on FY1999 PIHS data, 25 percent of Pakistani children attending primary level schools were estimated to be attending private for-profit schools<sup>8</sup>. The proportion of children attending private schools was 47 percent in urban areas, and 14 percent in rural areas, notwithstanding the fact that private education hitherto had been thought of as a primarily urban phenomenon. In Punjab, for example, 19 percent of children enrolled in primary schools in rural areas were found to studying in private schools, while in NWFP the corresponding proportion stood at 12 percent.

According to an FBS census of private educational institutions, there were 33,893 general education (i.e., non-technical, non-vocational) institutions in Pakistan, out of which 14,748 are primary schools, 12,550 middle schools, 5,940 high schools, 407 higher secondary schools, and the

remainder were universities and other institutions. In Punjab, 58 percent of the private educational institutions were found to be in urban areas, while in Sindh, Balochistan and NWFP, the corresponding proportions were 89 percent, 72 percent, and 59 percent respectively.

Besides, for-profit private schools, there are schools that are run as public - private partnerships between the Government and NGOs, CBOs, and private foundations, or are run by development institutions or CBOs with support from the communities. Although the number of such schools is not known, NRSP alone is running more than 200 schools catering to about 10,000 children in rural areas. The Northern Areas have 500 formal community schools in partnership with Government throughout the five districts, and many other self-help basis schools being managed entirely by communities.

Many of these types of schools have self financing systems (such as community-managed endowments, Government-supported per child subsidy, and recovery through user fees), and also have mechanisms to include support for the poorer segments of the community through tuition waivers, local scholarship funds, and collective financial contributions. These types of innovative financing schemes need to be further reviewed for replication on a larger scale.

### 2. Private Sector Role in Health

The private sector is an important actor in the provision of health and family planning services in Pakistan. The private sector accounts for almost two-thirds of all health expenditure. It is mainly based in the urban areas, although there is evidence of growing private sector provision of health

*The mushrooming of private schools throughout the country is astonishing, as families are opting for an education service where there is reliability of teacher availability and some semblance of a quality-oriented teaching environment.*

8. The PIHS does not give data for enrolment in private schools at secondary or tertiary levels.

*Mobilization of communities in such institutions and groups builds their capacity and confidence and creates appropriate mechanisms at the local level through which public sector services could be channeled with a greater degree of efficiency and cost-effectiveness.*

services in the rural areas as well. Additionally, however, it could be argued that the 'effective' outreach of the private sector even in the rural areas, defined in terms of access and availability of health services and facilities, is higher than that of the public sector. The private sector includes registered practitioners (allopathic specialists, hakims, and homeopaths), and public sector paramedics/doctors who operate as private practitioners. Pharmacies and other retail stores selling pharmaceuticals and family planning products also play an important role in health provision. Household expenditure on private services is estimated at three times the corresponding expenditure on public health services. As mentioned in Chapter II of this report as well, the relative preference of households for private sector health services can be gauged by the fact that only 19 percent of diarrhoea cases (according to PIHS data) nationally were first reported to a Government health practitioner. The main reasons cited by households for visiting a private practitioner includes the routine absence of doctors and nurses employed in Government facilities and unavailability of medicine especially in the rural areas, and the increased availability of private sector practitioners and facilities.

The not-for-profit programs in the health sector include those of NGOs focusing on health service delivery, particularly in the reproductive health/family planning sub-sector. These NGOs, some of which are mentioned in Section B, while constituting a small proportion of the total private healthcare sector, are, however, playing an important role in terms of outreach and low cost programs to supplement the public sector system.

#### **D. POTENTIAL FOR PUBLIC-PRIVATE-CIVIL SOCIETY PARTNERSHIP**

The above descriptive analysis has brought out the rich diversity of the NGO and civil society sector in the country as well as the vibrancy of its private sector in the provision of social services. There thus exists a basis to argue for a more active, formal, and recognized role for institutions working in these sectors to complement the work of the public sector in undertaking development programs and activities in the various areas of their operations.

As summarized in the preceding paras, there are several 'niche' areas in which the NGOs and the private sector have been able to prove their capacity to deliver and within which, therefore, their role and work might be expanded to allow them to operate and have an impact at a bigger scale. Among these areas, the first and foremost is fostering social capital through mainstreaming the participation of communities in the development process and organizing them into broad-based institutions and groups. Mobilization of communities in such institutions and groups builds their capacity and confidence and creates appropriate mechanisms at the local level through which public sector services could be channeled with a greater degree of efficiency and cost-effectiveness. This is thus a useful way for the NGO/private sector and the public sector to work together in which the former helps create the enabling institutional conditions at the local level, by virtue of which the social and other services provided by the latter become better targeted and more accessible by local communities.

NGOs and the private sector have also demonstrated their usefulness in becoming contractors to the Government to facilitate community-based implementation of small-scale infrastructure and public works schemes. Recently, for example, under the KPP, the Government of Punjab, instead of hiring private contractors as per routine, requested the Punjab Rural Support Program to undertake responsibility for implementing small infrastructure schemes under the KPP in collaboration with local communities in some selected districts. To take another example, AKRSP was contracted by the Government of the Northern Areas to help local communities build a number of irrigation channel schemes for land development; whereas it is generally the Department for Local Bodies and Rural Development, working through private contractors, that is tasked with the construction of such schemes. Recognizing the effectiveness of NGOs and their ability to deliver, the Government set up the PPAF to provide a formal institutional mechanism through which NGOs are directly receiving public funds to undertake small infrastructure projects throughout the country. The main reason and rationale for this model of infrastructure provision is its much greater cost-efficiency as compared to the Government executed schemes, and the greater degree of local ownership and responsibility for maintenance it inculcates through making local communities in-charge of these schemes. Based on these success examples, in future, NGOs could play an even bigger role in provision of small-scale infrastructure that could allow the relevant Government line departments to accordingly refocus and rationalize their own work programs for better operational and institutional efficiency.

The role of the NGO and private sector in the delivery of social services also offers several opportunities for complementarity with the public sector, and allows public

sector agencies to focus more on those functional areas and geographical locations where the private sector is less active. For example, as was stated earlier, 47 percent of all primary school going children in the urban areas today are enrolled in private sector schools and are perceived to be receiving better quality education relative to those in public schools. Thus, for example, by allowing and actively encouraging the private sector to expand its role further in the delivery of quality primary education in the urban areas, the public sector could focus more of its own efforts, and direct greater resources, to the under-served rural areas. However, in the urban areas, the government could provide education vouchers and stipends to the poor to ensure their equitable access to private sector education. Similarly, various NGOs and private sector organizations are actively providing primary health services and evolving new models of community-managed service delivery. Here again, possibilities for public-private partnerships might be explored and systematically put into place to attain better allocative efficiency of public resources and provide cost-effective and qualitatively better health services in the country.

Microfinance is another niche area for NGOs, in which they are running programs in both rural and urban areas. Inspired in part by the success of these programs, the Government established the Khushali Bank to provide microfinance services at a wider scale in the country. Following this, the Aga Khan Development Network has set up the First Microfinance Bank in early 2002, which is the first private sector microfinance bank established in the country. With both private and public sector microfinance agencies now actively engaged at the national level, there is significant scope and need for partnership to maximize outreach, avoid duplication, and share resources in the interest of efficiency

*The role of the NGO and private sector in the delivery of social services also offers several opportunities for complementarity with the public sector, and allows public sector agencies to focus more on those functional areas and geographical locations where the private sector is less active.*

and cost-effectiveness.

Finally, the NGO sector has an important role to play in the devolution process through mobilizing and linking up local communities and community organizations to the various tiers of local Government to ensure their effective access to the locally provided social sector and other public services. NGOs could also take the lead in organizing Community Citizen Boards that would, under the Local Government Plan, be entitled to 25 percent of the development funds in each district to undertake small schemes and activities in their respective areas.

It is clear that the growth and evolution of roles and areas of activity of the NGO and private sector has made them a valuable partner of the public sector in the provision of development services. This has important implications on the future framework of public-private partnerships in the country that need to be carefully analyzed. Notwithstanding, however, the considerable achievements of the NGO and private sector institutions to-date, there are

a number of on-going concerns as well regarding their operations that would need to be tackled as they become a bigger and better recognized part of the development mainstream. First, and foremost, the collective outreach and scale of NGOs is still limited and would have to increase substantially for them to have a more marked impact on poverty reduction at the national level. Second, the question of long-term sustainability of the work of most NGOs would have to be addressed given their reliance on short-term donor funding and on uncertain voluntary contributions. And finally, many NGOs themselves have gaps in institutional and governance-related capacity that would need to be filled if they are to perform to their full potential. To all these ends, NGOs need continued external support and assistance to emerge as a stronger and influential player in the development sector nationally. In this regard, the role of the Government, in particular, would be important in systematically promoting an enabling framework and providing necessary space for civil society growth in the country.

*The question of long-term sustainability of the work of most NGOs would have to be addressed given their reliance on short-term donor funding and on uncertain voluntary contributions.*

## V CONCLUSIONS

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

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

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

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

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

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

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

*Improving governance will be the central theme and the major focus of ADB's poverty reduction strategy for Pakistan.*

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

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

#### **A. GOVERNANCE**

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

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

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

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

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

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

## B. PRO-POOR GROWTH

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

### Structural Reforms

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

### Rural Development

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

### Employment Generation

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

*There are strong linkages between pro-poor growth on the one hand, and human development, good governance, and cross-cutting concerns such as private sector development and regional cooperation on the other.*

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

### **Alleviating Infrastructure Constraints**

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

## **C. INCLUSIVE SOCIAL DEVELOPMENT**

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

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

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

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

## **D. CROSS CUTTING CONCERNS**

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

### **Sustainable Environmental Management**

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

*For social development to be truly inclusive it must provide protection to the most vulnerable groups, particularly women, children and the indigent.*

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

### **Sub-Regional Cooperation**

Given its strategic location and complementarity in resources and markets

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

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

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

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