

# SOCIAL DEVELOPMENT IN PAKISTAN

ANNUAL REVIEW  
2004

*Combating Poverty:  
Is Growth Sufficient?*



SOCIAL POLICY AND DEVELOPMENT CENTRE

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**SOCIAL POLICY AND  
DEVELOPMENT CENTRE  
KARACHI**

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Karachi, Pakistan**

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# FOREWORD

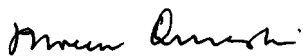
Pakistan is a resource rich country, in terms of natural as well as human resources. As such, it is perplexing that the country continues to find itself as a borderline case between middle and low income/human development countries; over one twelfth of the labor force is unemployed, over one third of the population subsists in poverty and over half the population is illiterate, with parts of the country being worse than what the national averages indicate.

Clearly, Pakistan has not fully exploited its potential. An important factor in the persistence of poverty and social underdevelopment and in constraining economic and social development is the unequal distribution of wealth and income. It appears that a disproportionately large share of income accruing from the country's resources and labour are appropriated by a small percentage of the population - leaving the vast majority deprived.

SPDC has over the years consistently highlighted the problems of social underdevelopment and inequality and poverty. It has advocated a macroeconomic policy framework that is pro-poor and leads to equitable growth; with equity defined in terms of class, region and gender. The Annual Review for 2004, *Combating Poverty: Is Growth Sufficient?*, attempts to further advance this agenda. While earlier Reviews have largely been diagnostic, the present issue is more prescriptive in nature. It suggests a policy framework whereby accelerated growth *and* rapid poverty reduction can be rendered complementary and feasible in the medium term.

The Review presents a vision of poverty reduction at the outset and subsequent chapters provide empirical support for the suggested strategy. Chapter 1 derives lessons from the development experience during the different political eras over the past three decades. Chapter 2 appraises the officially adopted national and provincial Poverty Reduction Strategy Papers (PRSPs). Chapter 3 presents the hard empirical analysis of the relationship between growth, inequality and poverty reduction and establishes the imperative of engaging with the issue of inequality to achieve poverty reduction. Chapter 4 analyses the distribution of the burden of taxes and the benefits of public expenditure, with the objective of rendering the fiscal regime pro-poor. And chapter 5 discusses issues relating to land reform - considered an essential factor in rural poverty reduction. In addition, the Review also includes a Sector Study, which focuses on the demand and supply aspects of export growth as a means to manage the current account balance.

The Annual Review is an attempt to present an independent and objective analysis of the critical elements in achieving growth *with* equity. The objective is to initiate a debate and contribute in the generation of new ideas to aid in breaking out of the 'low growth, high inequality, high poverty, and low social and human development' situation in which Pakistan has largely been trapped in for over half a century. It is hoped that the publication will be of interest and value to policymakers, parliamentarians, academics, development practitioners, civil society activists, donors, and others in Pakistan and abroad, who are concerned with equitable economic and social development in the country.



**Moeen Qureshi**  
Chairman



**Kaiser Bengali**  
Managing Director



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# THE SOCIAL POLICY AND DEVELOPMENT CENTRE

**E**stablished in 1995, the Social Policy and Development Centre (SPDC) is a private sector research organization that serves as a focal point for policy-relevant research on social sector development. Using a multidisciplinary approach, the Centre assists both public and private sector institutions and non-governmental organizations to plan, design, finance, execute and manage social sector programmes in a cost-effective manner. The results of its research are made available to policy makers, interested groups and the general public to promote informed discussion and action on vital social sector issues.

SPDC is independent and non-partisan and cooperates with a wide range of organizations working in related areas, within Pakistan and internationally. It determines its own pace-setting research agenda within the parameters of its mandate and objectives, and maintains autonomy, flexibility and balance between responsive and proactive social sector research. Key activities include research and policy analysis; social sector government database support; pilot project monitoring and evaluation; training of government, private sector and non-governmental organizations; and information dissemination through publications, conferences, seminars and workshops.

SPDC receives core funding from the Canadian International Development Agency (CIDA). The Canadian Advisory Agency (CAA) provides advisory services and support to strengthen SPDC and help it achieve its mandate. In addition, SPDC undertakes a significant component of self-financing.

The SPDC Board of Directors consists of eminent personalities selected for their commitment to social sector development and their belief that the use of analytical tools in developing public policy is necessary to ensure sustainable social sector development. The members are:

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# LESSONS FROM DEVELOPMENT EXPERIENCE

# 1

*The development process  
has led to increased  
inequalities, widening the  
gulf between income groups  
and between regions.*



## LESSONS FROM DEVELOPMENT EXPERIENCE

Pakistan's experience in macroeconomic management spans 57 years, of which the last 32 years, since 1972, is relatively more pertinent. The period, 1973-2003, has seen significant developments. Gross domestic product increased more than four-fold at over 5 percent per annum and per capita income nearly doubled from Rs. 2711 to Rs. 5225. There was also a degree of structural transformation, with the share of manufacturing and tertiary sectors in GDP expanding by about 30 percent each. The gains in terms of growth of the national economy, however, do not appear to have translated into gains for the economy of the people. While social sector indicators continued to stagnate, unemployment rose from 3 to 8 percent and one-third of the population continued to subsist below the poverty line.

Given this situation, it is important and worthwhile to examine macroeconomic management and its various elements over this period. Broadly, four areas reflecting indicators endogenous to the economy are analyzed: fiscal management, investment and growth, employment and wages, and social development. And broadly again, the phases are divided into four political eras, defined in terms of fiscal years: 1973-77, 1978-1988, 1989-1999, and 2000-2003<sup>1</sup>.

The period prior to 1973 warrants due acknowledgement. The first decade of the 1950s saw the onset of the development process, with the building of basic infrastructure and the initiation of an industrial base. The 1960s recorded substantial progress in agriculture, industry, power generation and communications. A singular achievement during this period was the unprecedented scale of asset creation in terms of economic infrastructure and productive capacity. For example, among other gains, per capita electricity generation increased nearly five-fold, and the production index of manufacturing more than tripled over the decade.

Unfortunately, investment and production gains were not accompanied by distribution gains. The development process led to increased inequalities, widening the gulf between income groups and between regions. While the much-quoted 22 families controlling three-fourths of non-agricultural wealth emerged during the decade, the purchasing power of industrial labour declined by one-third. Not surprisingly, the percentage of people below the poverty line rose from 40 percent in 1964 to 44 percent in 1968. In fact, class and regional impacts of unequal growth led to the political turmoil that erupted in 1968 and culminated in civil war, invasion by India, and the secession of the eastern wing in December 1971. The political and military debacles caused large-scale economic dislocation, which constituted the setting for the economic management adopted in 1973.

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<sup>1</sup>Data for several variables for fiscal year 2004 are not yet available.



Development is possible

Photo: Hassan Zaheer

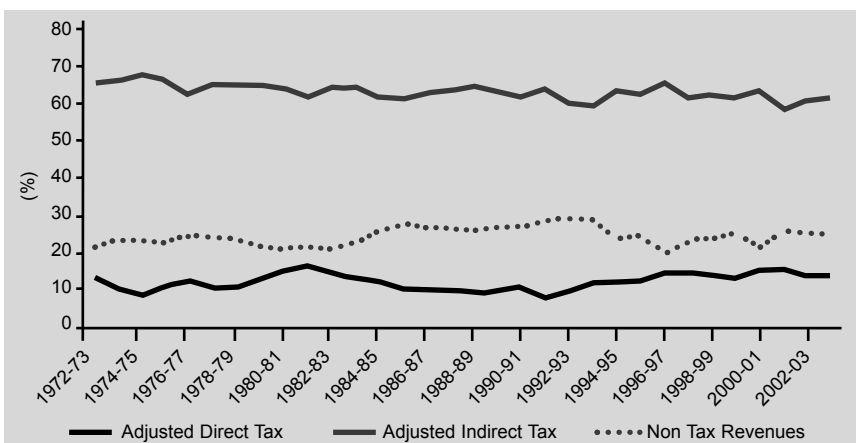
## FISCAL MANAGEMENT

### Revenues and Expenditures

The analysis of the trend in the composition of total revenues and total expenditures shows that the basic structure of revenues remained more or less constant over the three decades. As a percentage of total gross revenue receipts, direct tax revenues (adjusted for the indirect element of withholding taxes) consistently ranged between 10 to 20 percent, indirect tax revenues (also adjusted for withholding taxes) ranged between 60 to 70 percent, and non-tax revenues ranged between 20 to 30 percent (see chart 1.1).

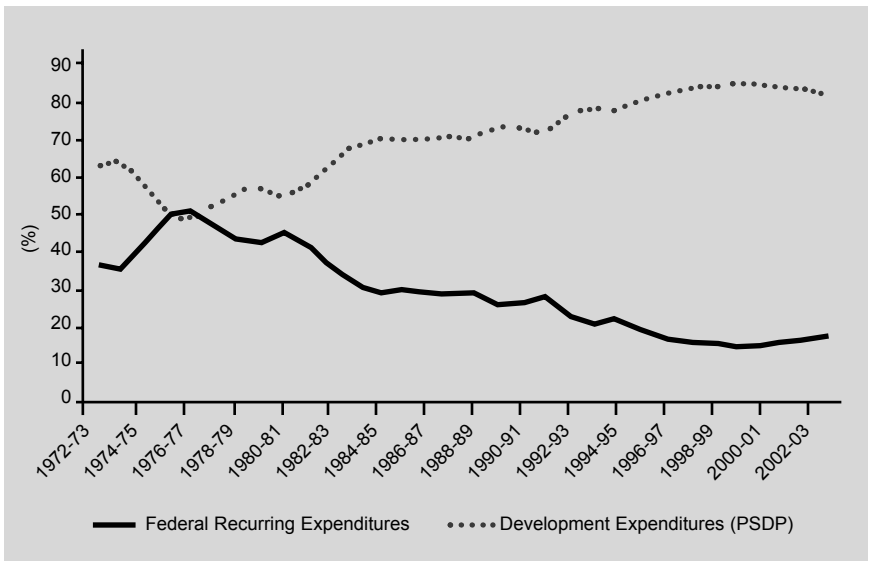
Chart 1.1

Trends in Composition of Revenue Receipts (%)



Source: SPDC estimates based on CBR Annual Report (various issues)  
Federal Budget in Brief (various issues)

**Chart 1.2** Trends in Composition of Expenditure Shares (%)



Source: SPDC estimates based on Federal Budget in Brief (various issues)

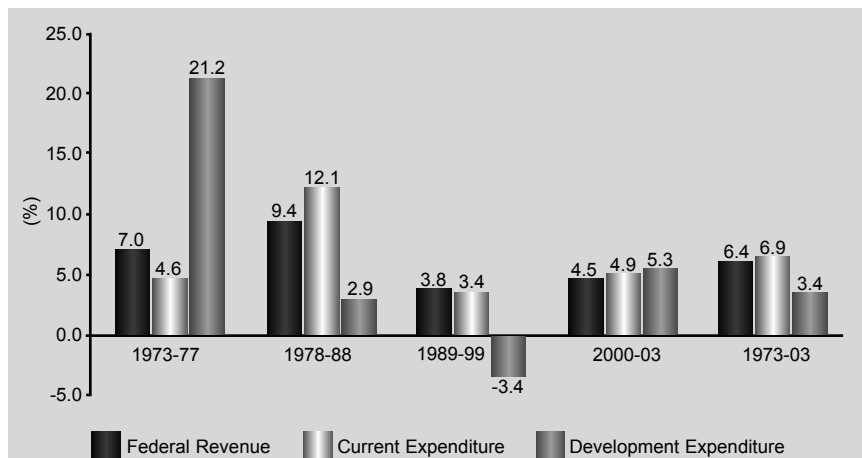
As a percentage of total expenditures, the period 1973-77 saw a decrease in the share of current expenditures and an increase in development expenditures. The year 1976-77 was unique in Pakistan's economic history, when development expenditures exceeded current expenditures. During 1977-78, however, the trend was reversed and current expenditures remained above development expenditures with their share steadily rising and that of development expenditures consistently falling (see chart 1.2).



Modern facilities are necessary for development

Photo: Hassan Zaheer

**Chart 1.3** Growth in Revenues and Expenditures (%)  
(Annual averages)



Source: SPDC estimates based on Federal Budget in Brief (various estimates)

Total revenues over the 1973-2003 period grew at 6.4 percent per annum, while total current expenditures increased at 6.9 percent<sup>2</sup>. The impact of the excess of current expenditure over revenues was borne by development expenditure, which increased by just over 3.4 percent as shown in chart 1.3.

A phase-wise review of fiscal management over 1973-2003 shows that the period 1973-77 saw revenue growth of 7 percent and current expenditure growth of 4.6 percent, resulting in the former exceeding the latter by 2.4 percent. The surplus was channeled into development expenditures, which grew at a record 21 percent per annum; implying that public investment was to some extent financed through switching resources from current to development heads. Of course, recourse was also made to debt and deficit financing, but the resources thus generated appear to have been largely employed for development expenditures to create economic assets; this shows the strong development focus during the period.

By comparison, development expenditure growth during 1978-88 plummeted to 2.9 percent, indicating the lack of a development focus. This period was marked by the highest growth in revenues (9.4 percent) and in current expenditures (12 percent), and the lowest positive growth in development expenditures. Current expenditure growth during 1978-88 - led by a record 9 percent growth in defence expenditures - exceeded revenue growth by 2.5 percent. The revenue-expenditure gap was funded through debt and deficit financing.

The decade 1989-99 was marked by low revenue growth (3.8 percent) and low current expenditure growth (3.4 percent). The fact that current expenditure growth was kept below - albeit marginally - revenue growth points towards prudent expenditure management. However, development expenditure registered negative growth of over 3 percent per annum. The decline reflected acute resource constraints on account

<sup>2</sup>Except where otherwise specified, all growth rates are in average annual terms.



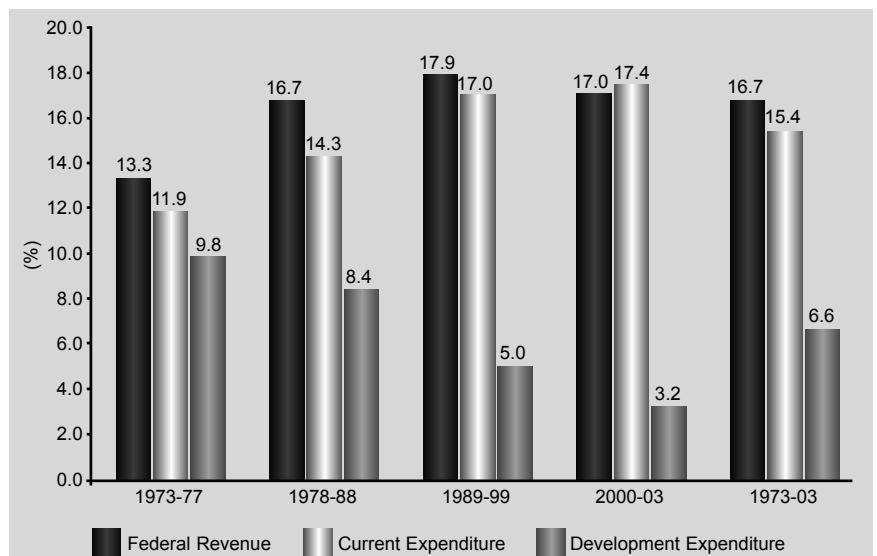
of an escalating debt service burden; this phase inherited a revenue deficit of 2.5 percent and a budget deficit/GDP ratio of 8.5 percent, leading to an increase in the interest payments/GDP ratio from 4.8 percent in 1988-89 to 6.8 percent in 1998-99.

Fiscal policy during 2000-2003 also appears to be carefully managed. The period shows an improvement in revenue growth to 4.5 percent and current expenditure growth rate of 4.9 percent. The 5.3 percent growth in development expenditure, in the wake of negative growth during the preceding period, seems to be a meaningful increase, but it represents a continuation of the rather weak development expenditure growth pattern observed during 1978-88.

The analysis of revenue and expenditure behaviour in terms of their share of GDP shows that the revenue/GDP ratio rose from 13.3 percent during 1973-77 to 16.7 percent during 1978-88 and remained almost constant. The current expenditure/GDP ratio rose from 11.9 percent during 1973-77 to 14.3 percent during 1978-88, and was at 17 percent during 1989-99 and 17.4 percent in 2000-03. By contrast, the development expenditure/GDP ratio consistently declined from a peak of 9.8 percent during 1973-77 to 8.4 percent during 1978-88, to a further 5 percent during 1989-99, and to as low as 3.2 percent during 2000-03 (see chart 1.4).

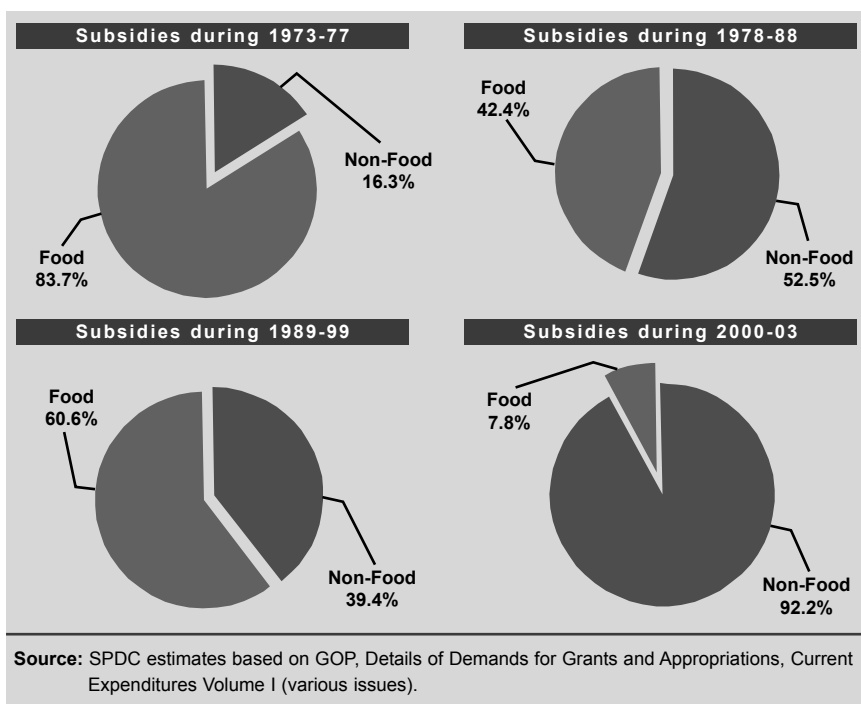
One component of current expenditure is subsidies. An analysis of the composition of subsidies relating to food and non-food heads sheds light on the thrust of government policies during each period (see chart 1.5). Food subsidies, accounting for 84 percent of subsidies during 1973-77, fell to half at 42 percent during 1978-88, rose again to 61 percent during 1989-99, and collapsed to a mere 8 percent during 2000-03. It appears that greater attention was paid to subsidizing food costs during 1973-77 and 1998-99 and minimal concern for the issue during 2000-03.

**Chart 1.4** Trends in Revenues and Expenditures as % of GDP (Annual averages)



Source: SPDC estimates based on Federal Budget in Brief (various issues)

**Chart 1.5 Trends in Composition of Food and Non-Food Subsidies**



The sharp growth in non-food subsidies during 2000-03 was almost exclusively on account of the losses of the two power utilities, WAPDA and KESC (see box 1.1).

**Box 1.1 Hemorrhaging the Treasury**

The analysis of subsidies over the last five years, shows that the two power utilities, WAPDA and KESC, have received, on average, over 79 per cent of federal subsidies. The subsidy, provided to cover the losses of the power utilities, amounts to 0.7 percent of GDP,

and constitutes a major drain on the national treasury and the economy. Food related subsidies have, by contrast, consistently declined from 10.5 percent in 1999-00 to zero in 2003-04; implying that inefficiency is rewarded at the expense of equity.

	1999-00		2000-01		2001-02		2002-03		2003-04	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Food related	1520	10.5	638	2.8	658	2.6	647	0.6	-	-
Wheat export to Afghanistan	-	-	-	-	520	2.0	2315	2.2	4518	11.2
Oil Refineries	-	-	-	-	8960	35.0	8500	7.9	6000	14.9
Power utilities (WAPDA & KESC)	12809	88.8	21584	95.1	14383	56.2	93678	87.5	27480	68.0
Others	98	0.7	484	2.1	1059	4.1	1921	1.8	2398	5.9
Total	14427	100.0	22706	100.0	25580	100.0	107061	100.0	40396	

**Notes:** 1. All amounts are in thousand rupees.

2. The 2002-03 subsidy amount of Rs. 93,678,000 for power utilities merits an explanation. The reported figure under 'Subsidies' totals Rs.36,397. However, an amount of Rs.57,281 was also provided during the year to write-off KESC's liabilities, which has been added to the subsidy total for the year.

**Source:** SPDC estimates based on GOP, Details of Demands for Grants and Appropriations, Current Expenditures Volume I (various issues).

*Financing budget deficits through bank and non-bank borrowings, combined with the excess of current expenditure over total revenue during 1978-88, led to the accumulation of a large debt.*

## Debt and Debt Servicing

Financing budget deficits through bank and non-bank borrowings, combined with the excess of current expenditure over total revenue during 1978-88, led to the accumulation of a large debt. Consequently, the domestic debt/GDP ratio rose from 26 percent in 1972-73 to 44 percent in 2002-03.

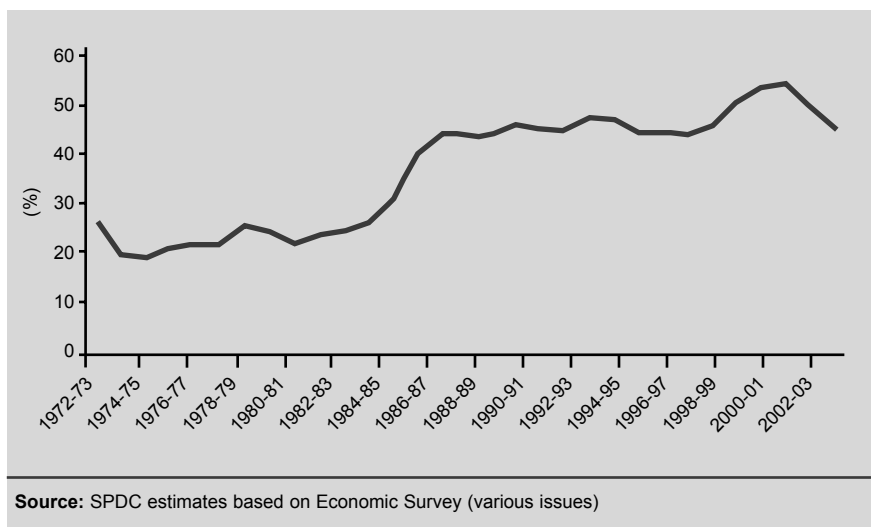
Debt management, however, differed during the different phases under analysis (see chart 1.6). The period 1973-77 actually saw a decline in the domestic debt/GDP ratio from 26 percent in 1972-73 to 22 percent in 1976-77. This reduction is remarkable, given that development expenditure growth was as high as 21 percent per annum and was partly achieved through inflationary financing. This strategy, though effective, imposed a high cost on fixed income (wage) earners.

The period 1978-88 saw the highest accumulation of debt, with the domestic debt/GDP ratio escalating and virtually doubling from 22 percent in 1976-77 to 43 percent in 1987-88. Given that current expenditure growth during this period was higher than revenue growth, and the growth of development expenditure collapsed to just over one-tenth of the preceding period, it appears that the bulk of the debt accrued was channeled to finance non-developmental consumption expenditure rather than to finance asset creation.

The period 1989-99 saw a further increase in the domestic debt/GDP ratio from 43 percent in 1987-88 to 50 percent in 1998-99. Given that this period registered negative growth in development expenditures, it appears that the additional debt was incurred primarily to finance current expenditures. An analysis of the current expenditure profile during this period shows that growth in debt servicing, general administration, and defence was 8.9, 2.3 and 0.4 percent, respectively. Clearly, additional debt was incurred largely to finance debt-servicing obligations.

There are two factors behind the escalating debt-service burden. First, the post-1978-88 period had to pay the price for the fiscal profligacy of the preceding period. A large part of the debt incurred during 1978-88

**Chart 1.6** Trend in Domestic Debt/GDP Ratio (%)



*Post-September 11, 2001 reconfiguration of US foreign policy in the region handed Pakistan the benefit of re-profiling its external debt stock, and led to a reduction of debt service payments of over US\$ one billion annually.*



Have we mortgaged his future?

Photo: Akhtar Soomro

matured in the following period, and given the economy's inability to repay the debt, had to be refinanced through new loans. Second, the government promulgated the Economic Reforms Order in 1992, which brought about far-reaching changes in the economy. Among other measures, it liberalized the financial sector and deregulated interest rates. As a result, a large part of the debt obtained before 1992 at low institutional rates had to be refinanced through new debt obtained at high market rates.

The period 2000-03 shows a decline in the domestic debt-GDP ratio from 50 percent in 1989-99 to 44 percent in 2000-03. This decrease can be attributed to two exogenous factors, both emanating in the year 2001. First, the international sanctions imposed on Pakistan in mid-1998 exacerbated the low foreign exchange reserves position. The government responded to this situation by deciding to make external debt service payments in Pakistani rupees at the exchange rate prevailing at the time. The rupee amounts were deposited in a new account with the State Bank of Pakistan titled 'Special Account-Debt Repayment' under the main head 'Other deposits' opened on July 21, 1998. In July 2001, the IMF permitted the government to access the funds lying in the said account, amounting to Rs. 194.6 billion, which was used to retire treasury bills valued at Rs. 193.03 billion and accrued interest thereon of Rs. 1.64 billion.

Second, the events of September 11, 2001 led to the reconfiguration of US foreign policy in the region. It handed Pakistan the benefit of re-profiling its external debt stock, and led to a reduction of debt service payments of over US\$ one billion annually. Freed from the compulsion to borrow in order to meet debt service obligations, the government prudently used the fiscal space to further retire some of the more expensive outstanding debt.

## INVESTMENT AND GROWTH

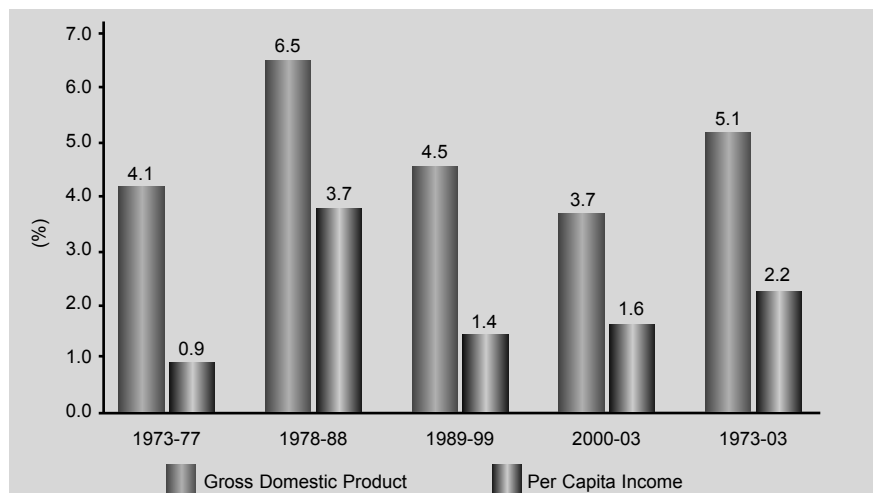
Pakistan registered a GDP growth rate of 5.1 percent over the period 1973-03. Given that the population growth rate during this period was 2.7 percent, there was a positive, albeit modest, 2.2 percent growth in per capita income. In terms of the different phases, the highest GDP growth was registered during 1978-88 and the lowest during 2000-03. With respect to per capita income, the highest growth occurred during 1978-88 and the lowest during 1973-77 (see chart 1.7).

The 1973-77 period has generally been perceived in two differing ways. There is a body of opinion according to which the policies of the era, particularly the nationalization of industry and finance, led to the 'ruin' of the economy. By contrast, there is a view that the 1970s laid the foundation for heavy industry on which future growth was achieved and also introduced egalitarianism as an explicit precept of state policy. was the 'golden' period of development in the country. An empirical analysis is, therefore, in order.

The country was confronted with two challenges during the 1973-77 period. First, there was an urgent need for economic recovery from the effects of political upheaval, war and the separation of the eastern wing. Second, there was the daunting task of reconstructing the economy on a more egalitarian basis. Both challenges were tackled simultaneously through the nationalization of industry and finance. The measure dented private sector confidence rather severely. However, the focus shifted to the public sector, where economic activity accelerated.

GDP growth during 1973-77 was lower at 4.1 percent, but was one percentage point above the population growth rate. Given the fact that the country was recovering from political and military debacles and the ensuing economic dislocation, a positive - even if small - growth in per capita income appears to be a commendable achievement.

**Chart 1.7** Growth in Gross Domestic Product and Per Capita Income (%)  
(Annual averages)



Source: SPDC estimates based on Economic Survey (various issues)

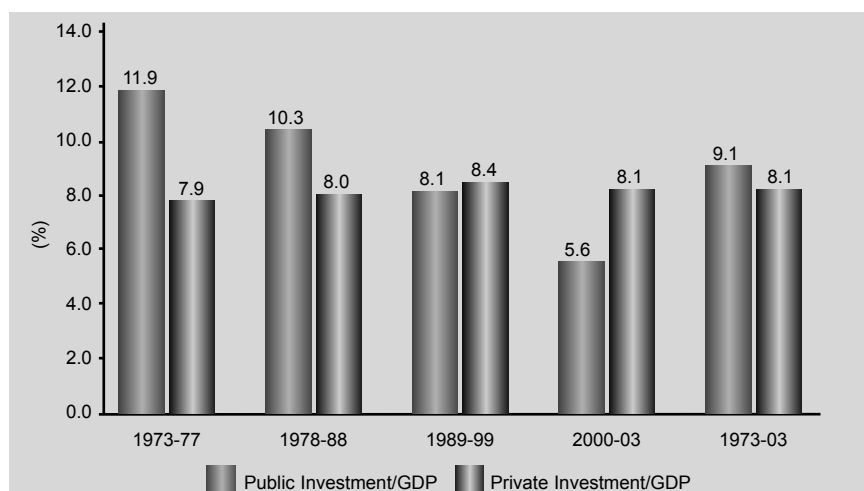
While GDP growth was relatively lower, investment rates were high, particularly public investment in economic infrastructure and large-scale capital goods industry. The public investment/GDP ratio was the highest at 11.9 percent during 1973-77 (see chart 1.8). Work began on such high value projects as Port Qasim, Indus Highway, steel and chemical plants, heavy electrical and mechanical complexes and the like. Economic policies also had an element of egalitarianism, and the period saw the largest increase in housing provision to date, with the share of *pucca* (formal) housing in total housing stock more than doubling from 9 percent in 1973 to 20 percent in 1977.

The private investment/GDP ratio remained constant at about 8 percent from 1973 to 2003. Contrary to the general public perception, private investment levels were not lower during 1973-77 than what prevailed in the subsequent periods. Admittedly, growth in private Gross Fixed Capital Formation (GFCF) during this period was led largely by investment in the agriculture sector. This is indicated by the fact that during the three years following nationalization, 1974-75 to 1976-77, private real GFCF growth in agriculture was 28 percent compared to 15 percent in manufacturing.

GDP growth during 1978-88 was the highest at 6.5 percent and per capita income growth peaked at 3.7 percent. The acceleration in growth and per capita income, despite the fact that the public investment/GDP ratio declined to 10.3 percent and the private investment/GDP remained constant at 8 percent, can be attributed to four factors:

First, large domestic debts were incurred to finance the high levels of current expenditure raising the domestic debt/GDP ratio from 22 to 43 percent over the decade. Second, the infrastructure and industrial projects, initiated under the preceding period, came on-stream in the 1980s and generated large income flows for the national economy. For example, the commencement of commercial production at the Pakistan

**Chart 1.8** Trends in Public Investment/GDP and Private Investment/GDP (%)  
(Annual averages)



Source: SPDC estimates based on Economic Survey (various issues)

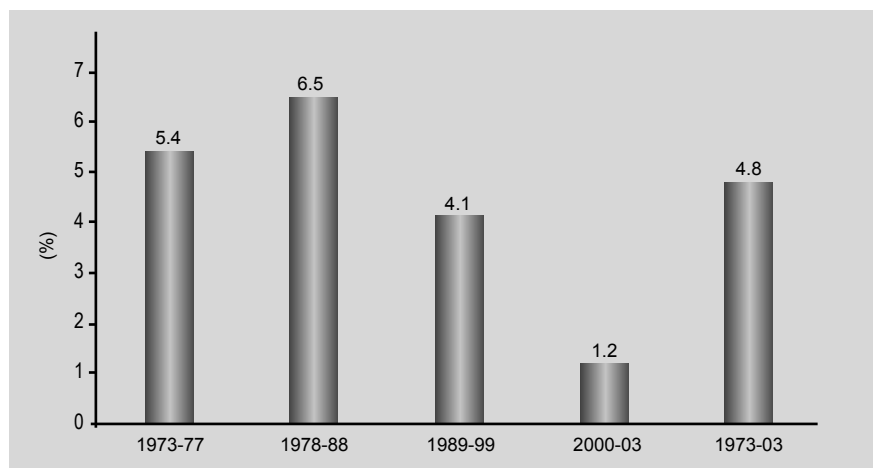


Public investment is necessary for development

Photo: Akhtar Soomro

Steel Mills in 1981 raised real value addition in the 'Iron & Steel' component of large-scale manufacturing sector by 117 percent in 1981-82, compared to the annual average growth of about 18 percent during the preceding six years for which Census of Manufacturing Industries (CMI) data is available. Third, remittances from the Middle East escalated from early 1980s onwards, rising from US\$ 139 million in 1973-74 to US\$ 578 million in 1976-77, and then doubling to US\$ 1,156 million in 1977-78 to peak at US\$ 2,892 million in 1982-83. And fourth, liberal foreign assistance, the bulk of it in the form of loans, from bilateral and multilateral sources, began to flow in on account of the war in Afghanistan. It appears, therefore, that the growth during 1978-88 was consumption-driven (see chart 1.9), and was borrowed from the past - a

**Chart 1.9** Growth in Total Consumption Expenditure (%)  
(Annual averages)



Source: SPDC estimates based on Economic Survey (various issues)



result of high levels of investment during the preceding period - and at the cost of future generations - because of high levels of debt accretion. The high level of debt-financed non-development expenditure created a spurious appearance of prosperity during the decade. However, accumulation of debt and the deceleration in investment in infrastructure development had high repercussions for the ensuing years.

The period 1989-99 was spent in crisis management, largely on account of the debt overhang inherited from the preceding period. The contraction of foreign aid flows, consequent upon the Soviet withdrawal from Afghanistan, and the decision in 1992 to opt for financial liberalization ahead of real sector reforms also contributed to aggravating the fiscal crisis. The public investment/GDP ratio declined further to 8 percent, but the private investment/GDP ratio remained constant at 8 percent. As a result, GDP growth declined to 4.5 percent, and growth in per capita income declined to just over one percent.

It needs to be noted, however, that the economy performed relatively strongly during 1989-96, when GDP growth was 5.1 percent. The combination of the onset of drought, the imposition of sanctions in the wake of the nuclear test, a slowing down of the world economy, crises in East Asia, and the growing burden of debt servicing resulted in the collapse of GDP growth to 3.1 percent during 1997-99.

The period 2000-03 saw GDP growth fall to 3.7 percent, with growth in per capita income only 0.2 percentage points higher than in the preceding period. Part of the decline can be accounted for by the fact that the period commenced with the rural economy in the grip of a severe drought. It is estimated that the drought reduced the GDP growth rate by about one percentage point. However, the fact that the public investment/GDP ratio fell to a historic low at 5.6 percent - less than half that of the 1973-77 period - and the private investment/GDP ratio failed to rise above the traditional 8 percent level must be accorded major responsibility for the low growth in GDP as well as in per capita income.

## EMPLOYMENT AND WAGES

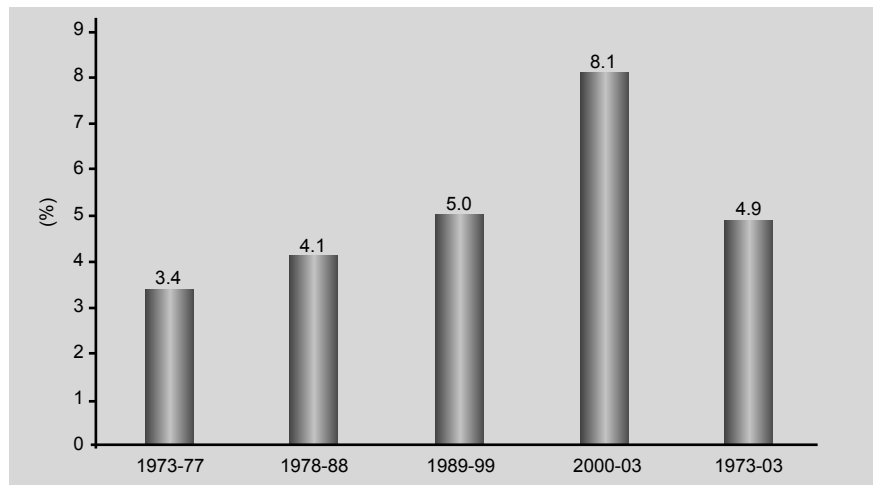
The analysis of employment and wage data reveals a situation of rising unemployment and declining real wages and raises serious questions about the effectiveness of the development process spanning three decades.

The official unemployment rate is reported to have been as low as 1.9 percent in 1972-73, rising to 7.8 percent in 2002-03. However, SPDC's estimate of unemployment, generated through the 264-equation macroeconomic model, shows the unemployment rate to be 3.3 percent in 1972-73 and 8.3 percent in 2002-03. The difference between the official and SPDC unemployment rate series is significant. Despite the difference in magnitudes, however, both series illustrate the trend of rising unemployment.

Nominal monthly per person wages are reported to have increased from Rs. 3,255 in 1972-73 to Rs. 35,700 in 2002-03. However, real wages - measured in 1981 prices - declined by about 20 percent, implying that average purchasing power was equal to Rs 8,613 in 1972-73 and Rs. 6,941 in 2000-03.

*The period 1989-99 was spent in crisis management, largely on account of the debt overhang inherited from the preceding period.*

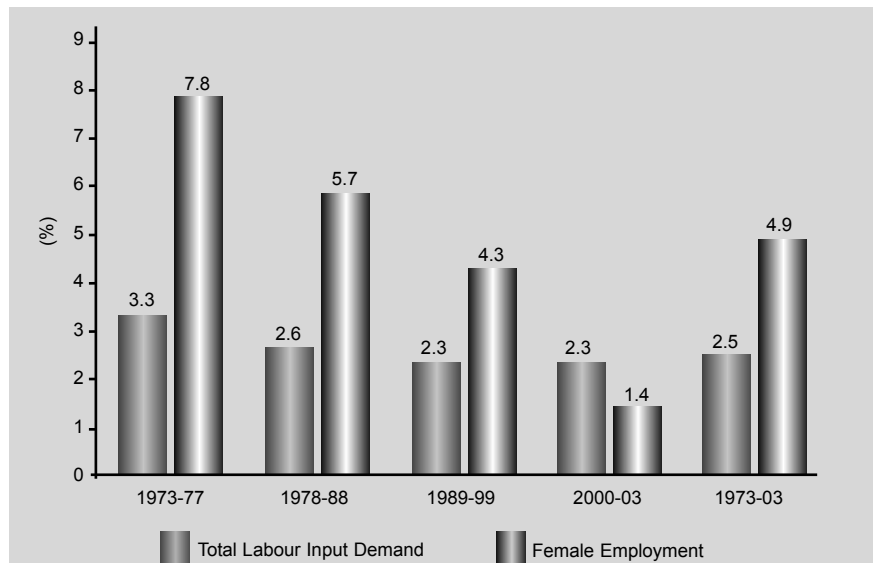
**Chart 1.10 Trends in Unemployment Rate (%)**  
(Annual averages)



Source: SPDC estimates based on Economic Survey (various issues)

Based on the SPDC calculations, unemployment is shown to be the lowest at 3.4 percent during 1973-77 (see chart 1.10). This is understandable, given that labour demand growth was the highest at 3.3 percent during the period (see chart 1.11). Significantly, growth in female employment was also the highest at 7.8 percent. The high growth of

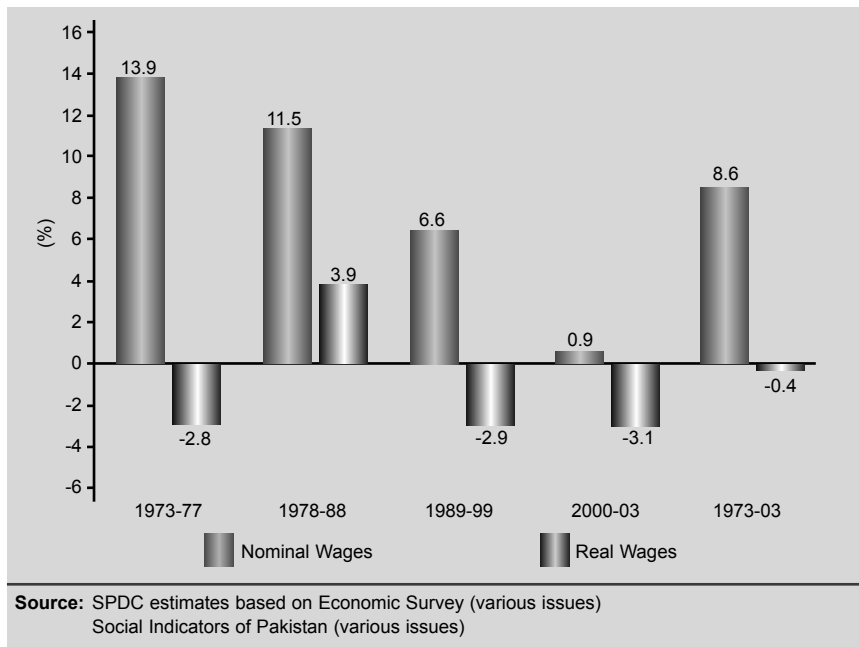
**Chart 1.11 Growth in Total Labour Demand and Female Employment (%)**  
(Annual averages)



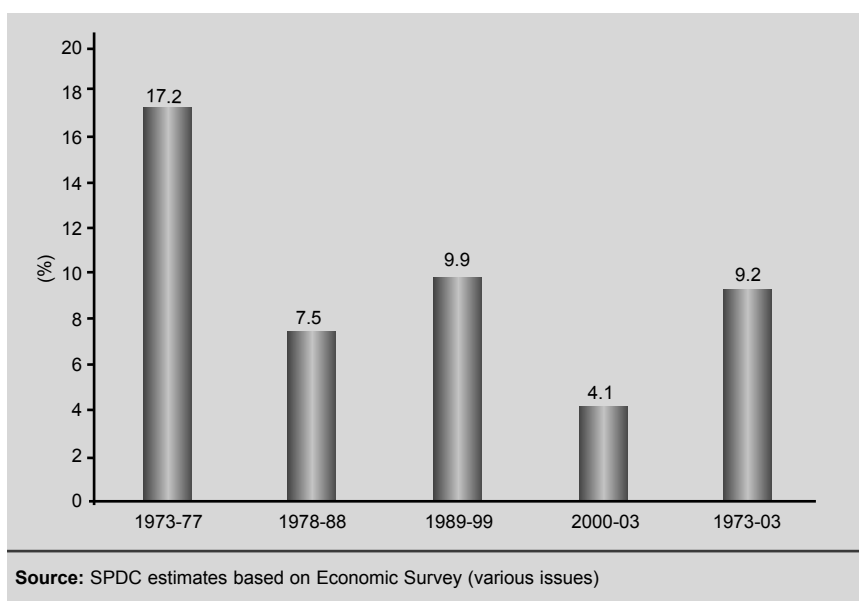
Source: SPDC estimates based on Economic Survey (various issues)  
Labour Force Survey (various issues)

labour demand is not surprising, given that the level of development expenditure during this period was the highest. Nominal wages increased during this period by 14 percent. However, real wages declined by about 3 percent (see chart 1.12). This was on account of the inflation rate, which was the highest at 17 percent (see chart 1.13).

**Chart 1.12** Growth in Nominal and Real Wages (%)  
(Annual averages)



**Chart 1.13** Inflation Rate (%)  
(Annual averages)



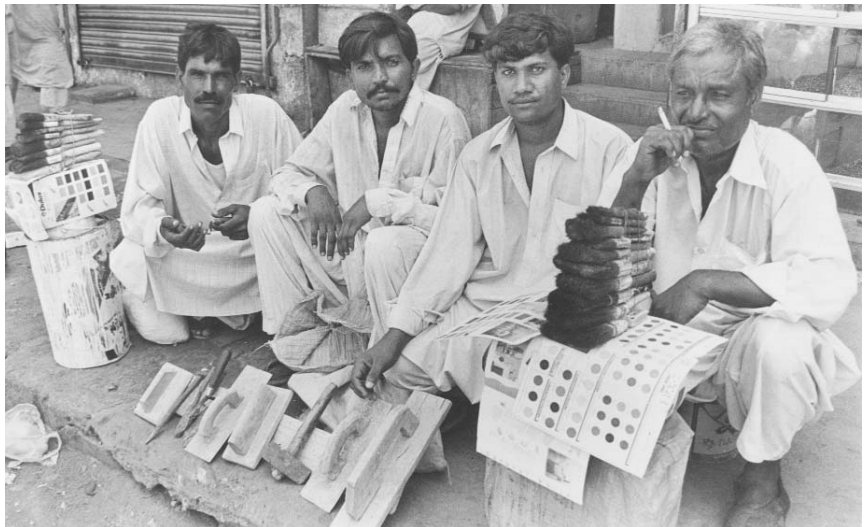
The decade 1978-88 saw an increase in the unemployment rate to 4.1 percent, caused in part by the decline in the growth of labour demand to 2.6 percent. Female employment growth also declined during this period to 5.7 percent. The decrease in labour demand is logical, given the decline in development expenditure growth and the constancy of private investment growth relative to GDP growth.

The growth in nominal wages was at 11.5 percent and real wages registered positive growth of 3.9 percent. This is the only period to have recorded positive real wage growth, which can be attributed partly to the sharp decline in the inflation rate to 7.5 percent, and partly to the growth in the export of unskilled and semi-skilled labour to the Middle East - leading to a rise in wages at the lower end of the labour market.

The decade 1989-99 saw a further increase in the unemployment rate to 5 percent, caused in part by a further decline in labour demand growth to 2.3 percent, possibly resulting from negative growth in development expenditure and a tapering off in manpower export growth. Female employment growth declined even further to 4.3 percent. Nominal wage growth declined to 6.6 percent, and combined with a higher 9.9 percent inflation rate, real wages declined by 3 percent.

The period 2000-03 saw unemployment and wage growth situation at its worst. Unemployment climbed to a record 8.1 percent and female employment growth dropped to just 1.4 percent. The growth in unemployment is corroborated by the further decline of labour demand growth to just 2.3 percent - from a peak of 3.3 percent during 1973-77. As such, even nominal wage growth was driven down to less than one percent, and despite low inflation at 4.1 percent, real wages declined by 3.1 percent.

This situation can be attributed largely to the policy of pursuing stabilization goals at the cost of growth objectives. The policy outcomes are marked by the continuing decline in public investment to a record low, which - coupled with the continuing failure of the private investment/GDP ratio to rise above the 8 percent mark - suppressed employment and wage growth.



The day begins - waiting for work

Photo: Akhtar Soomro

## SOCIAL DEVELOPMENT

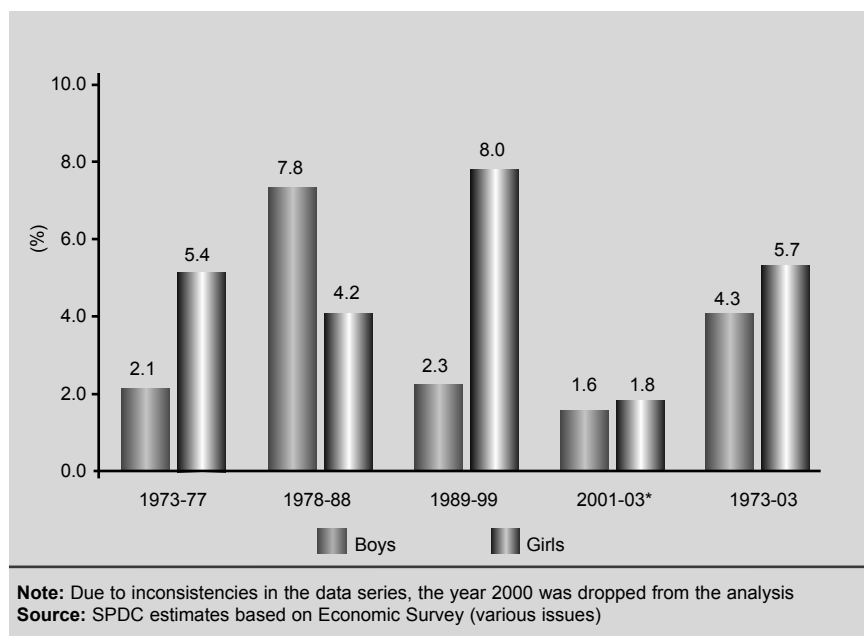
Economic development in Pakistan appears to have had little impact in reducing the growth rate of unemployment or poverty. This disconnect can partly be attributed to the lack of social development, which is generally acknowledged to have lagged behind economic development. The relationship between social development and poverty reduction is pertinent to the extent that elements of social development, particularly education and health, serve to enhance the endowments of the poor and enable them to access economic opportunities.

### Education

While overall social development has been below par, a very positive conclusion that emerges from the analysis of selected education indicators is that there was a relatively greater improvement in education of girls compared to boys. The education indicators analyzed here are the number of schools, the number of teachers, and enrolment. Over the three decades, the number of girls' and boys' primary schools grew at 5.7 and 4.3 percent, respectively (see chart 1.14) while the numbers of girls' and boys' secondary schools grew at 7.9 and 5.0 percent, respectively (chart 1.15).

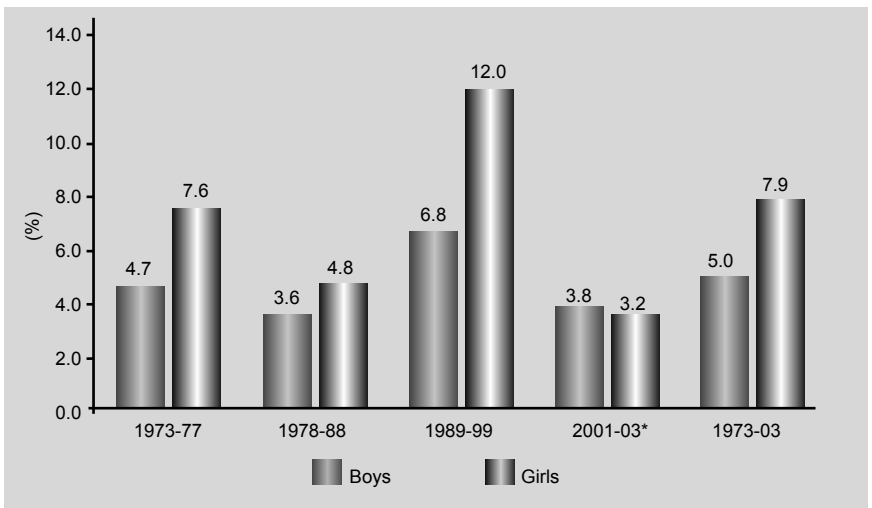
Phase-wise analysis shows that the highest growth in the number of girls' primary schools (8.0 percent) occurred during 1989-99, while the highest growth in the number of boys' primary schools (7.8 percent) occurred during 1978-88 (see chart 1.14). With respect to secondary schools, the highest growth in the number of girls' schools (12 percent) occurred during 1989-99, while the highest growth in the number of boys'

**Chart 1.14** Growth in Number of Primary Schools (%)  
(Annual averages)



*Economic development in Pakistan has not always led to reducing the growth rate of unemployment or poverty.*

**Chart 1.15 Growth in Number of Secondary Schools (%) (Annual averages)**



**Note:** Due to inconsistencies in the data series, the year 2000 was dropped from the analysis  
**Source:** SPDC estimates based on Economic Survey (various issues)

schools (6.8 percent) occurred during 1989-99 (see chart 1.15). The period 2001-03 reported lowest growth across the board: girls' primary schools (1.8 percent), boys' primary schools (1.6 percent), girls' secondary schools (3.2 percent), and boys' secondary schools (3.8 percent).

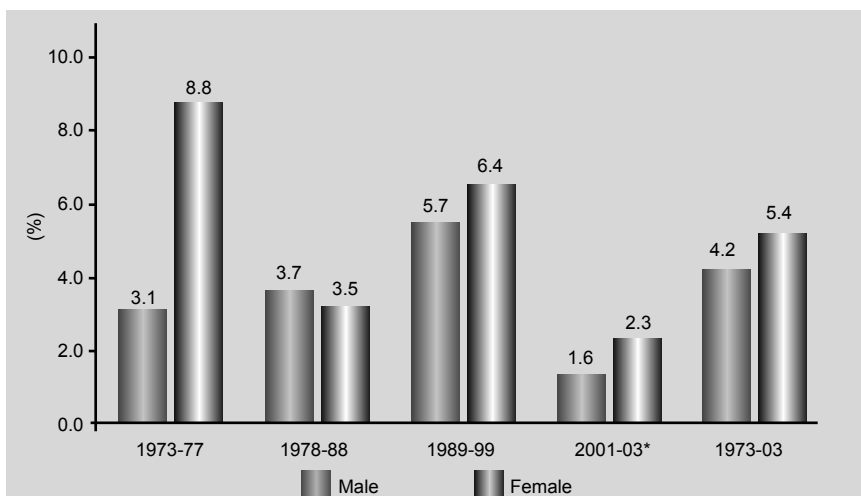
The numbers of female and male primary teachers over the period 1973-2003 grew at 5.4 and 4.2 percent, respectively (see chart 1.16). Phase-wise, the highest growth in the number of female primary teachers (8.8 percent) was recorded during 1973-77; whereas, 3.1 percent growth



**Women paving the path for development**

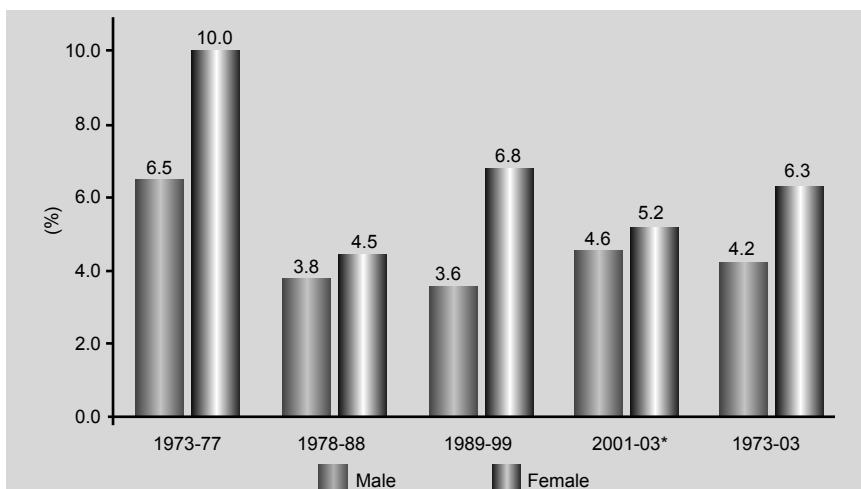
Photo: Akhtar Soomro

**Chart 1.16** Growth in Number of Primary School Teachers (%)  
(Annual averages)



**Note:** Due to inconsistencies in the data series, the year 2000 was dropped from the analysis  
**Source:** SPDC estimates based on Economic Survey (various issues)

**Chart 1.17** Growth in Number of Secondary School Teachers (%)  
(Annual averages)



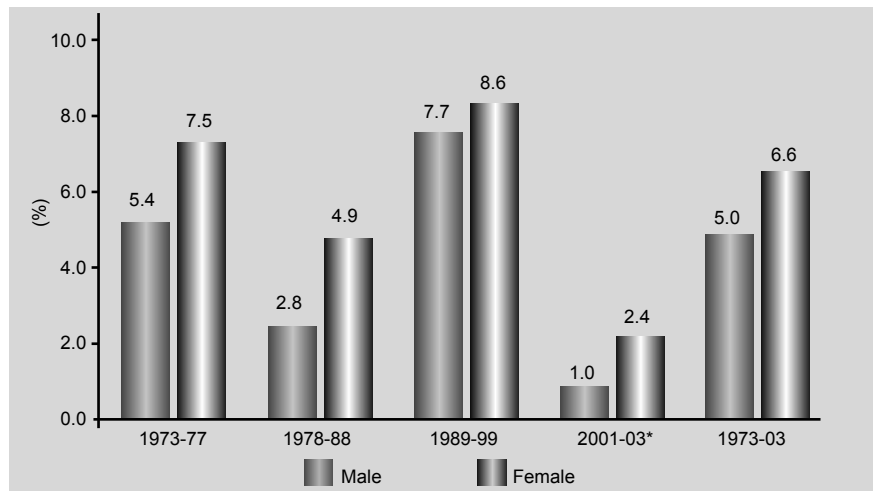
**Note:** Due to inconsistencies in the data series, the year 2000 was dropped from the analysis  
**Source:** SPDC estimates based on Economic Survey (various issues)

was reported for male primary teachers during this period. The highest growth in male primary teachers (5.7 percent) is shown to have occurred during 1989-99. Record growth in female and male secondary teachers (10.0 and 6.5 percent) is shown to have occurred during 1973-77 (see chart 1.17).

The data on enrolment shows that, over the period 1973-2003, female and male primary enrolment grew by 6.6 and 5 percent, respectively, and female and male secondary enrolment increased by 7.3 and 4 percent, respectively (see charts 1.18 and 1.19).

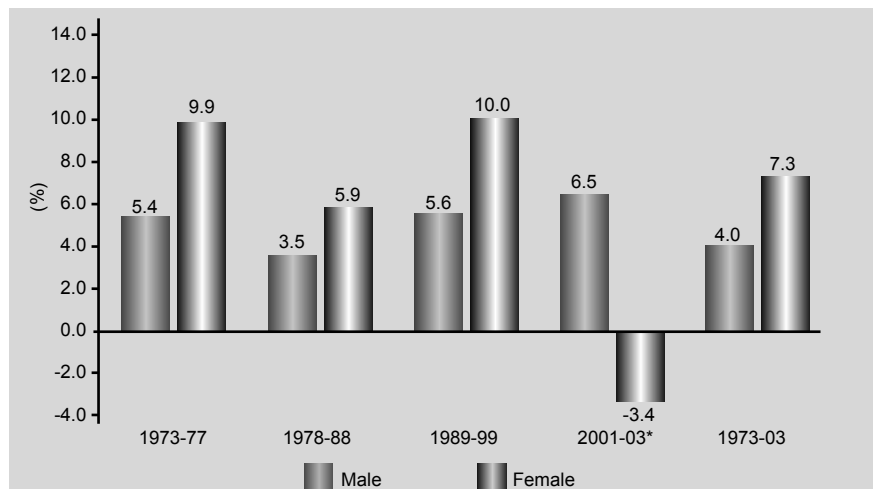
Phase-wise, the highest growth in female and male primary enrolment (8.6 and 7.7 percent, respectively) occurred during 1989-99. This was also the case with respect to secondary enrolment, where the

**Chart 1.18** Growth in Primary Enrolment (%)  
(Annual averages)



**Note:** Due to inconsistencies in the data series, the year 2000 was dropped from the analysis  
**Source:** SPDC estimates based on Economic Survey (various issues)

**Chart 1.19** Growth in Secondary Enrolment (%)  
(Annual averages)



**Note:** Due to inconsistencies in the data series, the year 2000 was dropped from the analysis  
**Source:** SPDC estimates based on Economic Survey (various issues)

highest growth in female enrolment (10 percent) and in male enrolment (5.6 percent) also occurred during 1989-99. The period 2001-03 reports lower growth in male primary (1 percent) and negative growth (-3.4 percent) in female secondary enrolment.

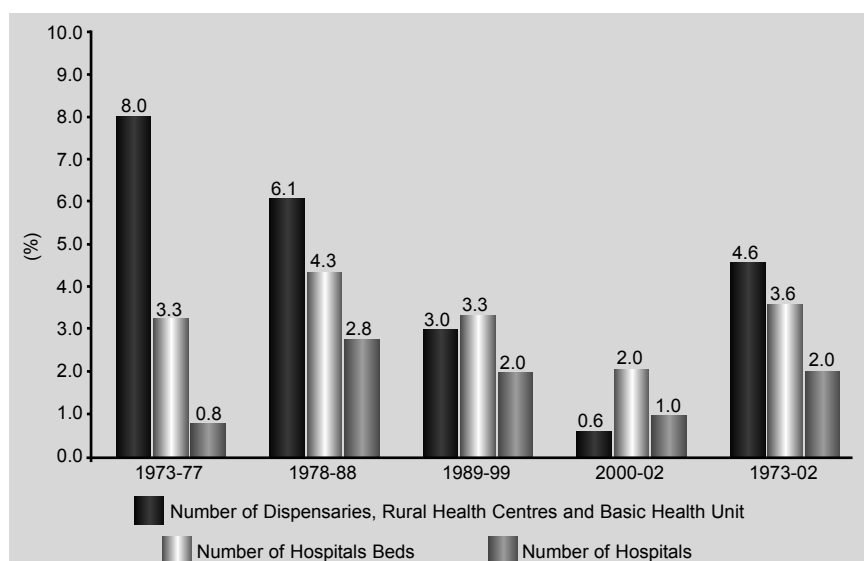
The above analysis shows that accomplishments with respect to key input and output education indicators were far above average during the periods 1973-77 and 1989-99. By contrast, the decade 1978-88 is conspicuous for lack of performance with respect to almost all indicators, except one. The 2001-03 period stands out for being the only period to register negative growth in female secondary enrolment.

## Health

The analysis of health indicators - number of hospitals and hospital beds, and number of dispensaries, Rural Health Centres (RHC) and Basic Health Units (BHU) - shows that the number of hospital beds increased over the period 1973-2002 at 3.6 percent. This is only slightly above the population growth rate, indicating modest progress in the provision of tertiary health care. Growth in the number of dispensaries, RHCs and BHUs was relatively higher at 4.6 percent, indicating relatively better, though still unexceptional performance in the provision of primary health care (see chart 1.20).

The highest growth in hospitals and hospital beds occurred during 1978-88. The lowest growth in the number of hospitals occurred during 1973-77, while the lowest growth in the number of hospital beds took place during 2000-02. Given that the hospital bed to population ratio was already very low, a decline in the ratio points towards a further deterioration of health services, particularly for the poor.

**Chart 1.20** Growth in Number of Health Facilities (%)  
(Annual averages)



\*Data for 2003 was not available

Source: SPDC estimates based on Economic Survey (various issues)



The growth rate of hospital beds exceeded that of the number of hospitals during all the periods, indicating the establishment of fewer, but larger hospitals. The difference is the highest at 2.5 percentage points during 1973-77, with a drop to 1.6 percentage points in the following period and to a low of 1.1 percentage points during 2000-02. The decline of hospital-to-hospital beds ratio from 1978-88 onwards can be attributed to the phenomena of growth of small private hospitals and clinics from the 1980s onwards, particularly in large and medium-sized cities and towns.

Dispensaries, Rural Health Centres and Basic Health Units largely serve small towns and rural areas. In these services, the maximum growth of 8 percent occurred during 1973-77, but declined consistently to a low of 0.6 percent during 2000-02.

## LESSONS FOR THE ROAD AHEAD

A long-term overview of Pakistan's development experience unfolds three basic approaches: first, the growth-oriented development model, without meaningful regard for equity considerations, second, the 'growth with equity' strategy that was primarily state-managed and inflation-financed and third, an eclectic route driven alternatively by expediency and constraints. The decade of the 1960s is characterized by the first approach and the 1973-77 period by the second approach. Subsequent periods have been marked by an absence of vision, and direction as reflected in policy-making and investment decisions.

During the period 1978-88, high growth were achieved at the cost of future generations by creating high levels of indebtedness and by reaping returns on past investments. New investment in physical and social infrastructure was minimal. The strategy allowed high consumption rates and created a spurious appearance of prosperity. The 1989-99 period inherited the deteriorating infrastructure and debt overhang from the previous period and was expended in crisis management. However, unlike the 1973-77 period, the policy regimes during 1989-99 continued to be operated within the bounds of the then prevalent and failed to adopt exceptional measures to break out of the straits in which the economy was trapped. Weighed down by the imperative of meeting quarter-to-quarter debt servicing demands, a coherent strategy taking account of investment, employment and poverty reduction requirements failed to emerge. The 2000-03 period has largely been devoted to ensuring that macroeconomic stabilization statistics remain in order; and has been attempted on the strength of exogenous stimuli: debt rescheduling, remittances, cash grants from abroad, and the like.

As a consequence, the economy is currently mired in a low employment, high poverty impasse. A high level of inequality also implies that the benefits of high growth are unlikely to benefit the poor. In this respect, the experience of the 1973-77 period is interesting; given that the period saw swift recovery from the effects of political upheaval, war and secession. To some extent, this was rendered possible on account of the strength provided by the presence of a considerable stock of economic assets created in the previous decade. And partly, this advantage was capitalized on by the momentum created by fundamental shifts in the parameters of the economy to accord primacy to the state in economic affairs. The corresponding large-scale public investment in infrastructure



and industry created substantial employment opportunities and rendered the economy relatively more egalitarian. Although the nationalization of industry and finance is alleged to have damaged private sector confidence, the public sector more than compensated for the loss, and in an aggregate sense, the economy moved forward considerably.

In attempting this approach, however, insufficient attention was paid to the propensity for inefficiency and corruption inherent in state-management or to the effects of excessive recourse to deficit financing on inflation. The latter, apart from creating macroeconomic distortions, also curtailed real wages.

The post-1973-77 periods have as a counter-reaction, perhaps, relied almost exclusively on the private sector to play the role of the 'engine of growth'. Perhaps, however, the role expected of the private sector has been over-extended beyond its capacity. This is indicated by the quarter-century-long experience, whence - despite the array of incentives and military-enforced political and trade union 'discipline' for nearly half the period - private investment as a percentage of GDP has consistently failed to rise above 8 percent. Admittedly, the private sector needs a positive enabling environment that requires a range of governance reforms: issues of institutional-market distortions, corruption, law and order, and the like. However, these are long-term measures, while the urgency of jobs and income for the poor cannot be postponed until these measures bear fruit. In the meantime, therefore, the public sector needs to be allowed to return and play its due role. However, this role could be limited to strategic planning and directing, instead of direct micromanagement of economic entities, at least not on a permanent or long-term basis.

Clearly, there is now an urgent need for high growth in terms of creating economic assets and improving human resources in order to substantially raise employment and reduce inequality and poverty. Needless to say, this agenda will have to be pursued on the basis of endogenous stimuli.

However, the financing of the development programme needs to avoid the pitfall of increasing indebtedness or of igniting an inflationary cycle. Low interest debt and deficit financing per se do have their virtues, provided the resources thus generated are invested in creation of productive assets; yet, there are limits to their merits. If debt and deficit financing are to be minimized, resources for development will have to be made available through substantial expenditure switching from non-development heads.

Most importantly, development must be defined primarily from the social and human perspective of generating employment and reducing inequality and poverty. Any growth that does not serve these primary ends is unlikely to be either economically or politically meaningful or sustainable; nor is any such growth likely to be relevant to the lives of the poor.



*The PRSP fails to mention  
the need for asset  
distribution or for the fiscal  
regime to be rendered  
progressive.*



## ANALYSIS OF PRSP

The Pakistan Poverty Reduction Strategy Paper (PRSP) is the end result of a new approach instituted by the World Bank and the IMF since 1999, as a conditional framework for concessional lending to developing countries. The objective of the PRSP is to face the challenges of poverty reduction through a strategy that puts poverty reduction at the centre of development goals. The PRSP process has been adopted in some 60 developing nations, and the experience in one East Asian and one East African country is outlined in boxes 2.1 and 2.2.

Pakistan began with the preparation of an Interim PRSP (I-PRSP) in 2001 and adopted the final PRSP in late 2003.

The PRSP covers an exhaustive range of economic and social issues and lays out a broad range of reform measures. The strategy for poverty reduction is premised on four pillars, comprising 32 principal areas of interventions (see chart 2.1). These comprise 11 areas of interventions in pillar 1, 12 in pillar 2, 5 in pillar 3, and 4 interventions in pillar 4. Some of these areas have been treated in the PRSP in considerable detail.

The PRSP provides a detailed analysis of poverty in Pakistan, including issues relating to poverty line, poverty trends, macroeconomic links with poverty, and spatial and non-income dimensions of poverty. The Paper admits that poverty in Pakistan has increased from 29.1 percent in 1986-87 to 30.6 percent in 1998-99 and further to 32.1 percent in 2000-01. The analysis tends to conclude that:

- The rural poor are highly vulnerable to droughts
- Poverty incidence varies across provinces
- Education is the most important factor distinguishing the poor from the non-poor
- The poor have inadequate access to public health and public services
- Unemployment and poverty are related in urban areas.

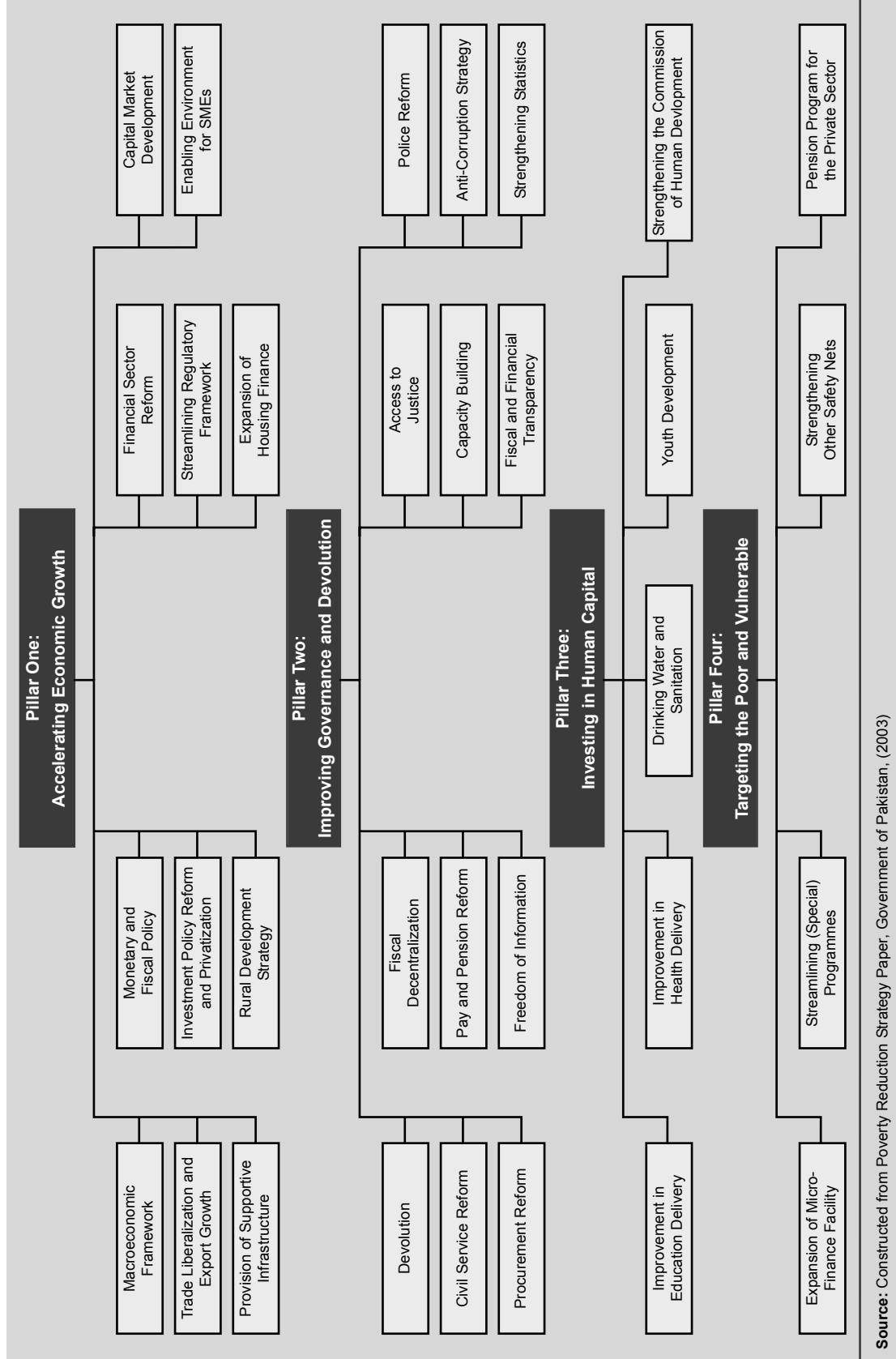
### PRSP PILLARS

The four pillars of the PRSP are:

1. Accelerating economic growth
2. Improving governance and devolution
3. Investing in human capital
4. Targeting the poor and vulnerable.

Chart 2.1

Schematic Presentation: Pakistan Poverty Reduction Strategy Paper (PRSP)



Source: Constructed from Poverty Reduction Strategy Paper, Government of Pakistan, (2003)



Pillar 1 commences with the macroeconomic framework and covers in some detail issues relating to monetary and fiscal policy, financial sector reform, capital markets, trade liberalization, and privatisation. It also specifies infrastructure issues in communications, power, oil and gas, telecommunications, agriculture, water, livestock, and fisheries. Housing finance and social mobilization have also been included as part of Pillar 1.

Pillar 2 covers issues such as, civil service reforms, pay and pension reform, procurement reform and police reforms. It also includes devolution, fiscal decentralization, access to justice, anti-corruption strategy, freedom of information, fiscal and financial transparency, capacity building, and strengthening statistics.

Pillar 3 covers health, drinking water and sanitation, education and youth development. Strengthening the Commission for Human Development is also considered a measure of investment in human capital.

Pillar 4 deals with strengthening safety nets, expansion of micro-finance facility and pension programmes for the private sector.

Employment, which appeared to have been overlooked in the I-PRSP, has been attended to. Four types of sectoral priorities for employment growth are identified: construction and housing; labour intensive exports of high value agricultural products and garments; small and medium enterprises; and increased labour based content in public sector investment such as roads, irrigation and rural development.

Furthermore, the PRSP provides a regional perspective and attempts an alignment with the Millennium Development Goals (MDGs). It also touches upon issues such as gender equality, empowerment of women and the environment-poverty nexus.

## ANALYSIS OF NATIONAL PRSP

The formulation of a poverty reduction strategy as the basis of development planning comes in the wake of half a century of failed efforts to alleviate poverty through the traditional growth-oriented development packages that assumed a trickle down effect on poverty reduction. The new strategy requires poverty reduction to be the principal objective, with elements serving this objective comprising the components of a development plan. Seen in this perspective, Pakistan's PRSP has failed to qualify.

While the PRSP addresses a very large number of economic and even some societal issues, its primary focus appears to be GDP growth, as has been explicitly and repeatedly stated throughout the Paper. The Foreword by the then Minister for Finance & Economic Affairs itself begins thus: "The development challenges for Pakistan include achieving accelerated and sustained broad-based economic growth" (PRSP:i). That of the four pillars, 'accelerating economic growth' is ranked number one with 'targeting the poor and vulnerable' last is also indicative of the fact that the central focus of the PRSP is growth, with its expectant trickle down beneficial effects on the poor.

The primacy of growth is further underlined thus: "The level and intensity of poverty is closely linked with (the) pace and pattern of economic growth in urban and rural areas and income generating

**Box 2.1**

**Poverty Reduction Strategy of an East Asian Country**

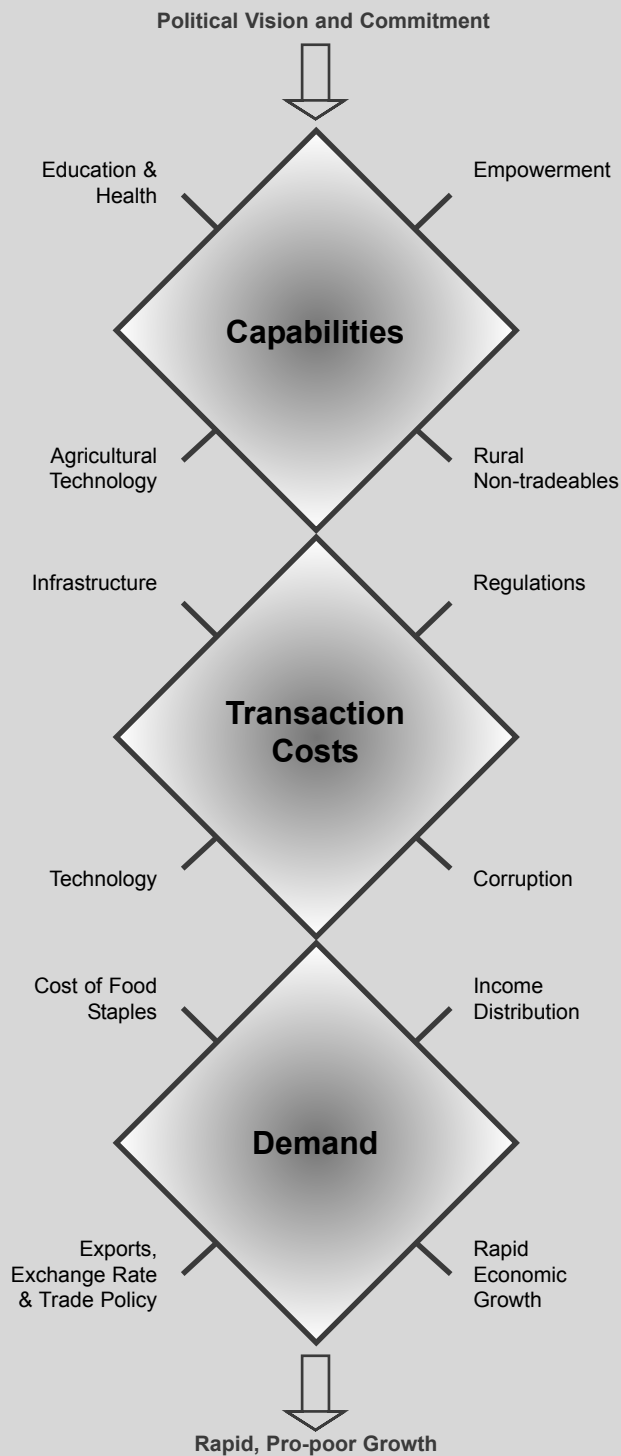
The schematic presentation represents the outline of a conceptual framework of a strong pro-poor growth strategy pursued by an East Asian country. The country evolved a development strategy that consciously tried to connect elements of economic growth to the livelihoods of the poor, particularly in rural areas. The pro-poor strategy encompassed three basic pillars: improving the human resource capabilities of the poor, lowering transaction costs in the economy, and increasing demand for goods and services produced by the poor.

Firstly, pro-poor growth was a direct function of macroeconomic policy that was managed to maximize the overall rate of economic growth. At one end, the profitability of producing exportable goods was maintained through managing the exchange rate as an instrument of trade policy. At the other end, demand was managed through keeping the costs of food staples low and enhancing the array of assets controlled by the poor.

Secondly, growth was fostered through reduction of transaction costs, attained through public investments in infrastructure - roads, ports, communications networks, market infrastructure, irrigation, and water systems built as labour-intensive public works. Lower transactions costs reduced the costs of connectivity to markets for the poor through rendering millions of jobs available to unskilled labour and enabling widespread participation by poor households in the growth process.

Thirdly, access to markets was translated into participation through enhancement of the capacity of poor households to enter the market. This was achieved through investments in human capital to improve the capabilities of the poor to connect to economic growth. It was realized that macroeconomic and trade policies affect asset prices; specific price policies affect the profitability of products produced and sold by the poor; and factor market policies for land, labor and capital influence both the flexibility of response to these factor markets and their average returns. The returns to the portfolio of assets held by the poor were influenced through human development expenditures, especially on education and public health, and their ability to acquire and make use of technology.

The success of the strategy depended on the efficiency of transmission mechanisms that empowered and connected the poor, through factor and product markets, to the overall growth process. The efficiency of these mechanisms depended on demand and supply pressures in the markets for unskilled labor, and on how well integrated these markets were across skill, classes and regions. Given that initial conditions for income and asset inequalities play an important role in the connection process, public investments in education and public health were considered necessary for the transmission mechanisms to work effectively for the poor.



Source: Timner (2004), The Center for Global Development Working Paper



## Box 2.2

## Poverty Reduction Strategy of an East African Country

The schematic presentation in chart 2.2 represents the conceptual framework of the PRSP of an East African country, and is an example of a focused approach to poverty reduction; reflecting a high degree of commitment by the political leadership.

The country lacks ground water resources, less than 5 percent of the land is arable, and the bulk of the population is concentrated in the central highlands, where the principal occupation is rain-dependent, small-scale crop agriculture and informal livestock breeding. Repeated droughts, resultant famine and hunger are part of the country's centuries-old folklore. Therefore, the country's poverty reduction strategy is centred on the assurance of food security, along with enhancing household incomes and human resource development. The elements that are integral to the three pillars are well - thoughtout, and the PRSP appears to be a consistent whole, with well-identified flows and feedbacks.

Given that the country does not possess the land and water resources to produce its required food, it has been accepted that the bulk needs to be imported. Imports require foreign exchange, and a scan of the country's endowments led to the identification of four sources of foreign earnings: foreign remittances, exports, marine fisheries and tourism.

On account of historical circumstances, about one-fifth of the country's population is residing abroad and engaged in overseas employment. Their remittances constitute the most important current source of foreign exchange. Though exports are currently rather low, sectors and products have been identified for expansion. The major effort for the future is, however, concentrated on the country's 1000-kilometer plus long coastline. Plans are underway to develop marine fisheries and coastal tourist resorts as principal foreign exchange earners.

Proposals are also on the drawing board for the development of education and health tourism. The country has a high level of literacy, and its capital,

located at an altitude of 2,350 metres, is within an hour's flying time from about half a dozen capital cities in the region. Its mild climate, well-paved streets and sidewalks, clean and crime-free environment; and a largely gender-equal society provide it a socio-cultural edge over other cities in the region. It has already developed a large well-equipped hospital in the capital, and measures to develop educational institutions on international standards are underway. It is expected that student enrolment and use of medical facilities from the region will constitute an important source of foreign exchange earnings.

At the same time, the necessary physical infrastructure - highways, ports, power supply, and the like - have already been built up to international standards and efforts are being made to develop the country's agriculture, non-farm sector and manufacturing, particularly small and medium sized industries. These are considered important components of the goal of enhancing household incomes as well as aggregate employment and GDP growth. The imperative of macroeconomic stability - low inflation, tight monetary policy, low budget deficits, and low current account deficits - has not been lost sight of, but remains subject to the needs of the poor.

Human resource development - particularly expansion and improvement of education and health and nutrition -- is already high on the government's agenda and constitutes one of the three pillars of the poverty reduction strategy. The government's commitment to assist the poor is evident by the fact that it mobilizes international food aid from abroad on a regular basis, and on the domestic front it maintains a form of social protection system, despite the risk of running high budget deficits.

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SPDC provided technical assistance for the preparation of the country's PRSP in 2003, and the conceptual framework was the outcome of active participation on the part of over half the cabinet ministers.



Source: Social Policy and Development Centre



opportunities associated with such growth" (PRSP:19). And more directly, "... growth is a precondition for sustained poverty reduction" (PRSP:27). Even expansion of employment and of public spending on infrastructure and social sectors is tied to growth thus: "If informal sector employment is partly due to lack of formal sector jobs then sustained growth can be expected to induce more employment in the formal sector (PRSP:15)." And "high level of public spending that are needed to improve basic social services and physical infrastructure may not be possible without achieving sustainable, high economic growth (PRSP:27).

The almost exclusive focus on economic growth tends to contradict the Paper's own prior inference. The conclusions drawn from the analysis of poverty in Pakistan show varying scenarios, including one of growing poverty in the presence of high growth in the 1960s, and the other of decline in poverty despite low growth in the 1970s. The PRSP also ignores considerable national and international evidence of jobless growth and employment growth in high wage brackets only, and the fact that the presence of high wealth and income inequality is likely to cause the bulk of the benefits of growth to be appropriated by upper-income groups - leaving the poor out in the cold. The Strategy disregards all such evidence and proceeds to adopt the rather simplistic assumption of the inevitability of 'economic growth leading to employment, leading to high wages and leading to poverty reduction'. That there continues to be the faithful adherence to the now discredited trickle-down approach is incomprehensible.

Given the pre-eminence of Pillar 1, it is noteworthy that seven out of eleven elements of the Pillar correspond directly with elements of the IMF/World Bank's Structural Adjustment Program (see chart 2.2). A somewhat detailed review of these elements confirms this view. 'Accelerating Economic Growth' is premised upon five elements: Macroeconomic Framework, Monetary and Fiscal Policy, Financial Sector Reform, Capital Market Development, and Trade Liberalization. That the objective of acceleration of economic growth is perceived almost exclusively through the prism of stabilization measures emerges rather clearly. More seriously, there appears to be a rather explicit assumption that 'getting financial statistics right' will inevitably lead towards accelerated growth, and by virtue of the trickle-down effect, towards employment and poverty reduction.

Apart from the absence of a direct focus on poverty reduction, a disconcerting aspect of the PRSP is that it constitutes a disjointed collection of measures devoid of a clear central theme and lacks a coordinated approach. As is clear from Chart 2.1, the four pillars stand apart from each other, and the elements within the pillars are not shown to have any interconnections. No attempt has been made to establish direction of flows and feedbacks between the various elements and within the pillars.

Inclusion of issues in improving governance as a separate pillar is a moot point. Governance is a generic term and encompasses a range of cultural, social and political variables. If governance is assumed to be a major factor in poverty, then a detailed analysis of governance failure was called for, the causal relationship between elements of poor governance and poverty established, and proposals for tackling the identified determinants of governance failure included in the PRSP.

*There appears to be a rather explicit assumption that 'getting financial statistics right' will inevitably lead towards accelerated growth, and by virtue of the trickle-down effect, towards employment and poverty reduction.*

**Chart 2.2 Elements of Pillar 1: Accelerating Economic Growth**

PRSP	IMF-WORLD BANK CONDITIONALITIES
<b>MACROECONOMIC FRAMEWORK</b>	
<ul style="list-style-type: none"> <li>Continue to maintain macroeconomic stability</li> <li>Maintain overall fiscal deficit</li> <li>Pursue growth in revenues as percentage of GDP</li> <li>Pursue reduction of public enterprise losses</li> <li>Pursue reduction of debt servicing</li> <li>Maintain price stability</li> <li>Maintain exchange rate stability</li> </ul>	<ul style="list-style-type: none"> <li>Maintain macroeconomic stability<sup>1</sup></li> <li>Increase revenue mobilization<sup>2</sup></li> <li>Restructure and strengthen financial position of public enterprises<sup>3</sup></li> <li>Reduce accumulation of public debt<sup>3</sup></li> <li>Maintain domestic price stability<sup>3</sup></li> <li>Safeguard competitiveness and international reserves<sup>3</sup></li> </ul>
<b>MONETARY AND FISCAL POLICY</b>	
<ul style="list-style-type: none"> <li>Reform and revamp tax administration</li> <li>Effective expenditure reform</li> <li>Medium-term Budgetary Framework</li> <li>Maintain Balance of Payments position</li> </ul>	<ul style="list-style-type: none"> <li>Broaden domestic tax base, revamp tax administration<sup>3</sup></li> <li>Improve quality of public expenditures<sup>3</sup></li> <li>Maintain viability of balance of payments<sup>1</sup></li> </ul>
<b>FINANCIAL SECTOR REFORM</b>	
<ul style="list-style-type: none"> <li>Liberalization measures, including interest rates, elimination of selective credit controls, lower cash reserve ratios</li> <li>Develop financial markets including interbank market, treasury bill market, capital markets</li> <li>Increase competition among banks, privatize financial institutions</li> <li>Strengthen prudential regulation and supervision</li> </ul>	<ul style="list-style-type: none"> <li>Use market-based instruments for monetary control<sup>3</sup></li> <li>Develop corporate debt market, promote mutual fund industry and interbank market activities<sup>3</sup></li> <li>Privatize banks and financial institutions<sup>3</sup></li> <li>Enhance regulatory and supervisory system<sup>3</sup></li> </ul>
<b>TRADE LIBERALIZATION</b>	
<ul style="list-style-type: none"> <li>Liberalization of import trade regime</li> <li>Maintenance of maximum tariff at 25 per cent and effective tariff at 16 percent</li> <li>Protect domestic industry from dumping</li> <li>Facilitate and sustain value-added export promotion and diversification</li> </ul>	<ul style="list-style-type: none"> <li>Remove remaining restrictions on exports and imports<sup>3</sup></li> <li>Further reduce maximum tariff rate and the number of non-zero rates<sup>3</sup></li> </ul>
<b>INVESTMENT POLICY REFORM AND PRIVATIZATION</b>	
<ul style="list-style-type: none"> <li>Consolidate labour laws</li> <li>Deregulate</li> <li>Privatize</li> </ul>	<ul style="list-style-type: none"> <li>Promote growth through deregulation, market liberalization<sup>1</sup></li> <li>Implement privatization program<sup>3</sup></li> </ul>
<b>REGULATORY FRAMEWORK</b>	
<ul style="list-style-type: none"> <li>Formulate policy, regulate and facilitate regulation through regulatory agencies, e.g., NEPRA, PEMRA, OGRA, PTA and others</li> </ul>	<ul style="list-style-type: none"> <li>Establish regulatory bodies for basic infrastructure<sup>3</sup></li> </ul>
<p><sup>1</sup>Pakistan Structural Adjustment Credit Project; April 2001, World Bank website: <a href="http://www-wds.worldbank.org">http://www-wds.worldbank.org</a></p> <p><sup>2</sup>Structural Adjustment Credit II, World Bank website: <a href="http://www.worldbank.org.pk">http://www.worldbank.org.pk</a></p> <p><sup>3</sup>Enhanced Structural Adjustment Facility Policy Framework Paper, December 1998; IMF website: <a href="http://www.imf.org">http://www.imf.org</a></p>	



Tired of promises?

Photo: Akhtar Soomro

No such analysis appears to exist, and there is no conclusive evidence that governance issues command a direct impact on poverty reduction. In the event, governance issues can at best be treated as crosscutting in nature, extending through management of the economy and through delivery of education, health, social safety nets and other services.

There are two glaring omissions in the PRSP. First, there is no reference to a commitment to promote equity. Second, there is no specification as to where the revenues will be provided from for financing elements of Pillars 3 and 4. While the former compromises the poverty reduction content of the PRSP, the latter raises questions about the feasibility of the targets specified.

The PRSP fails to mention the need for asset redistribution or the need for the fiscal regime to be rendered progressive. Poverty reduction is proposed to be effected without affecting the privileged position of the upper-income proprietor class. This would indeed be possible, provided Pakistan were endowed with substantial high value-added natural resources, and in a position to achieve very high GDP growth rates over an extended period of time. However this has not been, is not, and is unlikely to be the case.

There are casual references in the PRSP to the importance of distribution of income and to asset ownership; however, as can be seen in chart 2.1, these concerns do not appear even as elements or steps, let alone as a pillar, in the Strategy. Rural poverty is relegated to being a mere function of vulnerability to droughts. Despite a reference to the fact that "... the scope for poverty reduction is greatly enhanced if there is a simultaneous reduction in inequality of access to basic assets" (PRSP:27) and "access to cultivable land assets has a positive impact on the food and nutritional requirements of poor households" (PRSP:51), the PRSP does not propose any measures to reduce land inequality. The term 'land reforms' finds no mention in the Paper.

The PRSP proposes to address the issue of rural poverty through the "accelerated distribution of state owned lands to small farmers", and the available state lands for distribution is estimated therein at 2.7 million



acres. Analysis of data from the Agricultural Census 2000 shows that there are about 8 million rural households that have no access to land. If half this number is assumed to be engaged in non-farm occupations, the number of landless rural households is likely to be 4 million. Further, if only half this number is provided land, each household is likely to receive 1.35 acres. Given its uneconomical size, the impact on rural poverty alleviation is unlikely to be meaningful. Clearly, the scale of land distribution needs to be significantly wider.

Fiscal policy can be a major instrument for redistributing incomes and reducing poverty. However, the section on fiscal policy merely deals with tax administration and public sector enterprise expenditures. There is no reference to redistributing the tax burden from the poor to the rich or to redistributing expenditures from non-productive current expenditure heads to public investment in physical and social infrastructure. The redistribution of expenditures is essential and unavoidable if resort to high budget deficits or to high levels of domestic or foreign indebtedness is to be avoided. Despite the acknowledgement that the "... decline in delivery of most of public sector services is mainly because of inadequate spending on these services " (PRSP:34), there is no indication in the PRSP of cuts in current expenditure and no identification as to how the programs and targets specified in Pillars 3 and 4 are to be financed.

There are other cases of disjoint:

Firstly, water supply and sanitation, social security and welfare, and the like are considered established entry points for combating poverty. However, evidence that targeting poverty directly does not appear to be an explicit PRSP objective is provided by the fact that budgeted expenditures on water supply and sanitation are projected to rise from baseline 0.12 percent of GDP in 2001-02 to 0.13 percent of GDP in 2007-08; budgeted expenditures on social security and welfare are projected to decline from the baseline of 0.10 percent of GDP in 2001-02 to 0.08 percent of GDP in 2007-08.

Secondly, the PRSP states that:

1. "The present government considers agriculture ... as (one of) the main engines of growth, which will generate employment opportunities" (PRSP:98).
2. "Nearly two-thirds of Pakistan's population lives in rural areas and the vast majority of the rural poor derive their living from agriculture and off-farm employment" (PRSP:47).
3. "The impact of growth on poverty reduction will depend upon whether growth has an impact on employment in those sectors where the poor are concentrated" (PRSP:15).

There appear to be several contradictions in the above strategy: Despite the pre-eminence accorded to growth, agricultural growth is projected to increase only a little from the 2002-03 baseline rate of 4.2 percent to 4.5 percent in 2007-08. Not that the employment elasticity in agriculture at 0.37 is the lowest after large-scale manufacturing, and about 10 percent lower than the average employment elasticity of 0.41 for the economy. Moreover, up to 60 percent of the poor are concentrated in agriculture.

*There is no indication in the PRSP of cuts in current expenditure and no identification as to how the programs and targets specified in Pillars 3 and 4 are to be financed.*



Given the concentration of the poor in agriculture, the low projected agricultural growth rate, and the relatively lower employment elasticity in agriculture, expectations that agricultural growth will serve as an engine of employment growth or for employment opportunities in agriculture to benefit the rural poor appear to be questionable. The objective of promoting employment opportunities for the rural poor, particularly the landless who depend largely on non-farm work, can be achieved through large-scale, well-conceived rural development programmes; however, the PRSP neither visualizes nor provides for them.

Pillar 2 places devolution and fiscal decentralization high on the agenda, while education and health are now devolved subjects. Yet, local governments are not shown to have any role in the delivery and management of any of the programmes listed in the education and health sections.

Pillars 3 and 4 largely constitute a repetition of statements of intent, campaigns, programmes and projects from earlier plans and schemes. The PRSP acknowledges education to be "the most important factor distinguishing the poor from the non-poor" (PRSP:19). However, it commits public spending towards education of a paltry 2.5 percent of GDP by 2007-08. By comparison, over the period 1998-2000, Bhutan spent 5.2 percent, Iran 4.4 percent, India 4.1 percent, Maldives 3.9 percent, Nepal 3.7 percent and Sri Lanka 3.1 percent.

A tabulation from a myriad of statements in the Paper relating to education and health is presented in charts 2.3 and 2.4. A perusal of chart 2.3 shows that while the issues that have been identified are relevant, they are not comprehensive and most of the proposed reforms are more in the nature of second order priorities. There is no provision for more basic needs: availability of subject teachers, provision of textbooks, laboratory equipment for science classes, classrooms, toilets and other school facilities. Reliance on "substantial donor assistance" (PRSP:71) as part of remedial measures cannot be a substitute for national efforts to promote education.

Similarly, the PRSP commits to raise public expenditure in health to a trifling 1.0 percent of GDP "in the long run." In contrast, in the year 2000, Maldives spent 6.3 percent, Bhutan 3.7 percent, Iran 2.7 percent, Sri Lanka 1.8 percent, Nepal 1.6 percent and Bangladesh 1.5 percent. Besides, the treatment of issues and proposed reforms in the health sector is vague and lacks focus. There is no mention of the basic problems of availability of medical facilities in rural and urban areas, availability of medical and para-medical staff, medical equipment, medicines and supplies, their affordability and the like.

Thirdly, the conclusions from the analysis of poverty identifies inter-provincial variation in poverty levels. However, none of the pillars, or elements therein, in the national PRSP provide for measures to correct inter-provincial economic imbalances.

**Chart 2.3 Education Priorities in PRSP**

<b>Issues</b>	<b>Proposed Reforms</b>
<ul style="list-style-type: none"> <li>● Under-investment in quality</li> </ul>	<ul style="list-style-type: none"> <li>● Teachers Resource Centres</li> <li>● Revision of national curriculum and textbooks</li> <li>● National Education Assessment System</li> <li>● Increase in public spending on education to 2.5 per cent by 2007-08</li> </ul>
<ul style="list-style-type: none"> <li>● Lack of accountability and tracking mechanisms between planners and service providers</li> </ul>	<ul style="list-style-type: none"> <li>● Staff development</li> <li>● Teacher training institutions</li> <li>● Training and professional development of planners and managers</li> <li>● Decentralization of management of local schools to SMCs and PTAs</li> </ul>
<ul style="list-style-type: none"> <li>● Resource mobilization to achieve targets and outcomes</li> </ul>	<ul style="list-style-type: none"> <li>● Public-private partnership substantial donor assistance</li> </ul>
<ul style="list-style-type: none"> <li>● Drop-out rate and teacher absenteeism</li> </ul>	<ul style="list-style-type: none"> <li>● EFA Fast-Track Initiative</li> </ul>
<ul style="list-style-type: none"> <li>● Availability and accessibility of low-cost high quality education</li> </ul>	<ul style="list-style-type: none"> <li>● Mainstreaming <i>madrassahs</i>; technical/vocational education in all districts</li> </ul>
<ul style="list-style-type: none"> <li>● Absence of formal criteria for fund allocation at school level</li> </ul>	----
<ul style="list-style-type: none"> <li>● Standardized data collection and dissemination</li> </ul>	----
<b>Source:</b> GOP, PRSP (2003)	

**Chart 2.4 Health Priorities in PRSP**

<b>Issues</b>	<b>Proposed Reforms</b>
<ul style="list-style-type: none"> <li>● Major share of expenditures focussed on tertiary health care</li> </ul>	<ul style="list-style-type: none"> <li>● Public expenditures focussed on primary and tertiary care (preventive care)</li> </ul>
<ul style="list-style-type: none"> <li>● Serious institutional and governance deficiencies</li> </ul>	<ul style="list-style-type: none"> <li>● Transferring administrative and financial powers to districts; training of medical staff</li> <li>● Establishing health boards and village health committees</li> <li>● Reorganization of district health offices</li> </ul>
<ul style="list-style-type: none"> <li>● Access, unawareness and inadequate budgetary spending</li> </ul>	<ul style="list-style-type: none"> <li>● Behaviours Change Communication strategy (BCC)</li> <li>● Distribution of reproductive health service</li> <li>● Health Management Information Systems; proposed increase in sectoral financing from 0.5 to 0.8 per cent GDP to 1 per cent of GDP in long run</li> </ul>
<ul style="list-style-type: none"> <li>● Slow progress in improving indicators related to maternal health, child health, morbidity and mortality caused by communicable diseases</li> </ul>	<ul style="list-style-type: none"> <li>● A new community-based maternal and child health programme</li> <li>● Enhanced LHW programme</li> </ul>
<b>Source:</b> GOP, PRSP (2003)	

## Box 2.3

## The Pain and Despair of Living in Poverty

A small, windowless 9-square-yard room with an asbestos roof and a cracked cement floor, in a *katchi abadi* adjacent to the posh Defence Housing Society, is home to the 20-member extended family of Ali Mohammed and his wife, Aisha. One corner serves both as the toilet and bathroom, and another that serves as the kitchen. The 'house' has no water supply or gas connection. An illegal electricity connection makes provision for a bulb and a fan. The landlord charges Rs. 1,500 as monthly rent for the room and an additional Rs. 200-300 for electricity consumption.

Ali Mohammed is 63 and Aisha 58. They have been living in Karachi for about 12 years, since they left their village near Sukkur to escape grinding poverty. Living with them are their two divorced daughters and two sons along with their wives and twelve grandchildren aged one to 13 years. One of Ali Mohammad's sons was killed and a daughter kidnapped; she has remained with her kidnappers since. Moreover, an unmarried daughter, aged 17, was sent back to the village for reasons of safety.

The small and unventilated room has hardly any space for the children to sleep stretched out. It offers little comfort in cold, heat or rain. In winters, they have to bear the prospect of sleeping on the cold floor; in summers, they have to endure the suffocating heat; and in the rain, they have to huddle in a dry corner to evade the leaking roof.

Although they live under a small roof, there are four households. The two daughters-in-law and two daughters take turns to cook for their own families. Ali Mohammed and Aisha eat with their daughters. This system evolved after disputes about who earns more, who has the larger family and who consumes more. This is not a painless solution though, at least not for the children. When one family has cooked meat or some other 'delicacy', the other children remain deprived of it - and feel the deprivation. Sharing is not possible, even if desired, as there are only a few pieces of meat and not enough to pass around. Nobody is sure if there is going to be a meal the next day.

Fighting over morsels of food is common. Often, the children's disputes pitch mothers against each other - sometimes fathers too. Domestic peace has a high premium. The uncomfortable living and sleeping conditions - coupled with the sheer insecurity of how tomorrow will fare - certainly does not help keep tempers cool.

Ali Mohammed has problems with his eyesight and is unable to work. The two sons - Riaz, aged 26, and Fayyaz, aged 24 - are day labourers and find work, on average, for about 15 days per month, each earning about Rs.

2,000 monthly. While not at work, they spend their time with friends in the neighbourhood. Unemployment is endemic and 'friends' are plenty. Even the younger boys, aged 6 to 13, do not go to school and spend their time loitering in the neighbourhood. Many of the neighbourhood 'boys' engage in petty crimes and some even have police records.

Naseem, aged 30, was married at age 15 to a relative twice her age and bore two children: a boy and a girl. Afflicted with polio in childhood and handicapped, she became a custom to taunts from her parents, siblings, relatives and acquaintances. Her husband added to her woes by heaping abuse on her and subjecting her to repeated physical violence, for which she once had to seek medical treatment for a knife wound. Her ordeal was over at the end of three years, when he abandoned her and disappeared. Naseem returned to live with her parents and brothers. She works as a domestic servant in a nearby bungalow, earning Rs. 2,000 a month.

Zarina, aged 28, was married at age 14 and bore four children, two daughters and two sons. However, her marriage also soured when her husband turned to drugs, subjected her to repeated beatings, and sold all her belongings to provide for his addiction. Her mother-in-law added to her misery with constant verbal abuse. Unable to face the battering, she began to suffer from bouts of numbness and thought disorientation. Seeking escape from the daily torture, she decided to take a divorce. Zarina left home along with her children, and came to live with her family. She too works as a domestic servant and earns Rs. 2,000 a month.

The family's per capita income is less than Rs. 400 per month. However, the paucity of money to buy food, the cramped housing, absence of water supply, and so forth is not the sum total of their suffering because of poverty. Their agony is compounded by abject helplessness, and the inability to control or even influence the course of their lives. In addition, there is nowhere and no one to turn to for support or justice. They do not live a life - they merely exist, alienated from society at large.

These narratives illustrate the sheer pathos of their lives. Till recently, the one-room house had two more occupants, Mushtaq, aged 20, and Rizwana, aged 15, youngest son and daughter of Ali Mohammed.

Mushtaq worked in a barbershop. Among the brothers he was known for his cheerfulness and sense of humor. One morning, the police arrived with his body, claiming that he was killed in a 'police encounter'. They harassed and terrorized the aggrieved family, accusing them of irresponsibility in failing to take note of Mushtaq's drift into the world of crime. Without

extending any sympathy, they made no attempt to explain the crime of which he was being accused, nor the circumstances of his death. The day of shock, grief, sense of loss, anguished questions, threats and fear ended with Mushtaq's burial. The police did not return. It appears that the file relating to Mushtaq's death, if ever there was one, had been closed forever.

The family is too poor economically and too weak socially for any attempt to seek justice. Neither do they expect it. In fact, they fear that any effort to seek justice is likely to invite police wrath and expose other members of the family to being 'locked-up' on a fabricated charge. The family continues to grieve silently and to live in fear. The children are petrified when a policeman is seen to be passing by. Mushtaq's aged mother depicts gnawing fear and lost hope. She glances suspiciously around before leaving home and peers through the half open doors of the houses lining the narrow lane in the hope that her dead son will appear from one of them.

Rizwana worked as a live-in domestic maid in a bungalow. Late one night in August 2003, she was told that there was a visitor for her in a taxi. She went out and was whisked away. The family suspected that she had been kidnapped. They first approached the police, but faced indifference, then began to make enquiries on

their own. The bungalow's watchman provided a lead, which led them to a tribal area. There, they approached a provincial minister who arranged a visit for the family to the area. Those holding Rizwana demanded a ransom of Rs. 3 lacs for her release. As the poverty-stricken family could not arrange such a huge amount, they returned to Karachi. Rizwana remains in the custody of her kidnappers. The authorities express their inability to intervene, claiming that their jurisdiction does not extend to the tribal areas.

Rizwana's mother spends the nights staring at the darkened ceiling and weeping silently for her lost son and missing daughter. Her sisters broke down several times while narrating the story of their lives. Suppressing their anger and shame, her father and brothers carry on with the daily grind of survival.

**T**he children in the family, adults of the future, also suffer irreparable damage from poverty and its afflictions. The harsh, joyless world they grow up and live in, without hope or a future to look forward to, stifles their young, impressionable minds.

As the entire family is illiterate, all four mothers in the family expressed the desire for their children to study and have a better life than they have had. To their despair, none of the children are in school. With an air of resignation, they explained that the older children had been admitted in school at one time, but the temptation to play with other non-school going children in the neighborhood was too strong, and they played truant regularly and eventually dropped out.

With the adults being either at work or searching for work and hardened by the pressure of making ends meet, the children are growing up largely on their own, with little parental or adult supervision. They do not get the affection and love that is so critical to a child's emotional development, and authority is asserted through coercion. Domestic violence, such as slapping, is indiscriminate, with women and girls more prone to be at the receiving end. Even the young boys tend to settle disagreements through violence.

There are no playgrounds in the area for the children to indulge in fun, games or sports of any kind - essential requisites for a child's emotional and intellectual development. Their elders can neither afford the time nor the money to take them out for any kind of entertainment. Left on their own, they loiter in the garbage infested lanes or drift to find pleasure in smoking - some even experiment with drugs - or watch Indian films, with a few daring ones watching adult films.

In a wider context, morality has an altogether different facet in their lives. With the small one-room house serving as the sleeping quarters for the extended family - two married sons and their spouses, their parents, two divorced sisters, and their teenage sons and daughters - privacy is non-existent. The married couples have to make do with a jute sheet that passes for a curtain and the children, even below 10 years express an awareness of sex and are not coy to talk about it. Norms of morality enforced by the state and by the religious establishments have no relevance to their world.



## ANALYSIS OF PROVINCIAL PRSPs

Provincial economies are not homogeneous; dimensions of poverty are different not only for each province but also within provinces. As such, any strategy to deal with poverty in the provinces has to take account of the existing diversity - at least at the inter-provincial level - in terms of economic and human resource endowments, constraints to development, potential areas of interventions and so on.

NWFP has a relatively small agricultural and industrial base, and trade is to be the major economic and employment sector; Punjab has a large agricultural base, producing a range of major and minor crops, a sizeable large and small manufacturing sector, and a growing services sector; Sindh has a dual economy, since the economic landscape of Karachi is completely different from the rest of Sindh; and Balochistan is largely a primary sector economy, with isolated pockets of crop agriculture, horticulture, livestock, fishing, and mining. Clearly, the poverty reduction strategies need to be tailored to the specific conditions in each of the provinces.

The national PRSP does note the inter-provincial variation in poverty levels, and this identification has been accounted for by extending the PRSP process to the provinces, with each of the four provinces preparing their own poverty reduction strategies. To an extent, each of the four PRSPs do identify the issues that are relevant to the respective provinces and there are items in each of the PRSPs that are not common with other PRSPs. These include, for example, crop agriculture, distribution of state lands, and housing in the Punjab PRSP; and coastal/marine and mineral resources and information technology in the Balochistan PRSP.



Lost childhood

Photo: Akhtar Soomro



A portrait of poverty

Photo: Akhtar Soomro

By and large, however, the analysis of provincial PRSPs reveals that strategies proposed for reduction of poverty in the provinces are not region specific. None of the provincial strategies provide even an overview of the defining features of the provincial economy. The 'pillars' in each of the four provincial PRSPs are more or less the same and in some cases verbatim reproductions. All four provincial PRSPs revolve around almost the same general themes, that is, governance, fiscal and financial management, economic growth and development, human development, and vulnerability to shocks (see chart 2.5).

A comparison of the provincial PRSPs reveals verbatim reproductions of entire sections covering several pages. Numerous instances, in this respect, can be found across the board and a perusal of just the chapters on poverty reduction strategy shows word for word similarities; for example, the 'Devolution and Civil Service Reforms' (Punjab PRSP:34-37; NWFP PRSP:18-20) and 'Health' sections (Punjab PRSP:51-52; NWFP PRSP:23-25); the 'Social Asset Creation' section (NWFP PRSP:20-21; Punjab PRSP:56-57).

Though the socio-cultural conditions relating to women in Sindh and NWFP are completely different, the 'Women Development' sections in the PRSPs of the two provinces are a replica of each other (Sindh PRSP:65-67; NWFP PRSP:25-27). The poverty correlates for different provinces are different; however, the section on 'Addressing Vulnerability to Shocks' in all the four PRSPs is more or less duplicated (Punjab PRSP:75-77; Sindh PRSP:68-71; NWFP PRSP:37-40; Balochistan PRSP:62-65).

Chart 2.5

Provincial PRSPs: Similarities of Themes

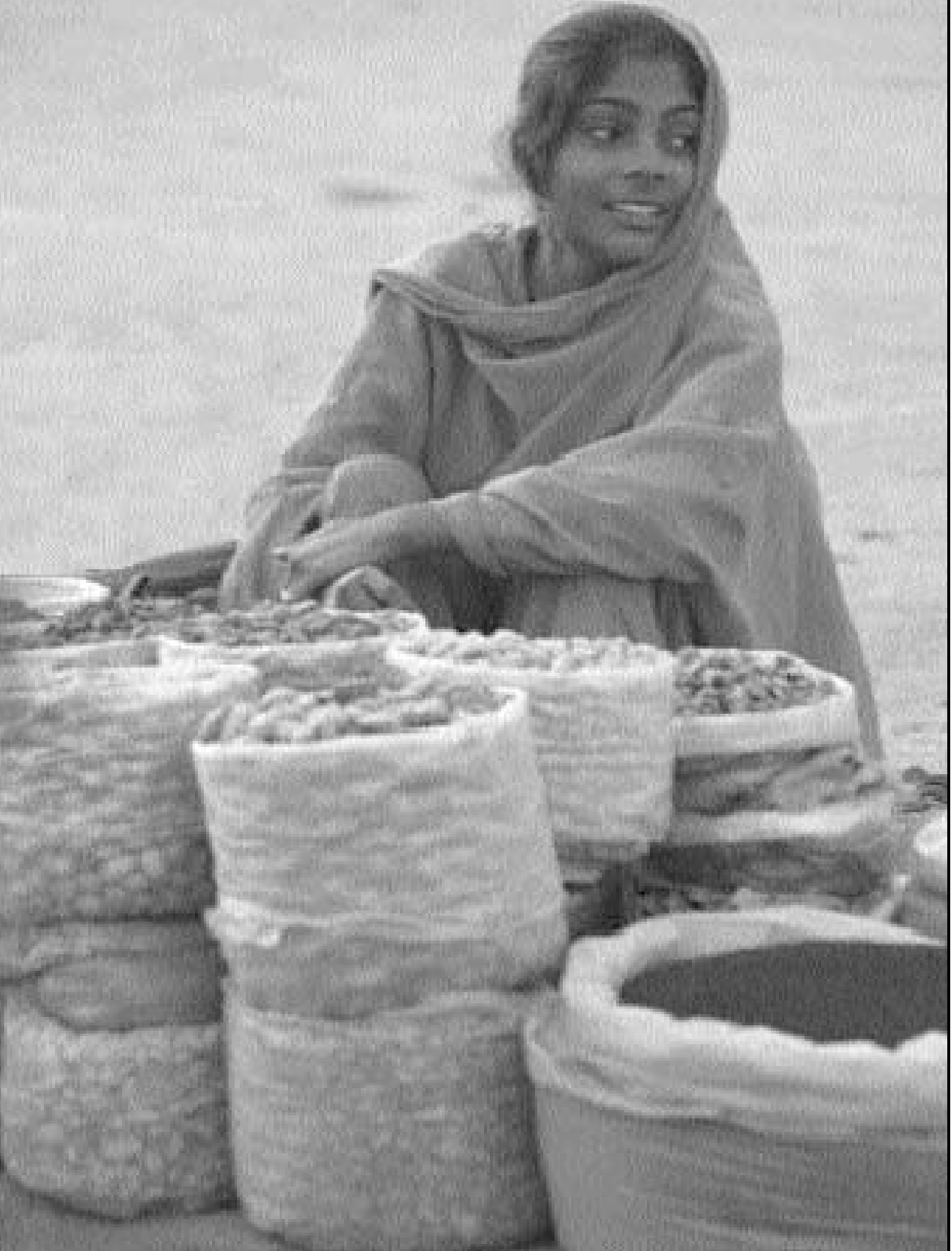
Punjab	Sindh	NWFP	Balochistan
<b>Governance Reforms</b>	<b>Governance Reforms</b>	<b>Governance Reforms</b>	<b>Governance Reforms</b>
Devolution and Civil Services Reforms	Civil Services Reforms	Devolution and Civil Services Reforms	Devolution and Civil Services Reforms
--	Improving Governance of Public Service Delivery	--	--
--	Improving Law and Order	--	Improving Law and Order
Fiscal and Financial Management Reforms	Fiscal and Financial Management Reforms	Fiscal and Financial Management Reforms	Fiscal and Financial Management Reforms
--	--	--	Improving Statistical System
<b>Economic Growth and Development</b>	<b>Economic Growth and Development</b>	<b>Economic Growth and Development</b>	<b>Economic Growth and Development</b>
Agriculture	Agriculture	Agriculture	Sustainable Agriculture
Water Course Improvement	Irrigation	Irrigation	Managing Scarce Water Resources
Livestock and Dairy Development	--	--	Rangelands and Livestock
Improving Physical Infrastructure	Improving Physical Infrastructure	Improving Physical Infrastructure	Physical Infrastructure Development
Private Sector Development	Private Sector Development	Private Sector Development	Private Sector Development
Improving Business Environment	--	Improving Business Environment	--
Regulatory Reforms	Regulatory Reforms	Regulatory Reforms	--
Small and Medium Enterprise	Small and Medium Enterprise	Small and Medium Enterprise	Small and Medium Enterprise
<b>Accelerating Human Development</b>	<b>Accelerating Human Development</b>	<b>Accelerating Human Development</b>	<b>Accelerating Human Development</b>
--	--	Social Asset Creation	Social Asset Creation
Education	Education	Education	Education
Adult Literacy, Skill Training	--	--	Technical/Vocational training, especially for girls
Health	Health	Health	Health
Water Supply and Sanitation	Water Supply and Sanitation	Water Supply and Sanitation	Water Supply and Sanitation
Women Development	Developing Women and Children	Women Development	Women Development
<b>Addressing Vulnerability to Shocks</b>	<b>Addressing Vulnerability to Shocks</b>	<b>Addressing Vulnerability to Shocks</b>	<b>Addressing Vulnerability to Shocks</b>
Targeting of Social Safety Nets	Targeting of Social Safety Nets	--	Targeting of Social Safety Nets
Zakat, Baitul Maal	Zakat Rehabilitation Grants	Zakat Rehabilitation Grants	Zakat Rehabilitation Grants
Food Support Program	Food Support Program	Food Support Program	Food Support Program
Khushal Pakistan Program	Khushal Pakistan Program	Khushal Pakistan Program	Khushal Pakistan Program
Role of NGOs and Civil Society	Role of NGOs and Civil Society	Role of NGOs and Civil Society	Role of NGOs and Civil Society
--	Informal Safety Nets	Informal Safety Nets	Informal Safety Nets

Source: PRSP, Provincial Governments



**Meagre subsistence**

It appears that the process of the preparation of the provincial PRSPs was not taken up in a serious way. The problems of the lack of focus on poverty reduction and internal inconsistency in the national PRSP, and the fact that the provincial PRSPs are not even credible documents, when viewed in the perspective of similar policy planning exercises spanning over five and a half decades, raises questions about the earnestness of the very objective of poverty reduction.



# PREREQUISITES OF EQUITABLE GROWTH

## 3

*There is an imperative to combat the structure of inequality, if significant reduction in poverty is to be achieved in the medium term.*



## PREREQUISITES OF EQUITABLE GROWTH

Pakistan's current poverty reduction strategy seems to be postulated on the premise that growth alone is necessary and sufficient to reduce poverty. While this paradigm has strong proponents, there is also an alternative view that poverty reduction is not only a function of increased economic growth but also of diminished inequality. The basis of the alternative argument is that poverty reduction, in the presence of high inequality, will require an exceptionally high rate of GDP growth for an extended period of time.

The traditional notion that has held sway over development thinking for almost half a century is that economic growth is fundamental to the development process, and that the objective of poverty reduction can only be achieved by allowing the benefits of growth to ultimately trickle down to the poor. The 'primacy of growth' paradigm is based on the premise that high growth, through high investment, would lead to higher employment and higher wages, and thereby reducing poverty. The 'trickle-down' paradigm presumes a built-in vertical flow from the rich to the poor. It assumes that the benefits of economic growth would, in the first round, accrue to the upper income land- and capital-owning groups, and the ensuing consumption expenditures of these households would, in subsequent rounds, accrue incomes to relatively lower income households.

The paradigm implies that:

- (1) the benefits of growth would accrue to households on the lower rung of the income ladder *residually*, and
- (2) the proportional benefits of growth accruing to the poor will always be *less* than what accrues to the rich.

There may, therefore, be a built-in mechanism for growth leading to greater inequality in the distribution of income at least in the short run.

The conceptual validation of the inevitability of inequality as a byproduct of growth is drawn from the Kuznet hypothesis, propounded in 1955. The hypothesis predicted an increase in inequality during early periods of growth, and reduction in inequality as the economy reaches a higher stage of development. The growth-inequality relationship was charted in what came to be well-known as the inverted U-shaped Kuznet's Curve (see chart 3.1).

The 'primacy of growth' model assumes a trade-off between growth and equity. Based on initial research findings, it is maintained that distribution policies give rise to distortions in the economy, resulting in inefficiencies that may be substantial enough to adversely affect the overall well being of society. It is also argued that inequality within a country is stable over time, and changes too slowly to make a significant difference in poverty reduction. The conclusion drawn is that growth must

precede distribution, and that the poor will pay the price of growth in terms of inequality and poverty until such time that growth builds up a 'reservoir' of wealth and its benefits trickle down in sufficient measure to reduce poverty.

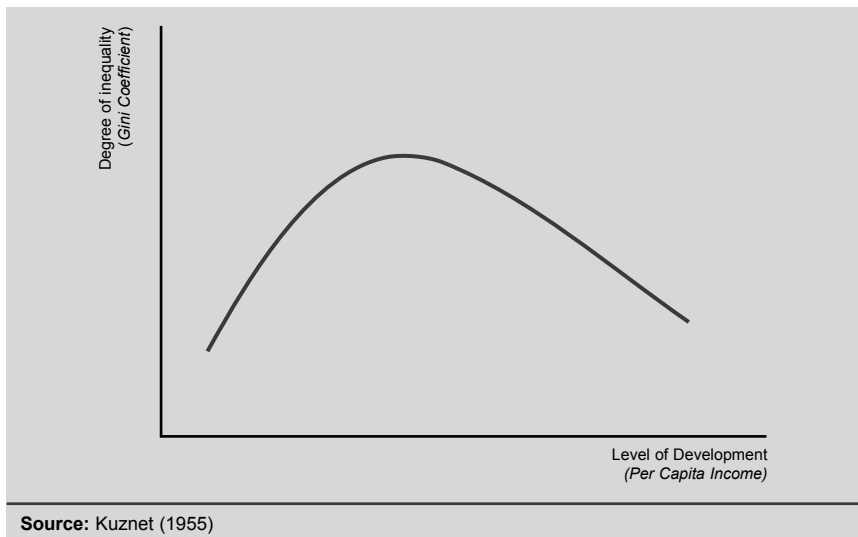
The 'primacy of growth' paradigm has been challenged by empirical evidence based on rigorous testing of more recent cross-country data, and the 'trickle-down' paradigm has been effectively discredited. While it is accepted that growth is certainly a necessary condition for poverty reduction, empirical research has shown that an exclusivist growth-oriented development agenda is accompanied by rising inequality. The first part of the Kuznet hypothesis is, therefore, confirmed. However, the inevitability of inequality stands disputed, the consensus being that it is not the rate of economic growth nor the stage of economic development, but the 'nature' of economic growth that affects inequality. It is held that, on account of the inequality that it fosters, distribution-neutral growth cannot necessarily or automatically lead to poverty reduction.

Further, it is reasoned that there does not exist an unavoidable trade-off between growth and equity (Naschold, 2002). Results show that high inequality is an impediment not only to poverty reduction, but also to growth. It is shown that a more equitable distribution of assets and income is likely to strengthen aggregate market demand, expand the economic base, and foster growth. Thus, distribution is not only a final outcome, but also a determinant of economic growth. Given that there is no trade-off *per se* between growth and equality, it follows that distribution can be pursued as an additional policy objective to enhance the poverty reducing effect of growth. The removal or correction of the various anti-poor institutional constraints and policy-induced biases is likely to actually improve market efficiency, besides promoting equity. For instance, social policy ensuring adequate provision of education and health services to the poor can improve their productivity and contribution to the economy. Therefore, the conclusion drawn is that poverty reduction is not a function of high or low growth, but rather of distribution sensitive growth.



Chart 3.1

Kuznet's Curve



*Results show that high inequality is an impediment not only to poverty reduction, but also to growth.*



Moreover, there is also empirical evidence that large distributional changes can be effected over relatively short periods of time, and that changes in income distribution are central to and more effective than growth in reducing poverty in high inequality situations. It follows that an integration of distributional concerns and prioritization of poverty reduction can be the basis for a new policy agenda to foster growth with equity.

## PROFILE OF POVERTY

**P**overty is defined, in economic parlance, as the absence of sufficient income to be able to procure the minimum amounts of the basic necessities of life. Economists define a 'poverty line' that identifies basic necessities, i.e., food, clothing, education, healthcare, and the like in terms of caloric requirements, and measures the minimum income required per capita per month to fulfill that minimum caloric requirement. The poverty line delineates the incidence of poverty, i.e. a headcount of the population below the poverty line. This population is categorized as 'poor'.

Defined as such, the poverty line for Pakistan, in 2001-02 prices, is estimated at Rs. 646 per capita per month and Rs. 605 and Rs. 761 for rural and urban areas, respectively. For a five-member family, this aggregates to a monthly income of Rs. 3230, Rs. 3025 and Rs. 3805, respectively for overall, rural and urban households. Needless to say, this is a statistical income threshold, and does not necessarily imply that households above this ceiling do not suffer from various dimensions of poverty. However, the poverty line is an empirically objective measure and is useful to assess changes over time to determine whether there has been an increase or decrease in the incidence of poverty.



Poverty on the rise

Photo: Akhtar Soomro

### Box 3.1 Definition of Various Poverty Aggregates

Once a poverty line is defined, and the individual/household poverty status is determined by comparing the poverty line and household consumption, this information needs to be aggregated into a single index to proxy the status of a group of individuals. The issues in this regard primarily relate to assigning weights to differing intensities of poverty. The most popular measure, namely the Head Count Index assigns equal weights to all poor regardless of the extent of poverty. There are other distribution-sensitive measures as well. For example, a class of functional forms, which has been suggested by Foster, Greer, and Thorbecke<sup>1</sup>, uses various powers of the proportional gap between the observed and the required expenditure as the weights to indicate the intensity of poverty. The higher the power, the greater the weight assigned to a given level of poverty. These measures, therefore, combine both incidence and intensity. The following formula is employed for measuring various poverty aggregates.

$$P^\alpha = (1/N) \sum [(Z - EXP) / Z]^\alpha$$

Where;  
 $P^\alpha$  = Aggregation measure  
 $N$  = Total number of households  
 $EXP$  = Household Expenditure  
 $Z$  = Poverty Line  
 $\Sigma$  = Summation for all households which are below the poverty line

Putting  $\alpha = 0$ , the formula shows the head count index (HCI), i.e., proportion of households whose consumption fall below the poverty line. This simple measure ignores the depth of poverty. Putting  $\alpha = 1$ , the Proportionate Gap Index or Poverty Gap Index (PGI) is calculated. It measures the average distance from the poverty line. Although PGI shows the depth of poverty, it is insensitive to the distribution among the poor. Putting  $\alpha = 2$ , the FGT2 index is calculated. The Index takes into account inequality amongst the poor and shows the severity of poverty by assigning greater weights to those households who are far from the poverty line.



<sup>1</sup>Foster, J.E., J. Greer, and E. Thorbecke, (1984). "A Class of Decomposable Poverty Measures", *Econometrica*, 52, pp.761-66

### Rural vs Urban Poverty

Apart from the incidence of poverty, it is also useful to look at the depth and severity of poverty (see box 3.1). Where the average income of households categorized as poor is further from/closer to the poverty line, poverty can be said to have greater/lesser depth. Where there is greater/lesser concentration of households below the poverty line, poverty can be said to be more/less severe. Viewed as such, rural poverty in Pakistan can be seen to have greater depth, while urban poverty is characterized by greater severity (see table 3.1)

**Table 3.1 Estimates of Poverty Measures: 2001-02 (%)**

	<b>Incidence (Head Count Index)</b>	<b>Depth (Poverty Gap Index)</b>	<b>Severity (FGT2 Index)</b>
Pakistan	33	7.16	2.27
Rural	35	7.18	2.21
Urban	30	7.10	2.41

**Source:** SPDC estimates based on PIHS-HIES, 2001-02

Based on consistent methodology, the incidence of poverty in Pakistan is estimated to have increased from 23 percent in 1987-88 to 33 percent in 2001-02. Rural poverty has risen by 2.3 percent annually from 26 to 35 percent, while urban poverty has grown more rapidly by 3.6 percent annually from 19 to 30 percent over the period of a decade and a half (see table 3.2).



**Table 3.2 Trends in Poverty Incidence (%)**

	1987-88	1996-97	1998-99	2001-02
Pakistan	23	28 (2.4)	30 (3.6)	33 (3.3)
Rural	26	30 (1.7)	32 (3.3)	35 (3.1)
Urban	19	25 (3.5)	25 (0)	30 (6.7)

**Note:** Annual growth rates from previous period are given in parenthesis  
**Source:** SPDC estimates based on PIHS-HIES, various issues

The spatial dimension of poverty is revealing (see box 3.2). Overall and rural poverty is the lowest in Punjab (26 and 24 percent, respectively) and the highest in Balochistan (48 and 51 percent, respectively). On average, the incidence of poverty in Balochistan is about twice that of Punjab. The incidence of overall as well as rural poverty in NWFP is lower (29 and 27 percent, respectively) than in Sindh (31 and 38 percent, respectively) [see table 3.3].

### Box 3.2

### Estimating Sub-National Poverty Incidence

**D**ue to small sample size and high standard errors in income and consumption variables, it is not recommended to estimate poverty incidence by province, particularly for NWFP and Balochistan using Household Income and Expenditure Surveys (HIES). The sample design of HIES allows only the computation of poverty statistics at the national or regional level (urban/rural) with an acceptable measure of reliability. Therefore, to estimate poverty statistics for provinces or districts, the Small Area Estimation Technique is applied. A brief description of this technique is given below.

This technique regards Household Consumption as the variable of interest, whose values are to be predicted with the help of independent variables or non-monetary predictors. These predictors are based on the identified correlates of poverty. Some continuous variables with strong predictive capabilities were dichotomized to discriminate between poor and non-poor households. These dummy regressors were constructed and included in the model to capture the effects of qualitative independent variables. The resulting variables were then fitted into a model which contains both continuous and discrete dummy variables. The structural form of the model is specified by the equation below:

$$Y_j = X_j\beta + \lambda_{j1}\gamma_1 + \lambda_{j2}\gamma_2 + \lambda_{jk}\gamma_k + \mu_j$$

where,  $Y_j$  is the household expenditure;  
 $X_j$  is a matrix of continuous explanatory variables;  
 $\lambda_s$  are the respective explanatory dummies variables;  
 $\beta_s$  are the estimated coefficients associated with the continuous variables;  
 $\gamma_s$  are the estimated coefficients associated with the selected dummy variables; and  
 $\mu_j$  is the standard error term.

This is a standard multivariate regression analysis and estimates the partial correlation coefficient between expenditure and the explanatory variables. Typically, a logarithmic transformation is applied to the dependent variable to make the relationship between the  $y$  and the  $x$ s linear. The transformation stabilizes the error variance, reduces asymmetry in the distribution of error terms and improves the prediction.

The best poverty predictors were those that contributed to a significant marginal increase in the explanatory power of the model. The predictors were essentially household level variables focusing on: household assets, education level and literacy, employment, household amenities, household structure, and demographic characteristics and geographical location. The choice of variable is, however restricted and depends on the availability of data in household survey. For instance, quality of housing is an important poverty predictor, but was not included in the list of predictors due to non-availability of relevant information in the survey. The variables mentioned above were constructed from the latest household survey (PIHS-HIES, 2001-02). A stepwise procedure allows one to calibrate the models by dropping explanatory variables with less predictive power. Optimal poverty predictors were selected using a combination of multiple regression analysis and tests for correlation and prediction. The estimated weighted function is continuous and allows the construction of predicted household expenditure which is used in the computation of sub-national poverty statistics.

**Table 3.3** Poverty Incidence by Province (%)

Province	Overall	Rural Areas	Urban Areas		
			Provincial Capital	Large Cities	Small Cities and Towns
Punjab	26	24	18	22	43
Sindh	31	38	10	23	40
NWFP	29	27	28	-	41
Balochistan	48	51	14	-	44

Source: SPDC estimates based on PIHS-HIES, 2001-02

The incidence of urban poverty relative to rural poverty is higher in Punjab and NWFP, but the reverse is the case in Sindh and Balochistan. The difference between overall and rural poverty is significant in the case of Sindh and is explained by the dual nature of the province's economy, i.e., the vast gulf between Karachi and the rest of Sindh. The situation with respect to urban poverty is more varied. Among the provincial capitals, the incidence of poverty is the highest in Peshawar (28 percent) and the lowest in Karachi (10 percent). The poverty level of other cities and towns is similar amongst the provinces, at over one-fifth in the case of larger cities and at over two-fifths in the case of smaller cities and towns.

### Poverty by Sector and Occupation

The examination of the prevalence of poverty by sector shows that, as expected, a relatively higher incidence of poverty exists in agriculture: 33 percent as against about 28 percent in non-agricultural sectors (see table 3.4). Inter-provincially, however, Punjab and NWFP report the highest incidence of poverty in mining and manufacturing: 30 and 45 percent, respectively. This can be explained as follows: Punjab is characterized by a relatively large small-scale manufacturing sector, while NWFP is typified by small-scale mining; both sectors are marked by informal employment arrangements, wages are significantly low, working conditions are poor, and workers do not have the benefit of any kind of social protection.

**Table 3.4** Distribution of Poverty\* by Sector, Occupation and Provinces (%)

	Pakistan	Punjab	Sindh	NWFP	Balochistan
<b>Sector</b>					
Services	28.08	27.87	24.37	31.72	41.54
Mining and Manufacturing	28.84	30.04	22.59	44.98	46.67
Agriculture	32.99	27.21	43.06	26.95	57.16
<b>Occupation Category - Agriculture</b>					
Own Cultivator	18.83	15.20	24.45	15.68	46.85
Livestock Tenderer	34.18	30.97	42.15	25.88	71.95
Contract Cultivator	36.80	37.87	19.96	35.38	50.00
Share Cropper	54.88	42.33	60.22	46.97	86.79
<b>Occupation Category - Non Agriculture</b>					
Employer	18.19	19.57	18.12	10.49	29.19
Self Employed	30.42	30.20	25.44	37.30	35.48
Wage Employed	30.51	30.62	26.66	34.08	47.41

\*Percentage of population below the poverty line

Source: SPDC estimates based on PIHS-HIES, 2001-02



Education denied, looking for work.

Photo: Akhtar Soomro

In terms of occupations, the highest incidence of rural poverty, at 55 percent, is observed among sharecroppers as against 19 percent in the case of own cultivators. Inter-provincially, poverty incidence among sharecroppers is significantly higher at 87 percent in Balochistan and 60 percent in Sindh, compared to less than 50 percent in Punjab and NWFP. The same north-south divide is observed for own cultivators, with 47 percent in Balochistan and 25 percent in Sindh reported as being below the poverty line, compared to about 15 percent in Punjab and NWFP.

In non-agricultural sectors, about 30 percent of self-employed and wage-employed are reported as being below the poverty line. By contrast, only 18 percent of the employers are classified as poor. Inter-provincial differences are again pronounced, with the incidence of poverty among employers being as low as 11 percent in NWFP and as high as 29 percent in Balochistan. The prevalence of poverty among the self-employed and employers may be explained by the dominance of the informal sector - hawkers, tea stall operators, petty traders and so forth. Poverty among the self-employed and wage-employed in Sindh is relatively lower at 27 percent, ostensibly on account of higher earnings/wages in Karachi.

### Poverty and Asset Ownership

The overall incidence of rural poverty for households with and without land stands at 18 and 32 percent, respectively. House owners exhibit lower poverty than non-owners, except in Sindh and Balochistan (see table 3.5). In Sindh, there are large concentrations of low-income population in *katchi abadis* where *de facto* ownership prevails, while many parts of Balochistan are characterized by communal ownership.

The above analysis identifies possible intervention areas that can impact poverty reduction, while inter-provincial variation highlights the need for a somewhat provincially-differentiated approach to poverty reduction.

*The overall incidence of rural poverty for households with and without land stands at 18 and 32 percent, respectively.*

**Table 3.5** Distribution of Poverty\* by Asset Ownership and Province

	Pakistan	Punjab	Sindh	NWFP	Balochistan
<b>LAND/PROPERTY</b>					
<i>Rural Areas</i>					
Land Ownership	17.90	12.39	20.97	19.51	42.61
No Land Ownership	31.82	26.13	41.26	32.35	52.49
<i>Urban Areas</i>					
Property Ownership	16.97	18.13	8.72	23.84	19.56
No Property Ownership	28.14	31.54	20.15	38.94	35.08
<b>HOUSING</b>					
<i>Rural Areas</i>					
House Ownership	28.97	23.70	38.46	25.48	51.11
No House Ownership	36.54	34.53	32.68	40.02	52.44
<i>Urban Areas</i>					
House Ownership	28.16	30.51	22.11	35.34	35.62
No House Ownership	25.76	31.90	13.31	42.17	31.14

\*Percentage of population below the poverty line  
Source: SPDC estimates based on PIHS-HIES, 2001-02

## DETERMINANTS OF POVERTY

Poverty is a function of a number of factors. Identifying such factors, particularly those with a policy dimension, is likely to aid in highlighting policy measures to combat poverty. Evidence from Pakistan, based on multivariate regression framework analysis of time series macro data for the 23-year period 1979 to 2002, corroborates the above findings. The analysis explores the linkages between growth, inequality and poverty in Pakistan, and establishes the relationships between macroeconomic and structural correlates of inequality.

### Econometric Results

The analysis establishes poverty to be a function of economic growth and distribution, highlighting the importance of both (see Box 3.3). In the formulation of the regression equation, per capita income represents the effects of growth, while distribution is represented multifariously by the Gini coefficient, the quintile ratio, and the square of the Gini. The Gini coefficient computes average inequality encompassing all income groups, the quintile ratio represents the relationship between the highest and the lowest income groups, and the square of the Gini captures the extent of disproportionate impact of inequality on lower income groups.

The results from the econometric analysis present two fundamental findings. First, that there is a positive correlation between per capita GDP and income inequality; implying that, as GDP rises, inequality also rises. Second, there is a higher elasticity of poverty with respect to inequality measures, implying that reduction of inequality is more likely to reduce poverty than growth; this implies that distribution variables are more important as poverty predictors than income and confirm the role of inequality in the prevalence of and/or increase in poverty.

## Box 3.3

## Modeling Poverty Trends

International evidence shows that the poverty elasticity of growth depends on the specific poverty measure being used (Kakwani, 1993), the degree of inequality of the income distribution (Revallion, 1997) as well as the specific characteristics of growth episodes, that is, whether growth is inequality *increasing* or *decreasing*. As such, the degree of poverty is postulated to be a function of two factors: the average income level of the country and the extent of income inequality. Formally,

$$P = P(Y, L(p)), \quad (1)$$

where  $P$  is a poverty measure,  
 $Y$  is per capita income and  
 $L(p)$  is the Lorenz Curve measuring the relative income distribution.

The Lorenz Curve is based on the ranking of population according to income (or consumption) and plotting the cumulative proportion of income against the cumulative proportion of population enjoying that income.

Changes in poverty can be decomposed into a growth component that relates changes in per capita income, and an inequality component that relates poverty to changes in inequality. In general, increases in average income (growth) will reduce poverty. Thus, growth elasticity of poverty ( $\lambda$ ) may be postulated as follows:

$$\lambda = \frac{Y}{P} \cdot \frac{M}{M} < 0 \quad (2)$$

Measuring the effect of inequality on poverty is slightly more complex because inequality can change in an infinite number of ways. It is hard to say anything general about the growth-poverty relationship when the distribution is allowed to change during growth. Although intuitively progressive distributional change is likely to reduce poverty, this result cannot be generalized without additional assumptions regarding the distribution. Kakwani (1993) developed a formula for the inequality elasticity of poverty under the assumption of an equal proportionate change in the Lorenz curve. Under this assumption it is possible to express the inequality elasticity of poverty  $\omega$  as the elasticity of poverty with respect to the Gini. The area between the Lorenz Curve and the 45-degree diagonal line divided by the total area under the 45-degree line provides the widely reported measure of inequality, the Gini coefficient (G).

$$\omega = \frac{G}{P} \cdot \frac{M}{M} > 0 \quad (3)$$

To establish the relationship between poverty, growth and inequality, Pakistan's time series data on per capita income, Headcount (poverty incidence or population below the poverty line) and Gini coefficient are used to estimate the following specification.

$$\text{Log (Headcount)} = \alpha + \beta \text{Log (Per Capita GDP)} + \lambda \text{Log (Gini)} + \mu \quad (4)$$

As consumption and income data are collected occasionally from Household Income and Expenditure Surveys, poverty and inequality series are interpolated before estimation. Moreover, a consistent time series of poverty is developed to avoid the inter-temporal methodological biases. Detailed results and statistical parameters of equation (4) are provided below:

## Determinants of Population below the Poverty Line (1)

Explanatory Variables	Coefficient	t-statistic	Significance
GDP Per Capita	-3.555156	-13.15405	0.0000
GINI Coefficient	8.497480	12.19754	0.0000
Dummy Variable (1985, 1986, 1987, 1988 = 1)	-0.058422	-2.293919	0.0328
Constant	41.21966	14.07793	0.0000
R-squared	0.911	F-statistic	68.04
Adjusted R-squared	0.897	Probability (F-statistics)	0.0000
Durbin-Watson statistics	1.670	Number of Observations	24

## Notes:

All variables (except the dummy) are in logarithmic form and statistically significant.  
 LM and ARCH tests were applied and no evidence of serial correlation was found.  
 The dummy variable helps to account for extreme observations.

In order to check the sensitivity of elasticity of poverty with respect to growth, another alternative inequality measure is used instead of the Gini coefficient. Quintile dispersion ratio presents the share in national income of the highest 20 percent of the population divided by the share of the lowest 20 percent of the population. This ratio considers the extreme points in the income distribution and may be used as a proxy to capture the high inequality level in the society. The results of the specification with Quintile ratio are given below:



#### Determinants of Population below the Poverty Line (2)

Explanatory Variables	Coefficient	t-statistic	Significance
GDP per capita	-2.341244	-21.79789	0.0000
Quintile dispersion ratio	3.679001	19.78207	0.0000
Dummy Variable (1985, 1986, 1987, 1988 =1)	-0.033255	-2.053282	0.0534
Constant	15.76304	27.50452	0.0000
R-square	0.965	F-statistic	178.12
Adjusted R-square	0.960	Probability (F-statistics)	0.0000
Durbin-Watson statistics	1.787	Number of Observations	24

#### Notes:

All variables (except the dummy) are in logarithmic form and statistically significant.  
LM and ARCH tests were applied and no evidence of serial correlation was found.  
The dummy variable helps to account for extreme observations.

In the third specification, the square of Gini coefficient is added in equation (4) to capture the disproportional impact of inequality on poverty. Ideally, the Atkinson class of measures or extended Gini should be used with high value of inequality aversion parameters to represent the level of society's concern about inequality. However, this was not possible due to non-availability of time-series data for 1970 and 1980. The statistical results with square Gini are reproduced below:

#### Determinants of Population below the Poverty Line (3)

Explanatory Variables	Coefficient	t-statistic	Significance
GDP Per Capita	-1.246767	-5.957205	0.0000
GINI Coefficient	51.00798	13.08469	0.0000
Squared GINI Coefficient	24.41652	11.01108	0.0000
Constant	40.03730	36.24368	0.0000
R-square	0.987	F-statistic	548.79
Adjusted R-square	0.986	Probability (F-statistics)	0.0000
Durbin-Watson statistics	1.437	Number of Observations	24

#### Notes:

All variables are in logarithmic form and statistically significant.  
LM and ARCH tests were applied and no evidence of serial correlation was found.



**Table 3.6** Alternate Estimates of Poverty Elasticity

Inequality Measures	With reference to	
	Growth	Inequality
Gini coefficient	-3.6	8.5
Quintile dispersion ratio*	-2.3	3.6
Extreme inequality represented by square of Gini	-1.2	2.4

\*Share in national income of the highest 20 percent of population to the lowest 20 percent of population  
**Source:** SPDC estimates.

The relative significance of inequality over growth in reducing poverty is perceivable from the fact that in all of the three specifications above, the value of the elasticity coefficient is higher for inequality than for growth. For example, inequality measured by the Gini coefficient shows that while a one percent decrease in inequality is likely to reduce poverty by 8.5 percent, a one percent increase in per capita income is expected to reduce poverty by only 3.6 percent (see table 3.6).

### Explaining Inequality

Given the importance of inequality as a factor in poverty, an attempt has been made to identify some of the variables that influence the Gini coefficient, particularly factors that can be manipulated at the policy level to affect poverty (see box 3.4). In the order of magnitude of impact, these are: food prices; per capita income; manufacturing-to-agriculture terms of trade; investment/GDP ratio; direct/indirect tax ratio; ratio of development expenditure on social services to GDP; and ratio of manufacturing and agricultural wages. Except for per capita income, improvement in all other variables tends to reduce inequality.



**Development has bypassed some communities**

Photo: Akhtar Soomro

*While a one percent decrease in inequality is likely to reduce poverty by 8.5 percent, a one percent increase in per capita income is expected to reduce poverty by only 3.6 percent.*

There is widespread consensus that macroeconomic stability is a prerequisite for pro-poor growth. In particular, it has been found repeatedly that high inflation -- particularly above a level of about 10% -- hurts the poor and economic growth. Therefore, inflation -- measured in terms of food prices -- may be a good proxy for fiscal stabilization in an economy. Investments, especially in infrastructure, are pro-poor and are essential for reducing the rate of unemployment and under-employment and in increasing the share of income of households in the lower income brackets. More public expenditure on health and education certainly increases the human capital endowment of the poor and hence affects their empowerment. As such, a negative relationship is hypothesized between development expenditure, particularly on social services - measured in terms of share of GDP -- and inequality. The tax structure is a major instrument of redistribution, as there is a direct link between progressive tax structure and equity. The ratio of direct-to-indirect taxes is used as a proxy for progressivity of the tax structure. Two elements of economic structure are also included in the analysis: one, the manufacturing to agriculture wage - with sectoral wage computed as the sectoral value added divided by sectoral labor force - and, two, the manufacturing to agriculture terms of trade - measured as the ratio of manufacturing implicit GDP deflator to that of implicit GDP deflator. Keeping the economic structure of the country in mind, it is expected that the increase in these ratios will worsen income distribution.

The above indicators or dimensions of inequality were empirically tested by multivariate regression analysis. Two inequality measures, i.e., the Gini coefficient and Share of lowest 20 percent of population in the National Income are used as dependent variables in separate equations. The Gini coefficient is computed from the Lorenz Curve, which is based on the ranking of population according to income (or consumption) and plotting the cumulative proportion of income against the cumulative proportion of population enjoying that income. The area between the Lorenz Curve and the 45-degree diagonal line divided by the total area under the 45-degree line provides this widely reported measure of inequality. The Gini coefficient takes values between zero and one, with higher values indicating greater inequality.

The estimated parameters and regression statistics of the empirical model of inequality are reported below.

#### Determinants of Inequality (1)

Dependent Variable: Gini Coefficient			
Explanatory Variables	Coefficient	t-statistic	Significance
GDP per capita	0.081491	3.589641	0.0027
Inflation (Food)	0.088670	10.49614	0.0000
Wage Gap	0.022831	3.709263	0.0021
Direct to Indirect Tax Ratio	-0.024458	-5.202815	0.0001
Development Expenditure on Social Services	-0.015308	-2.065791	0.0566
Investment	-0.036908	-2.350029	0.0329
Terms of Trade	0.046456	1.900432	0.0768
Dummy Variable (1985, 1986, 1987, 1988 =1)	0.005858	2.781237	0.0140
Constant	2.316846	14.29439	0.0000
R-square	0.998	F-statistic	1543.82
Adjusted R-square	0.998	Probability (F-statistics)	0.0000
Durbin-Watson statistics	1.682	Number of Observations	24

#### Determinants of Inequality (2)

Dependent Variable: Share of lowest 20 percent of the population			
Explanatory Variables	Coefficient	t-statistic	Significance
GDP per capita	0.045597	1.033782	0.3166
Inflation (Food)	-0.121057	-8.624377	0.0000
Wage Gap	-0.018336	-1.844491	0.0837
Direct to Indirect Tax Ratio	0.026935	3.859809	0.0014
Development Expenditure on Social Services	0.024468	6.040583	0.0000
Investment	0.051393	3.657485	0.0021
Terms of Trade	-0.078497	-2.457101	0.0258
Dummy Variable (1985, 1986, 1987, 1988 =1)	-0.005604	-2.572462	0.0205
Constant	2.449117	8.234955	0.0000
R-square	0.997	F-statistic	926.46
Adjusted R-square	0.996	Probability (F-statistics)	0.0000
Durbin-Watson statistics	1.608	Number of Observations	24

#### Notes:

- All variables (except the dummy) are in logarithmic form.
- LM and ARCH tests were applied and no evidence of serial correlation was found.
- The dummy variable helps to capture the extreme point estimate.

**Table 3.7** Determinants of Inequality

Explanatory Variables	Gini Coefficient	Share of Bottom 20% of Population
GDP per capita	0.081	0.046
Inflation (Food)	0.089	-0.121
Manufacturing to Agriculture Wage Gap	0.022	-0.018
Direct to Indirect Tax Ratio	-0.024	0.026
Development Expenditure on Social Services/GDP	-0.015	0.024
Investment/GDP	-0.037	0.051
Manufacturing to Agriculture Terms of Trade	0.046	-0.078

Source: SPDC estimates.

The result indicates that average growth worsens distribution and is unlikely to aid in reducing poverty, without explicit distribution policies (see table 3.7). This is evident from the fact that an increase in per capita income also raises inequality, with a one percent increase in per capita income raising inequality by 0.081 percent. Food prices emerge as the most important determinant of inequality as measured by magnitude of the estimated elasticity. The analysis shows that a one percent decline in food prices lowers inequality by 0.089 percent. Raising direct tax revenues, investment, and development expenditure on social services by one percent each is likely to reduce inequality by 0.024, 0.037 and 0.015 percent, respectively. Further, improving agricultural terms of trade and agricultural wages are also likely to reduce inequality by 0.046 and 0.024 percent, respectively.



Development needs to be orderly

Photo: Hassan Zaheer

**Table 3.8** Composition of Household Expenditure for Lowest Population Quintile (%)

Major Commodity Groups	Expenditure Shares					
	1988			2002		
	Urban	Rural	Total	Urban	Rural	Total
Food	40.8	45.9	44.6	55.5	56.1	55.9
Fuel and Lighting	7.0	6.8	9.1	7.9	11.0	10.1
Housing	12.9	7.6	9.2	8.0	7.4	7.6
Transport	2.1	2.2	2.2	2.7	2.8	2.7
Health	2.4	2.8	2.7	3.9	6.0	5.4
Education	0.6	0.9	0.7	4.2	2.0	2.7
Items for Household and Personal Care	9.1	9.0	8.9	3.7	4.2	4.0
Consumer Durables	1.6	2.4	2.2	0.8	0.9	0.9

Source: SPDC estimates based on HIES (various issues)

The importance of food prices is underscored by the fact that it is a key determinant of household expenditures on food, and its share in total household expenditure. The share of food expenditure in household budgets is an important indicator of poverty, and its increase corroborates other evidence of growth in poverty, particularly in urban areas. The analysis of the composition of household expenditures for households in the lowest quintile, that is, the lowest 20 percent of the population, shows that the share of food expenditure has increased by 11 percentage points from 45 percent in 1987-88 to 56 percent in 2001-02. The situation in urban households is worse, where the share of food expenditure has increased by 15 percentage points from 41 to 56 percent over the period (see table 3.8).

The direct/indirect tax ratio and development expenditure on social services as a percentage of GDP also emerge as significant determinants of inequality - hence, poverty. Given that the composition of taxes and public expenditure impact inequality and poverty, it would be useful to assess the consequences of changes in these two variables.



Women entrepreneurs

Photo: Akhtar Soomro



## TOWARDS POVERTY REDUCTION

Given the distribution of income in Pakistan based on 2001-02 estimates, every rupee increment in GDP accrues 48 paisas to the richest 20 percent of the population and 7 paisas to the poorest 20 percent. In other words, the richest segment of the population appropriates seven times more of the national income than the poorest segment of the population. The ratio worsens if the richest and the poorest 10 percent of the population are compared, with their respective shares being 34 and 3 paisas - a eleven -fold difference (see table 3.9).

Powerful evidence of the fact that the nature of growth in Pakistan is '*inequality-increasing*' is provided by microanalysis of household level data as well as from simulation results derived from SPDC's 264 equation Macroeconomic Model (see table 3.10). Simulations show that even if GDP growth is maintained at a high 6 percent level for each of the next five years, unemployment is likely to remain constant at the 8-9 percent level, and the inequality measure - Gini coefficient - will probably rise from 0.419 in Year 1 to 0.429 in Year 5, and the percentage of population below the poverty line can be expected to continue to increase from 30 percent to 31.7 percent over five years. It appears that, irrespective of the rate of growth, the economy is structurally locked into a low employment, high inequality and high poverty trap. Clearly, distribution-neutral growth alone cannot be counted upon to reduce poverty.

An effort has been made to simulate a pro-poor or distribution-sensitive growth path for the Pakistan economy over a period of five years. Needless to say, the exercise is notional and its limitations are obvious, particularly with respect to the impacts of political developments. However, the results provide powerful conclusions and highlight the possibilities that exist for reduction of poverty.



Citizens of the future

Photo: Amin Shah

**Table 3.9** Distribution of Income Shares (%)

	1988	1999	2002
<b>Income Share of Highest 20% Population (%)</b>			
Pakistan	43.5	46.5	47.6
Urban	47.8	50.1	50.3
Rural	40.0	41.8	43.2
<b>Income Share of Lowest 20% Population (%)</b>			
Pakistan	8.8	7.8	7.0
Urban	7.8	6.6	6.6
Rural	9.6	8.7	8.0
<b>Income Share of Highest 10% Population (%)</b>			
Pakistan	29.9	32.6	33.9
Urban	34.2	34.1	36.1
Rural	25.4	29.2	29.2
<b>Income Share of Lowest 10% Population (%)</b>			
Pakistan	3.58	2.60	2.7
Urban	3.13	2.59	2.5
Rural	3.97	2.81	3.1

Source: Household Integrated Economic Survey (HIES) (various issues)

**Table 3.10** Differential Impact of Monetary and Fiscal Policy Instruments

	Base Year	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Scenario - 1: Status Quo</b>						
GDP Growth	6.0	6.0	6.0	6.0	6.0	6.0
Total Investment/GDP	16.2	16.6	17.0	17.2	18.1	18.6
Public Investment/GDP	5.7	5.5	5.3	5.3	5.2	5.2
Inflation	4.2	4.7	5.2	5.3	5.5	5.7
Unemployment	8.7	8.8	8.8	8.8	8.7	8.6
Gini Coefficient	0.417	0.419	0.422	0.425	0.427	0.429
Poverty	30.0	30.1	30.5	31.2	31.2	31.7
Budget Deficit/GDP	5.1	5.4	5.3	5.2	5.0	4.8
Current Account Balance/GDP	-0.8	2.4	3.0	3.0	3.9	4.3
<b>Scenario - 2: Financing increased development/social expenditure through money supply</b>						
GDP Growth	6.3	6.7	7.0	7.5	7.5	7.6
Total Investment/GDP	16.2	17.1	17.8	18.3	19.2	19.8
Public Investment/GDP	5.7	5.8	5.6	5.5	5.7	5.7
Inflation	4.2	4.8	5.0	4.9	5.0	5.0
Unemployment	8.7	8.6	8.4	7.9	7.4	6.8
Gini Coefficient	0.417	0.414	0.416	0.418	0.421	0.424
Poverty	30.0	27.1	26.7	26.6	26.2	26.2
Budget Deficit/GDP	5.1	5.8	5.9	5.9	5.9	5.8
Current Account Balance/GDP	-0.8	2.6	3.5	3.9	5.3	6.1
<b>Scenario - 3: Financing increased development / social expenditure through expenditure switching</b>						
GDP Growth	6.3	6.7	7.0	7.5	7.5	7.7
Total Investment/GDP	16.2	17.1	17.8	18.3	19.2	19.8
Public Investment/GDP	5.7	5.8	5.6	5.5	5.7	5.7
Inflation	4.2	4.7	4.6	4.4	4.2	4.1
Unemployment	8.7	8.6	8.4	8.0	7.4	6.9
Gini Coefficient	0.417	0.414	0.415	0.418	0.420	0.422
Poverty	30.0	27.1	26.6	26.3	25.8	25.6
Budget Deficit/GDP	5.1	5.5	5.4	5.2	5.1	4.9
Current Account Balance/GDP	-0.8	2.6	3.4	3.8	5.2	5.9

Note: Except for Gini Coefficient, all figures are percentages.

Source: SPDC estimates based on ISPM Model



## Results from Model Simulations

Three scenarios have been generated through the Macroeconomic Model, with the assumption of a constant 6 percent GDP growth rate. The first is the *status quo* scenario, where the current structure, levels and composition of taxes and expenditures is held constant. The second and third scenarios incorporate adjustments in the structure, levels and composition of taxes and expenditures, as specified below:

1. Increase in the share of direct tax in total tax revenue from 45 to 60 percent by reducing indirect tax collection by Rs. 50 billion and raising direct tax collection by a corresponding amount.
2. Decrease in current expenditure by Rs. 75 billion from the following accounts
  - a. Defence (non-combat expenditures)
  - b. Non-food subsidies
  - c. Abolition/Curtailment of the following Federal Ministries on the Concurrent List of the Constitution:  
Education; Food; Agriculture and Livestock; Health; Housing and Works; Industries; Information and Broadcasting; Information Technology; Labour; Manpower and Overseas Pakistanis; Local Government and Rural Development; Minorities; Culture; Sports; Tourism and Youth Affairs; Population Welfare; Religious Affairs; *Zakat* and *Ushr*; Science and Technology and Women Development; Social Welfare and Special Education.
3. Increase of Provincial Development Expenditure by Rs. 50 billion.
4. Increase of Provincial Non-Development Expenditures on education, health and public health by Rs. 25 billion.

The expenditure adjustments, applied on Model-generated base year estimates corresponding to the year 2003-04, are spread over a five year period at the rate of Rs. 15 billion per year. Two approaches to finance this increase are postulated:

1. Increase in money supply through deficit financing, or
2. Expenditure-switching from current to development/social sector heads.

Scenario 2 incorporates adjustments 1, 3 and 4, implying a net increase of Rs. 75 billion in total expenditure. Scenario 3 incorporates adjustments 1, 2, 3 and 4, implying a reduction of Rs. 75 billion in current expenditure and a corresponding increase in development expenditure, leaving total expenditure constant. Scenario 2 is financed entirely through additional money supply and Scenario 3 is financed entirely through expenditure-switching.



The impact of the above adjustments under the scenarios is estimated on the following variables:

1. GDP growth
2. Inflation
3. Unemployment
4. Inequality (Gini coefficient)
5. Poverty incidence
6. Budget deficit/GDP
7. Current Account balance/GDP

The results of the three scenarios are detailed below:

#### **Scenario 1: The *status quo***

The *status quo* scenario shows that to sustain an economic growth rate of 6 percent, the required total investment/GDP ratio rises from 16.2 percent in the base year to 18.6 percent and the public investment/GDP ratio is required to be over 5 percent in Year 5 - the terminal year of the analysis. Inflation rises from 4.2 percent in the base year to 5.7 percent in Year 5. In this scenario, the budget deficit/GDP ratio declines from 5.1 to 4.8 percent, and the current account balance/GDP ratio deteriorates from a marginal surplus of 0.8 percent to a deficit of 4.3 percent. The worsening of the current account balance/GDP ratio reflects the fact that GDP growth is accompanied by a greater rise in imports than in exports. As such, the trade deficit expands, placing pressure on the current account balance.

#### **Scenario 2: Financing increased development/social expenditure through growth in money supply**

The simulation shows that the increase in development expenditure and provincial social sector expenditure to the tune of Rs. 75 billion over the stipulated period, financed through growth in money supply, i.e., through deficit financing, is likely to enhance the GDP growth rate from 6.3 percent in the base year to 7.6 percent in Year 5, as against 6 percent in the *status quo* scenario. This would require total investment/GDP ratio to rise from 16.2 percent in the base year to 19.8 percent and the public investment/GDP ratio to be nearly 6 percent in Year 5.

This scenario shows inflation rising from 4.2 percent in the base year to 4.8 percent in Year 1, and then remaining constant at around 5 percent, slightly lower than 5.2 percent in the *status quo* scenario. Inflation does not rise relative to the base despite the increase in money supply because higher GDP growth occurs largely due to the expansion of output supply and, by itself, puts downward pressure on prices. Unemployment declines from 8.7 to 6.8 percent. The Gini coefficient continues to rise, although at a lower rate, and stands at 0.424 in Year 5 as against 0.429 in the *status quo* scenario. The budget deficit/GDP ratio rises from 5.1 percent in the base year to 5.8 percent in Year 1 and then remains more or less constant. The current account balance/GDP worsens to a deficit of 6.1 percent as against 4.3 percent in the *status quo* scenario for the reasons explained above.



### Scenario 3: Financing increased development/social expenditure through expenditure-switching

Scenario 3 involves the same increase in development and social sector expenditure as simulated in Scenario 2, but it is financed through switching of current expenditure. The increase in the GDP growth rate is the same as in Scenario 2 and would require the same growth in total investment/GDP and public investment/GDP ratios.

Under Scenario 3, inflation rises from 4.2 percent in the base year to 4.7 percent in Year 1 and then declines to 4.1 percent in Year 5. Unemployment and poverty decline from 8.7 to 6.9 percent and from 30 to 25.6 percent, respectively. The Gini coefficient continues to rise; although, at a lower rate than in the *status quo* scenario or in Scenario 2, and stands at 0.422 in Year 5. The budget deficit/GDP ratio first rises to 5.5 percent in Year 1 and then declines to 4.9 percent by Year 5, while the current account balance/GDP ratio deteriorates from a marginal surplus to a deficit of 5.9 percent.

A comparative analysis of the three scenarios clearly demonstrates that a high GDP growth rate, without accompanying equity-promoting policy shifts, is by itself unlikely to reduce the incidence of unemployment or poverty. As shown in Scenario 1, where the tax and expenditure levels and composition are held constant, a 6 percent annual growth rate over a five-year period does not enhance employment or reduce poverty because inequality continues to rise and high growth serves to redistribute a greater proportion of incremental income in favour of upper income groups. Moreover, while the budget deficit/GDP ratio is likely to be constant, inflation and the current account deficit are likely to rise.

The partial shift of the tax burden from indirect to direct sources and the allocation of additional resources to developmental and social heads of expenditure accelerates the rate of economic growth. Clearly, the adjustment offers positive efficiency gains. There are equity gains as well, since it also reduces the rate of growth of the Gini coefficient and effects a small reduction in unemployment and poverty. Most significantly, the rising curve of poverty incidence is reversed.

The rate of increase of the Gini coefficient is lower; consequently, the decline of poverty is somewhat greater under the expenditure-switching scenario than under the increased money supply scenario. Accordingly, the budget deficit/GDP ratio and inflation are also higher under Scenario 2 than under Scenario 3. Under both scenarios, however, the current account balance/GDP ratio worsens and highlights the need for independent measures to manage the external account. These measures are discussed subsequently in the Sector Study on exports.

As stated above, this exercise is notional, and it is necessary to keep its limitations in mind. However, the results provide meaningful conclusions and highlight the possibilities that exist for economic growth and employment and for reduction of inequality and poverty. The two scenarios - one where financing is through increase in money supply and the other where financing is through expenditure-switching - represent two ends of the spectrum and possibilities exist for various combinations of the two.

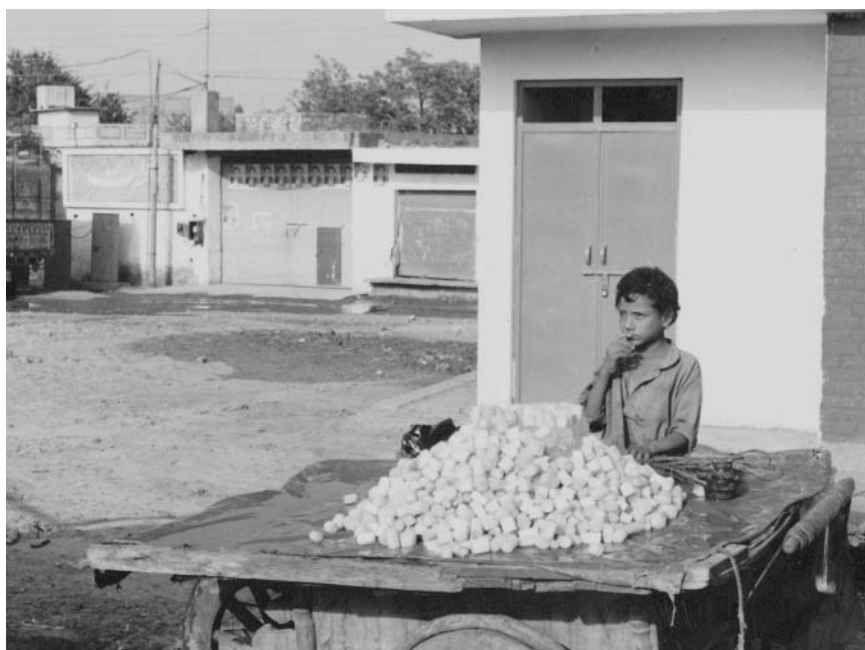
The notional tax and expenditure shifts - tested for their impact on growth, employment and poverty - are limited to fiscal policy measures. Although the steps serve to reduce unemployment and poverty, the decline is small, and at this rate it would require over 30 years to reduce

poverty. Since Independence, two generations have been condemned to poverty and misery, and one more generation cannot be subjected to the same fate at the altar of neo-liberal theology.

## THE INEVITABILITY OF ENGAGING WITH INEQUALITY

Estimates, based on official sources, show that the Gini-Coefficient rose from 0.348 in 1987-88 to 0.407 in 1990-91 and has remained more or less constant upto 2001-02. The above simulations, however, show that despite the reduction of unemployment and poverty, inequality continues to rise under the *status quo* scenarios. A partial equilibrium simulation exercise carried out to test the impact on poverty incidence of a change in the Gini coefficient, with all other things being held constant, shows that with the increase of the Gini coefficient from 0.405 in 1999 to 0.414 in 2002, poverty incidence rose from 26.2 to 32.3 percent over the period. The analysis shows that had the level of inequality - i.e., the Gini coefficient - been held constant at the 1999 level of 0.405, poverty in 2002 - at 26.2 percent - would have been about the same as in 1999 and 6 percentage points lower than the actual for 2002. It can, therefore, be postulated that the increase in inequality accounted for the 6 percentage point increase in poverty incidence. In other words, about 8.6 million people joined the ranks of the poor on account of rising inequality.

Projections, based on the multivariate regression analysis referred earlier, show that the value of the Gini coefficient is likely to increase from 0.417 in the base year to 0.429 in Year 5 if the *status quo* is maintained. This forecast is based on the estimated growth in the values of the independent variables in the regression equation: per capita income, food



Informal livelihood

Photo: SPDC



prices, manufacturing-to-agriculture terms of trade, investment/GDP ratio, direct/indirect tax ratio, ratio of development expenditure on social services to GDP, and the ratio of manufacturing and agricultural wages. Except for the per capita income, the rest of the variables can be significantly influenced and managed through explicit policy measures.

An attempt has been made to assess the impact of the change on the Gini coefficient by changing the projected values of the independent policy variables by 5 and 10 percent, respectively; in effect, by altering the rate of change of these variables. For example, the direct/indirect tax ratio has been declining historically, and is shown to be falling from 0.425 in the base year to 0.406 in Year 5. At the same time, the regression equation shows that a decrease in the direct/indirect tax ratio leads to an increase in the Gini coefficient, i.e., inequality. As a result, the rate of change has been raised by 5 and 10 percent, respectively. Similar changes have been effected for the other policy variables as well. The results show that even after a 5 and 10 percent change of each of the independent variables that determine inequality, the Gini coefficient is

**Table 3.11** Impact of Policy Shifts on Gini Coefficient

Year	Gini Coefficient	Per Capita Income	Food Price Index	Ratio of wages in Manufacturing to wages in Agriculture	Direct tax to Indirect tax ratio	Development Expenditure on Social Services to GDP Ratio	Total Investment to GDP Ratio	Ratio of Deflators of Manufacturing and Agriculture
Base Year	0.417	5416	354.12	3.29	0.4249	0.0053	0.1617	0.9080
Year 1	0.4193	5598	371.15	3.47	0.4270	0.0056	0.1656	0.9022
Year 2	0.4218	5786	391.04	3.61	0.4264	0.0060	0.1697	0.8965
Year 3	0.4248	5992	412.39	3.74	0.4215	0.0064	0.1724	0.8908
Year 4	0.4268	6207	435.61	3.85	0.4110	0.0076	0.1806	0.8851
Year 5	0.4293	6424	461.01	3.94	0.4062	0.0085	0.1863	0.8795
<i>With 5% change in rate of growth</i>								
Base Year	0.417	5416	354.12	3.29	0.4249	0.0053	0.1617	0.9080
Year 1	0.415	5598	352.59	3.29	0.4483	0.0059	0.1739	0.8571
Year 2	0.417	5786	371.48	3.43	0.4477	0.0063	0.1782	0.8517
Year 3	0.420	5992	391.77	3.56	0.4425	0.0067	0.1810	0.8462
Year 4	0.422	6207	413.83	3.65	0.4316	0.0079	0.1896	0.8409
Year 5	0.424	6424	437.96	3.74	0.4265	0.0089	0.1956	0.8355
<i>With 10% change in rate of growth</i>								
Base Year	0.417	5416	354.12	3.29	0.4249	0.0053	0.1617	0.9080
Year 1	0.410	5598	334.03	3.12	0.4697	0.0062	0.1821	0.8120
Year 2	0.412	5786	351.93	3.25	0.4690	0.0066	0.1867	0.8068
Year 3	0.415	5992	371.15	3.37	0.4636	0.0070	0.1896	0.8017
Year 4	0.417	6207	392.05	3.46	0.4521	0.0083	0.1986	0.7966
Year 5	0.420	6424	414.91	3.54	0.4468	0.0093	0.2049	0.7915

Source: SPDC estimates based on ISPM Model simulations.

**Table 3.12** Projected Poverty Incidence under Varying GDP Growth Rate (%)  
(With Gini Coefficient constant at 2004 level of 0.417)

Years	GDP Growth Rate (%)		
	6	5	4
2004	30.0	30.0	30.0
2005	28.9	29.5	30.1
2006	27.8	28.6	29.6
2007	26.7	27.8	29.1
2008	25.7	27.1	28.6
2009	24.7	26.3	28.1
2010	23.7	25.6	27.6
2011	22.8	24.9	27.1
2012	21.9	24.2	26.6
2013	21.1	23.5	26.2
2014	20.3	22.8	25.7
2015	19.5	22.2	25.3

Source: SPDC estimates.

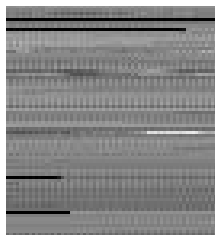
likely to continue increasing - albeit at slightly lower rates - from 0.417 in the base year to 0.424 and 0.420, respectively, in Year 5 (see table 3.11).

The United Nations Development Programme's Millennium Development Goals (MDGs) set the target of poverty reduction to half by the year 2015. In Pakistan's case, this translates into reducing the incidence of poverty to 15 percent by 2015. Projecting up to 2015, the analysis shows that if the GDP growth rate continued to be maintained at 6 percent per annum and measures were adopted to hold the Gini coefficient constant at the 2004 level of 0.417, poverty incidence would probably decline to 19.5 percent by 2015. However, with the Gini coefficient held constant at 0.417, lower GDP growth rates of 5 and 4 percent are likely to result in a higher incidence of poverty in 2015, of 22.2 and 25.3 percent respectively (see table 3.12).



Unequal development

Photo: Akhtar Soomro



If the objective were to ensure that poverty incidence of 15 percent be achieved by 2015, alternative choices emerge. First, if the Gini coefficient were not held constant and the trend in the growth rate assumed, then reducing poverty incidence to 15 percent by 2015 would require a GDP growth rate of 13.2 percent per annum. Alternatively, if the GDP growth rate were assumed to be 6 percent, reducing poverty incidence to 15 percent in 2015 would require that the Gini coefficient to be lowered to 0.402. Further, if the GDP growth rate were lower at 5 percent, reducing poverty incidence to 15 percent would require the Gini coefficient to be reduced to 0.392 by 2015. And if the GDP growth rate were to be still lower at 4 percent, reducing poverty incidence to 15 percent would require the Gini coefficient to be even lower to 0.380 (see table 3.13).

The choices are indeed difficult. It would appear that achieving an average 13 percent annual GDP growth rate over the next decade is economically unrealistic, while the redistribution measures that are required to reduce inequality are politically challenging. At the same time, allowing poverty to escalate any further amounts to curtailing purchasing power and arresting growth and risking social and political unrest as well.

The analysis presented above establishes the insufficiency of growth alone as a vehicle for poverty reduction, and consequently, the inevitability of engaging with the task of reducing inequality. The analysis also establishes the fact that progressive measures on the fiscal and monetary policy fronts, while inclined to reduce unemployment and poverty to some extent, do not have a perceptible effect on inequality. This may be because of the ingrained inequality in the distribution of assets, particularly land in rural areas.

**Table 3.13** Projected Poverty Incidence (%)  
(to achieve poverty incidence of 15 percent by 2015)

Years	At annual GDP growth rate: 6% Required	At annual GDP growth rate: 5% Required	At annual GDP growth rate: 4% Required
	Terminal Year Gini coefficient: 0.402	Terminal Year Gini coefficient: 0.392	Terminal Year Gini coefficient: 0.380
2004	30.0	30.0	30.0
2005	28.1	28.3	28.3
2006	26.3	26.4	26.2
2007	24.7	24.6	24.3
2008	23.2	23.0	22.7
2009	21.7	21.6	21.2
2010	20.4	20.2	19.8
2011	19.2	19.0	18.6
2012	18.0	17.9	17.6
2013	16.9	16.8	16.6
2014	15.9	15.9	15.8
2015	15.0	15.0	15.0

Source: SPDC estimates

*Given that land is the principal asset in the rural economy, its availability is finite, and about half the rural households are landless, redistribution appears to be central to the reduction of rural inequality and poverty.*



Need for a caring state

Photo: Nasim Akhtar

Clearly, therefore, more direct measures are needed to reverse the rising trend of inequality. Specifically, there is an imperative to combat the structure of inequality, if significant reduction in poverty is to be achieved in the medium term. A range of measures has been empirically identified and one such measure that has been shown to reduce poverty in rural areas - where about 70 percent of Pakistan's total poor are concentrated - is asset ownership. Given that land is the principal asset in the rural economy, its availability is finite, and about half the rural households are landless, redistribution appears to be central to the reduction of rural inequality and poverty. In technical terms, such measures are likely to effect a meaningful decline in the Gini coefficient, i.e. inequality.

Asset inequality can be compounded by a regressive fiscal regime. It is, therefore, necessary to study whether the burden of taxation and the benefits of public expenditure are redistributing income in an equitable manner.



# FISCAL POLICY AND EQUITY

# 4

*Pakistan presents a case of  
unequal asset ownership  
along with a regressive  
fiscal structure.*



# FISCAL POLICY AND EQUITY

Income is a flow that accrues from the stock of assets, which includes material endowments such as land and non-material attributes like education and skill. Therefore, an unequal distribution of assets is likely to lead to an unequal distribution of income. The analysis presented in Chapter 3 has established the inequality-increasing character of growth; thereby, suggesting a greater role for fiscal policy in maintaining a balance between growth and equity. Fiscal policy offers a means to alleviate the inequality in the flow of income through imposing the burden of taxation largely on the rich and directing public expenditure towards benefiting the poor. This redistribution aspect is the essence of a progressive fiscal policy; as opposed to a regressive one, where a greater burden of taxation falls on the poor, who are unlikely to accrue a greater share of benefits of public expenditure.

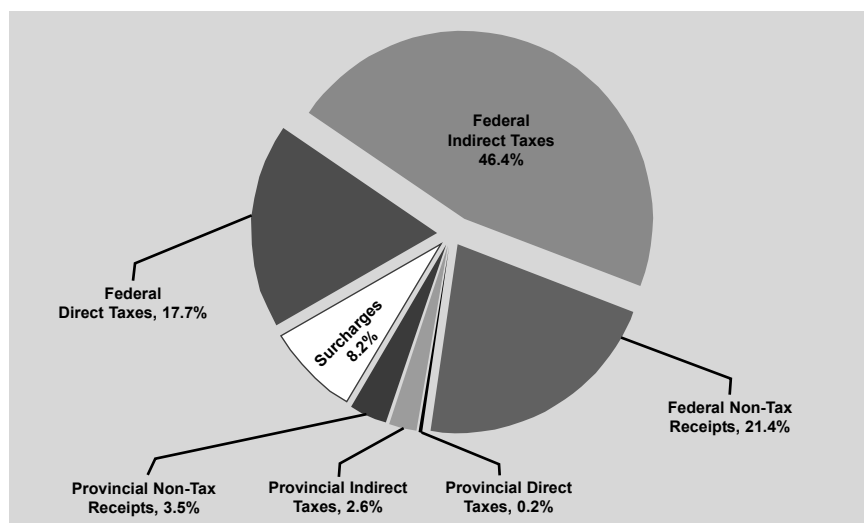
## THE TAX REGIME

Pakistan's tax structure is dominated heavily by indirect taxes, which comprise over two-thirds (68 percent) of combined federal and provincial tax receipts. If surcharges are included, this share rises to over three-fourths (76 percent). In terms of the share of federal taxes, indirect taxes account for nearly half (46 percent) and, if surcharges are included, the share increases to 55 percent. The ensuing implications on incidence are significant (see chart 4.1).

There exists extensive literature on the incidence of taxation. A key conclusion of the research, within Pakistan and abroad, is that indirect taxes - such as sales taxes and import duties - generally impose a relatively greater burden of taxation on the poor, i.e., they are regressive; while direct taxes - such as income taxes and urban property taxes - impose a relatively greater burden on the rich, i.e., they are progressive.

A comparison of the share of direct and indirect taxes between Pakistan and the rest of the world, including neighbouring countries, shows that Pakistan's share of direct taxes is below world averages. The average share of direct taxes for high income countries is 46 percent, while the same for low income countries is 28 percent. Neighbouring Iran and India post direct tax shares of 40 percent and 29 percent respectively. By contrast, Pakistan reports direct tax share of 27 percent. This share would be even lower if the indirect element of withholding taxes was netted out of direct tax receipts (see table 4.1, box 4.1).

Evidence that the tax system in Pakistan is biased against the poor is provided by an examination of the incidence of taxes. The tax regime consists of four main tax revenue sources: General Sales Tax (GST), Central Excise Duty (CED), Customs Duty and Income Tax. The first three are indirect taxes and the fourth is a direct tax. The three indirect taxes and income tax account for 65 and 34 percent of total federal tax revenue, respectively.

**Chart 4.1 Sources of Revenues in Pakistan: 2002-03****Sources:**

Federal Budget in Brief (2003-04)  
Provincial Budget Statement (2003-04)

**Table 4.1 Composition of Tax Revenue (%)**

Income Group/ Country	Direct Taxes	Indirect Taxes	
		Domestic	International Trade
Overall	33.1	44.0	22.9
High Income	45.8	41.7	12.4
Upper Middle Income	31.0	49.3	19.7
Lower Middle Income	31.5	43.1	25.5
Low Income	28.3	41.4	30.4
<b>Pakistan &amp; Neighbours</b>			
Iran	40.1	19.0	40.9
India	29.3	40.5	30.2
Pakistan	26.5	42.9	30.6

**Note:** Figures are unweighted average for the years 1990 to 2002

**Source:** SPDC Estimates based on World Development Indicators, World Bank

A review of the tax burden imposed on household incomes shows that, on average, the highest burden of indirect taxes on all households is imposed by GST (7.7 percent), followed by CED (3.4 percent), and the least by Customs Duty (1.9). The burden imposed by personal income tax is a mere 0.3 percent.

An analysis of the relative distribution of tax burden shows that the indirect taxes are regressive, with lower income households bearing a greater burden of the taxes than upper income households. This is indicated by the fact that while the poorest 10 percent of households contribute 16 percent of their income to the three indirect taxes, the burden of the tax progressively declines as income rises and the richest 10 percent contribute only about 10 percent (see table 4.2).

*The poorest 10 percent of households contribute 16 percent of their income to the three indirect taxes, and the richest 10 percent contribute only about 10 percent.*

### Box 4.1 Impact of Withholding Taxes on Direct and Indirect Tax Share

**W**ithholding taxes were introduced in the early 1990s as a means to boost revenues. These revenues were included as part of direct taxes. The result was that, as revenues through withholding taxes rose rapidly, the share of direct taxes in total taxes increased significantly. An effort has, however, been made to decompose the direct and indirect elements of withholding taxes on the basis of income by nature of economic activities (see table below).

Direct tax elements	Indirect tax elements
Salary Income	Payments to Contractors and Suppliers
Interest on Government Borrowing	Income from Imports and Exports
Interest on Bank Deposits	Electricity Billing
Dividend Income	
Income from Bank Transactions	
Payment to Non-Residents	
Income from Transport	

It appears that for the average of the last 7 years, direct taxes comprised 33 percent of total tax revenues. However, if the indirect element of withholding taxes is excluded, the share of direct taxes stands reduced to 21.5 per cent. Similarly, if the indirect element of withholding taxes is included in indirect taxes, its share in total tax revenues rises from 67 to 78.5 percent over the same period.

#### Impact of Withholding Taxes on Direct And Indirect Tax Shares

Year	Total Taxes (Rs. Billion)	Share in (%)			
		Direct Taxes		Indirect Taxes	
		With Indirect Withholding Taxes	Without Indirect Withholding Taxes	With Indirect Withholding Taxes	Without Indirect Withholding Taxes
1996-97	282.1	30.2	18.9	81.1	69.8
1997-98	293.6	35.1	23.5	76.5	64.9
1998-99	308.5	35.7	22.3	77.7	64.3
1999-00	347.1	32.5	20.9	79.1	67.5
2000-01	392.3	31.8	19.7	80.3	68.2
2001-02	404.1	35.3	23.7	76.3	64.7
2002-03	460.6	33.0	21.4	78.6	67.0
<b>Average</b>		<b>33.4</b>	<b>21.5</b>	<b>78.5</b>	<b>66.6</b>

Source: SPDC estimates based on CBR Annual Report (various issues)

**Table 4.2 Burden of Indirect Taxes by Income Group (%)**

Household Income Group	General Sales Tax	Excise Duty	Customs Duty	Total
Poorest 10%	9.3	4.5	2.3	16.1
2	8.6	4.2	2.1	15.0
3	8.2	3.9	2.0	14.1
4	8.3	3.8	2.0	14.1
5	8.0	3.5	1.9	13.3
6	7.7	3.2	1.8	12.7
7	7.4	3.1	1.8	12.4
8	7.1	2.9	1.7	11.8
9	6.7	2.6	1.7	10.9
Richest 10%	5.9	2.2	1.8	9.9
All Households	7.7	3.4	1.9	13.0

**Note:** 'All Taxes' column does not aggregate exactly because of rounding

**Source:** SPDC estimates based on HIES 2001-02, Supply and Use Tables of Pakistan 1989/90 and Tax and Tariff Rates downloaded from [www.cbr.gov.pk](http://www.cbr.gov.pk)

## Box 4.2

## Incidence of Taxes: A Methodological Note

**T**ax incidence analysis, primarily answers the question: who actually bears the final burden of a particular tax or a set of taxes? The final burden is distinguished from the initial burden in the following sense. The initial burden is borne by those who make the payment to the tax authority; the final burden is borne by those whose real incomes are reduced as a result of it. A tax is progressive if the final tax burden as a percentage of incomes is higher for high income households relative to lower income households, and regressive if it is higher for low income households relative to high income households.

Taxes can be divided into two broad categories: direct and indirect. Direct taxes are those where the initial and final burden are the same. Those who pay the tax also bear its burden. In the case of indirect taxes, those who bear the initial burden may be able to pass on the final burden to others, for example, through an increase in prices charged.

Taxes on factors of production - land (property tax), labour (income tax) and capital (corporate tax) are considered as direct taxes. From the perspective of incidence, it is generally believed that taxes on land and labour cannot be shifted to others. However, there is a lack of consensus about the ultimate burden of corporate taxes among the public finance experts - the argument being that taxes on capital may or may not be shifted to labour.

For the purpose of the present study of the incidence of income tax, the income tax rate provided in the Finance Acts of 1985-86 and 1997-98 have been applied to data on household income provided in HIES/PIHS 1988 and 2002 to obtain the quantum of income tax paid by each household. The analysis, as such, is limited to measurement of the incidence of personal income tax and does not take into account business or corporate taxes and indirect element of withholding income tax; thereby, making the analyses for 1988 and 2002 consistent and comparable.

In the next step, the burden of income taxes on each household is estimated by dividing the sum of individual and household level income taxes of all household members by total household income. In the final step, income group and province-wise average burden of personal income taxes is computed by taking the un-weighted of average of the household burden of income taxes.

The measurement of the incidence of indirect taxes is somewhat more complex. A major proportion of tax revenues in Pakistan accrue from indirect taxes, collected at production and import stages, and finally passed on to consumers. These indirect taxes cover both intermediate inputs and final goods. As a result, the price of a final good may include the cascading effects of indirect taxes on intermediate inputs. Any attempt to estimate the incidence of indirect taxes without capturing the impact of taxes on intermediate inputs can provide a misleading picture. As such, a more sophisticated technique based on Input-Output production matrix is employed to estimate the ultimate burden of indirect taxes.

The analysis is based on the assumption of full forward shifting of indirect taxes, i.e., the burden of indirect taxes is borne by consumers in proportion to their expenditures. In the simple input-output model of production, with fixed input-output matrix  $A$  and gross output vector  $Y$ , value added (VA) for each sector  $i$  can be computed as:

$$VA_i = Y_i - \sum A_{ni} Y_i = Y_i - AY_i = Y_i (1-A) \dots \dots (1)$$

If the purchaser's price vector  $q$  is defined as the price paid by the consumer as well as the producer for the purchase of inputs, and the producer price is  $p$ , then competitive price conditions can be written as:

$$p' = q'A + v' \dots \dots (2)$$

where primes denote row vectors and  $v$  is the vector of per unit value added.

If  $t$  is the tax vector then,

$$q = p + t \dots \dots (3)$$

The simultaneous solution of equation 2 and 3 can be written as:

$$q' = t'(I - A)^{-1} + v' (I - A)^{-1} \dots \dots (4)$$

An important point to note is that the purchaser's price is the sum of two components: the effective tax vector (product of statutory tax rate and inverse of the  $(I-A)$  matrix) and the per unit resource cost vector (product of per unit value added and inverse of the  $(I-A)$  matrix).

$$Te = t'(I - A)^{-1} \dots \dots (5)$$

The estimated effective tax rates ( $Te$ ) for customs and central excise duties, based on equation 5, covers both the cascading effects of tax on inputs and the tax on final goods. GST is collected in a value added tax (VAT) mode, which provide for tax credit on taxable inputs for the taxed goods. Therefore, an additional step is required to compute the effective tax rates on GST.

$$te = t'(I - A)^{-1} - \text{Tax Credit} + \text{Nominal GST} \dots \dots (6)$$

With respect to GST, exempted goods are not liable for GST, and are not entitled to claim tax rebate for tax paid on taxable inputs; while zero-rated goods are not liable for GST but are entitled to claim tax rebate for taxable inputs.

In the next step, estimated effective tax rates are converted from producer's price to purchaser's prices. Finally, the effective tax rates on purchaser's prices are applied to the paid expenditures of household and divided by total annual income to compute the actual tax burden of the three indirect taxes.



**Table 4.3** Burden of GST Net of Tax on Key Agricultural Inputs (%)

Household Income Group	Actual Burden (1)	Burden on Account of Fertilizer and Pesticides (2)	Revised Burden (1 - 2)
Poorest 10%	9.27	0.49	8.78
2	8.61	0.49	8.12
3	8.22	0.48	7.74
4	8.27	0.47	7.80
5	7.97	0.45	7.52
6	7.68	0.42	7.27
7	7.45	0.39	7.05
8	7.11	0.35	6.76
9	6.67	0.30	6.38
Richest 10%	5.87	0.20	5.67
All Households	7.71	0.40	7.31

**Source:** SPDC estimates based on HIES 2001-02, Supply and Use Tables of Pakistan 1989/90

GST claims 9.3 percent of the income of the poorest 10 percent of households, but only 5.9 percent of the income of the richest 10 percent. In other words, the burden of GST on the lowest decile of households is 58 percent higher than on the highest decile. In this respect, CED is the most regressive tax, with the burden on the lowest decile being 100 percent higher than on the highest decile. Customs Duties are the least regressive, with the burden on the lowest decile being 28 percent higher.

Efforts have been made by policymakers to protect the poor from the burden of taxation and to this end, selected food items like wheat and rice have been exempted from GST rate. In other words, GST rate for these items is zero. However, this does not imply zero-rating on account of the fact that the inputs that go into the production of these items are subject to tax. As such, while the nominal tax rate for the above stated items is zero, the effective tax rate amounts to about 7 percent.

The application of GST to agricultural inputs has been a subject of much debate, and an attempt has been made to measure the incidence of GST if fertilizers and pesticides were exempted from the tax. However, while the tax burden declines by about 5.5 percent for the poorest households, and by 3.5 percent for the richest households the tax remains regressive (see table 4.3)

Therefore, the question arises as to how can the regressivity of GST be at least neutralized, if not rendered progressive? An attempt has been made to identify the items the incidence of which for the poorest decile is at least 0.1 percent. These items include: wheat and wheat flour, potatoes, sugar, vegetable ghee, tea, cotton cloth, kerosene oil, laundry soap, and medicines. Zero-rating these items - or in other words, exempting these items and their inputs from GST - shifts the overall GST structure from being regressive to proportional or neutral (see table 4.4).

However, there are serious practical problems in doing so. Exempting the inputs for these items implies that the advantage would also accrue to a wide range of other items that may not be important in the consumption basket of the poor. Clearly, such extensive zero-rating carries the risk of creating secondary distortions and revenue losses. As

**Table 4.4** Burden of GST Net of Tax (%)  
(Aggregate of 9 Key Selected Items)

Household Income Group	Actual Burden (1)	Burden on Account of 9 Selected Items(2)	Revised Burden (1 - 2)
Poorest 10%	9.3	4.9	4.4
2	8.6	4.4	4.2
3	8.2	4.1	4.1
4	8.3	3.9	4.3
5	8.0	3.7	4.3
6	7.7	3.4	4.3
7	7.4	3.0	4.4
8	7.1	2.7	4.4
9	6.7	2.3	4.4
Richest 10%	5.9	1.5	4.4
All Households	7.7	3.4	4.3

Source: SPDC estimates based on HIES 2001-02, Supply and Use Tables of Pakistan 1989/90

such, while the measure may be desirable, its feasibility is questionable. It appears, that the indirect tax regime is basically regressive, and efforts to render it even proportional are not likely to succeed.

Though direct taxes are progressive, that is they impact upper income groups more than lower income groups, personal income tax in Pakistan commands a negligible share in the overall tax burden; on average, the burden of direct taxes is 0.3 percent, while the burden of indirect taxes is 13 percent.

Nevertheless, the structure of personal income taxes is progressive. The lowest 6 deciles are exempted from taxation of their incomes, and the burden of income on the 7th, 8th, 9th and 10th deciles is shown to rise progressively. However, the average burden of personal income tax on household incomes halved from 0.6 percent in 1987-88 to 0.3 percent in 2001-02 and the progressivity of the tax also declined over the period. This can be discerned from the fact that while the burden of personal income tax as a percentage of household income has doubled from 0.1 to 0.2 percent for the 7th decile, the corresponding burden for the 10th decile has declined by half from 4.3 to 2.1 percent (see table 4.5).

The preceding incidence analysis of the tax regime shows that the richest 10 percent of households bear the least burden of indirect taxation, and that their relative advantage with respect to direct taxes has further improved over the last decade and a half. Aggregating the tax burden of direct and indirect taxes shows an improvement in the relative incidence on different income groups. While the overall indirect tax burden on the lowest decile is 63 percent greater than on the highest decile, the combined direct and indirect tax burden is 34 percent higher; that is the regressivity stands reduced.

Broadly, three conclusions emerge from this analysis: (1) indirect taxes are regressive and neutralizing their regressivity appears to be difficult, (2) direct taxes are progressive; although, their progressivity has declined over time, and, (3) the regressivity of direct and indirect taxes combined is reduced relative to the regressivity of indirect taxes. The

*Though direct taxes impact upper income groups more than lower income groups, personal income tax in Pakistan commands a negligible share in the overall tax burden.*

## Box 4.3

## Inter-Provincial Distribution of Tax Burden

The analysis also shows that the tax regime is unequal in inter-provincial terms as well, with households in all income groups in Sindh bearing a greater burden of the three indirect taxes relative to households in other provinces. In particular, the average burden of indirect taxes on Sindh is about 9 percent higher than on the country as a whole (see table A). Households in the highest income decile in Sindh shouldered a lower burden of personal income tax in 1987-88. However, this advantage appears to have eroded by 2001-02, at which point the tax incidence on the 9th and 10th decile households in Sindh became higher relative to other provinces.

Table A: Burden of Indirect Taxes by Province and Income Group (%)

Household Income Group	Pakistan	Punjab	Sindh	NWFP	Balochistan
Poorest 10%	16.1	16.0	17.2	14.5	14.9
2	15.0	14.8	16.2	13.6	14.4
3	14.1	13.8	15.9	12.8	13.4
4	14.1	14.1	15.0	12.8	13.9
5	13.3	13.1	14.3	12.3	12.9
6	12.7	12.6	13.6	12.2	12.6
7	12.4	12.0	13.7	11.5	12.1
8	11.8	11.5	12.8	10.8	11.6
9	10.9	10.6	12.0	10.1	11.0
Richest 10%	9.9	9.5	10.7	9.9	9.9
All Households	13.0	12.8	14.1	12.1	12.7

Source: SPDC estimates based on HIES 2001-02, Supply and Use Tables of Pakistan 1989/90 and Tax and Tariff Rates downloaded from [www.cbr.gov.pk](http://www.cbr.gov.pk)

Table B: Burden of Income Tax by Province and Income Group (%)

Household Income Group	Pakistan		Punjab		Sindh		NWFP		Balochistan	
	1987-88	2001-02	1987-88	2001-02	1987-88	2001-02	1987-88	2001-02	1987-88	2001-02
Poorest 10%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	0.1	0.2	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.4
8	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.2	0.6	0.7
9	1.0	0.7	1.0	0.7	1.0	0.8	1.2	0.5	1.3	1.2
Richest 10%	4.3	2.1	4.6	1.8	4.1	2.6	4.1	1.8	3.1	2.8
All Households	0.6	0.3	0.6	0.3	0.6	0.4	0.6	0.3	0.5	0.5

Source: SPDC estimates based on HIES 2001-02, and Finance Act, (various issues)

Specifically, the burden on the 10th decile in Sindh is nearly a quarter greater than on the country as a whole (see table B). The regressivity of the tax regime is higher for Sindh, - even for all taxes combined - and points to the need for specific measure to address the situation (see table C).

Table C: Burden of Direct and Indirect Taxes by Province and Income Group (%)

Household Income Group	Pakistan	Punjab	Sindh	NWFP	Balochistan
Poorest 10%	16.1	16.0	17.2	14.5	14.9
2	15.0	14.8	16.2	13.6	14.4
3	14.1	13.8	15.9	12.8	13.4
4	14.1	14.1	15.0	12.8	13.9
5	13.3	13.1	14.3	12.3	12.9
6	12.8	12.6	13.6	12.3	12.6
7	12.5	12.2	13.9	11.6	12.5
8	12.2	11.9	13.3	11.1	12.3
9	11.6	11.3	12.8	10.6	12.1
Richest 10%	12.0	11.3	13.3	11.6	12.7
All Households	13.4	13.1	14.5	12.3	13.2

Source: SPDC estimates based on HIES 2001-02, Supply and Use Tables of Pakistan 1989/90 and Tax and Tariff Rates downloaded from [www.cbr.gov.pk](http://www.cbr.gov.pk)

**Table 4.5 Burden of Income Tax by Income Group (%)**

Household Income Group	1987-88	2001-02
Poorest 10%	0.0	0.0
2	0.0	0.0
3	0.0	0.0
4	0.0	0.0
5	0.0	0.0
6	0.0	0.0
7	0.1	0.2
8	0.5	0.4
9	1.0	0.7
Richest 10%	4.3	2.1
All Households	0.6	0.3

Source: SPDC estimates based on HIES 1987-88 and HIES 2001-02, Finance Act, Various issues

implication is that enhancing the weight of direct taxes - by shifting the primary onus of revenue generation from indirect to direct taxes - is likely to render the incidence of the tax regime proportional or progressive.

## THE EXPENDITURE REGIME

Progressive taxation cannot by itself be expected to reduce poverty, but can prevent the poor from becoming poorer. Public expenditure offers greater scope for poverty reduction, subject to the condition that the distribution of the benefits of expenditure - or what is also called the benefit incidence of expenditure - is progressive. In other words, progressive benefit-incidence of expenditure implies that lower income households derive greater benefits from a given public expenditure than relatively upper income households. Conversely, expenditures that accrue greater benefits to upper income households relative to lower income ones are termed regressive.

In general, public expenditure does not equally benefit all sections of the population. Expenditures can have differential benefit-impact with respect to income, age, gender, or region. For example, expenditure on state-of-the-art coronary care facilities is more likely to be of advantage to the rich; by contrast, financing of unemployment insurance offers relatively greater benefits to the poor. A higher allocation of funds for pensions is beneficial for the elderly, while state funding of a school meal programme is advantageous for the young. Provision of piped water supply is likely to reduce the burden on women, while constructing highways is likely to improve men's access to the city. Investing in improving the irrigation system is of benefit to the rural population, while provision of services to *katchi abadis* is beneficial to the urban population. Building dams is more likely to benefit upper riparian regions, while investing in marine fisheries is likely to benefit coastal regions. And so on.

The quantitative analysis of the distribution of the benefits of public expenditure, or benefit-incidence of expenditure, is not an easy task. This is mainly due to its public goods nature, that is, most of such expenditure cannot be exclusively targeted to any particular group; conversely, no

*Despite the importance of public services for the poor, Pakistan's combined federal and provincial current expenditure is dominated by three non-public service heads: debt servicing, defence, and general administration.*

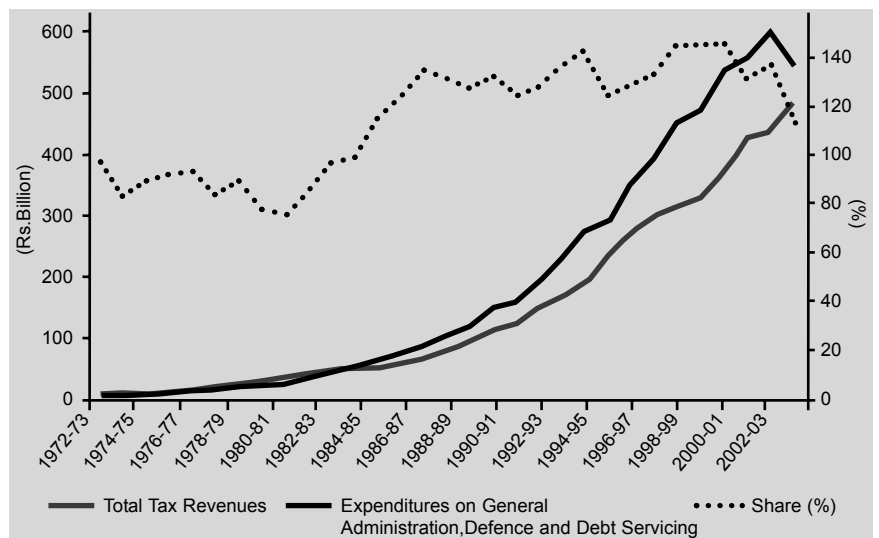
particular group can effectively be excluded from availing the benefits of such expenditures. Pervasive externalities also make it difficult to determine the allocation of benefits. Even a modest exercise would require a large amount of highly disaggregated data, which are generally unavailable.

On the whole, the theoretical and empirical literature establishes the progressive benefit-incidence of public services, such as housing, water supply, electricity, public transport, education, health, and public health facilities. Studies in a number of countries like Columbia, Ecuador, Malaysia, Philippines and Pakistan, including one with reference to Karachi - Pakistan's largest city - show that expenditure on primary and secondary education, health care, public transport, and infrastructure have a progressive benefit-incidence. An SPDC study, carried out in 2004, has also documented the process of asset depletion and descent into poverty resulting from a chronic and long-term illness in the family which points towards the potentially beneficial impact of subsidized provision of health care on the real incomes of the poor.

Public or collective provision of services offers the advantage of economies of scale, which reduce unit costs, making them more affordable for the poor. Though the rich can and do avail themselves of these services, their spending on such services a small part of their total expenditure. By contrast, savings accruing to poorer households through the 'lower cost collectively provided services' comprises a significant part of their total expenditure.

Despite the importance of public services for the poor, Pakistan's combined federal and provincial current expenditure is dominated by three non-public service heads: debt servicing, defence, and general administration. Over the last five years, subsidies to cover WAPDA and

**Chart 4.2** Tax Revenue Devoted to Selected Non-Development Expenditures



**Sources:**

Federal Budget in Brief (various issues)

Provincial Budget Statement (various issues)

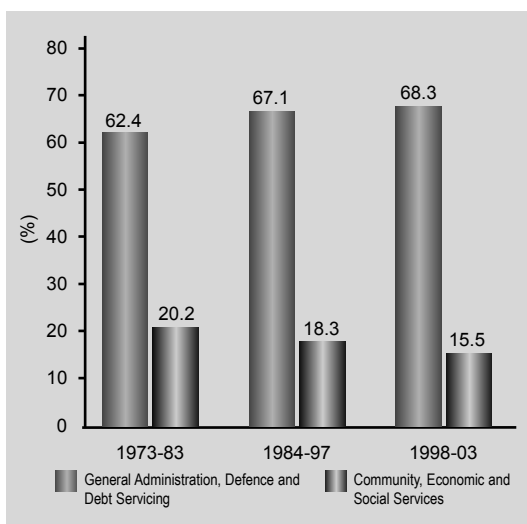
KESC losses have also emerged as a major item in non-public service expenditure. 1984-85 was a turning point, from whence total expenditure on the three non-public service heads exceeded total federal and provincial tax collection. In 2002-03, for example, total federal and provincial tax revenue amounted to Rs. 482 billion, while total expenditure on debt servicing, defence, and general administration equaled Rs. 543 billion. Given that these expenditures exceed tax revenue by Rs. 61 billion, it may be implied that not one single rupee of tax revenue is now devoted to provision of economic, social or community services or to developmental needs (see chart 4.2).

The post-1984-85 period also posted a series of shifts in expenditure patterns. Total allocations to the three non-public service heads during 1973-89 averaged about 60 percent of total federal and provincial current expenditures. This share increased to 70 percent during 1990-2003. The share of economic, social and community services registered two downward shifts, one in 1983-84 and the other in 1997-98; whence the share of these services dropped from an average of over 20 percent during 1973-83 to 18 percent during 1984-97, and further to 15.5 percent during 1998-2003 (see table 4.6 and chart 4.3).

Though the provision of economic, social and community services is largely the domain of the provinces, provincial finances and correspondingly their ability to provide for services, particularly education, health and public health, has been seriously compromised by a series of federal actions. Two of the more significant measures are related to (1) the National Finance Commission (NFC) Awards and (2) the concomitant process of containment of the federal budget deficit as part of the stabilization agenda under the Structural Adjustment Programme.

The NFC Awards, a constitutional obligation, are required to be determined every 5 years. However, only three Awards have been instituted over the last three decades: 1974, 1991 and 1997. Upon expiry of the Awards, allocations to the provinces have been made on an ad hoc basis. The first Award was agreed upon in 1974 and expired in 1979. The second Award was adopted in 1991 and expired in 1996. The third Award, instituted in 1997, ended in 2001. Currently, allocations to provinces are being made on the basis of the 1997 Award.

**Chart 4.3** Share of Selected Public and Non-Public Services in Total Expenditure (%)



**Sources:**

Federal Budget in Brief (various issues)  
Provincial Budget Statement (various issues)



Hitching a ride to a better future

Photo: Akhtar Soomro

Table 4.6

## Composition of Aggregate Federal and Provincial Recurring Expenditures (%)

Years	General Administration	Defence	Debt Servicing	Total	Community Services	Social Services	Economic Services	Total	Grants & Subventions	Law & Order	Subsidies	Unallocable	Grand Total
1972-73	7.6	45.1	16.8	69.6	2.6	8.0	10.7	21.3	0.5	6.1	2.3	0.3	100.0
1973-74	6.6	34.1	16.6	57.3	2.3	7.9	7.5	17.6	1.8	5.3	17.9	0.1	100.0
1974-75	6.1	33.5	15.7	55.3	1.9	8.2	6.7	16.8	2.6	6.7	18.6	0.1	100.0
1975-76	6.7	36.8	18.6	62.0	1.9	9.3	7.7	18.9	1.7	6.8	10.4	0.2	100.0
1976-77	7.3	35.2	21.8	64.3	2.1	9.4	8.0	19.5	2.8	7.4	5.7	0.2	100.0
1977-78	6.8	33.8	19.4	60.0	2.0	10.0	10.1	22.1	4.8	6.2	6.1	0.7	100.0
1978-79	6.0	30.1	24.1	60.2	2.3	9.5	8.6	20.4	5.4	4.5	8.9	0.6	100.0
1979-80	5.8	31.8	23.8	61.4	3.3	10.6	7.1	21.0	3.3	4.5	9.6	0.1	100.0
1980-81	6.2	34.7	23.1	63.9	3.2	11.3	7.1	21.7	3.1	4.7	6.3	0.3	100.0
1981-82	6.3	37.2	22.9	66.4	3.4	11.3	6.9	21.6	3.1	4.5	4.3	0.2	100.0
1982-83	6.1	34.0	26.3	66.3	3.1	10.5	7.9	21.6	4.1	3.9	4.1	0.0	100.0
1983-84	5.8	31.1	26.0	62.9	3.1	10.2	6.1	19.3	6.8	4.2	6.8	0.0	100.0
1984-85	5.8	30.0	24.6	60.3	2.9	9.9	5.9	18.6	8.6	3.8	6.5	2.1	100.0
1985-86	5.3	28.9	28.2	62.5	3.0	11.0	4.9	18.9	8.8	3.6	5.0	1.2	100.0
1986-87	5.3	26.7	28.3	60.4	3.0	11.1	5.3	19.4	10.0	3.8	5.5	0.9	100.0
1987-88	5.6	27.2	29.7	62.5	2.8	11.8	4.4	19.0	9.8	3.7	4.1	0.8	100.0
1988-89	5.8	27.9	32.2	65.8	2.6	12.0	4.0	18.6	5.7	3.9	5.6	0.4	100.0
1989-90	5.3	29.8	35.3	70.5	2.3	10.7	3.5	16.6	2.8	3.8	5.3	1.0	100.0
1990-91	5.8	27.1	33.8	66.6	2.2	11.8	5.1	19.1	5.8	4.1	4.3	0.1	100.0
1991-92	6.1	27.6	36.0	69.7	2.3	11.7	3.8	17.9	2.9	4.7	3.7	1.0	100.0
1992-93	6.1	27.2	38.2	71.5	2.6	11.5	3.6	17.7	3.6	4.2	2.4	0.8	100.0
1993-94	6.6	25.0	41.1	72.7	2.4	11.2	3.3	16.9	3.0	4.2	2.2	1.0	100.0
1994-95	7.7	24.4	38.6	70.7	2.5	12.4	3.8	18.7	3.1	4.9	1.6	1.1	100.0
1995-96	8.4	23.3	38.8	70.5	2.4	11.9	3.8	18.2	2.7	4.3	2.8	1.5	100.0
1996-97	7.6	23.2	41.5	72.3	2.3	12.0	3.5	17.7	2.5	4.0	2.4	1.2	100.0
1997-98	6.3	21.6	44.8	72.7	2.3	11.2	3.0	16.5	3.7	3.8	2.2	1.1	100.0
1998-99	5.9	19.7	46.9	72.5	2.2	11.2	2.9	16.3	3.5	3.8	2.8	1.1	100.0
1999-00	5.5	18.6	45.3	69.4	1.9	10.5	2.8	15.2	7.7	3.7	3.3	0.7	100.0
2000-01	9.9	16.5	43.2	69.6	1.9	10.2	3.4	15.5	6.6	3.9	4.3	0.1	100.0
2001-02	9.6	17.2	40.7	67.5	1.8	10.2	3.6	15.6	9.0	3.9	3.7	0.3	100.0
2002-03	9.3	17.1	31.7	58.1	1.4	9.9	2.9	14.2	10.7	4.3	6.6	6.2	100.0

Source: Federal Budget in Brief, Provincial Annual Budget Statements, Various Issues

Prior to the 1991 NFC Award, the provincial governments were able to run up deficits to finance their expenditures, and the deficits were covered by the federal government in the form of deficit grants. The 1991 Award deleted the provision for federal deficit grants to the provinces, and at the same time the provinces were advised against carrying budget deficits. These provisions required provinces to limit expenditures to available resources, which had a direct impact on social sector expenditures; given that, with establishment expenditures more or less fixed, the only scope for reducing expenditure lay in the social sector expenditures. A saving grace was that the federal government continued to finance the expenditures of the provincial component of the Public Sector Development Programme (PSDP), which meant that provincial development activities continued to proceed.

The 1997 NFC Award incorporated three major changes which had far-reaching impact on provincial finances:

First, provision for federal financing of the provincial component of PSDP was withdrawn, and the provinces were required to finance their own development expenditures. No tax bases were transferred to the provinces to enable them to finance this additional burden. Consequently, every rupee of development expenditure incurred by the provincial governments cut into their social sector expenditures.

Second, under the 1991 Award, customs duties did not form part of the divisible pool, with the federal government retaining the entire proceeds. Income tax and sales tax were part of the divisible pool, with the federal government retaining 20 per cent of the proceeds and 80 per cent being distributed among the provinces. The 1997 Award readjusted the size and composition of the federal divisible pool and the revenue-sharing formula. The Award included all taxes in the federal divisible pool and changed the federal-provincial distribution ratio to 62.5 percent for federal and 37.5 percent to provincial governments.



Water supply can transform women's lives

Photo: Hassan Zaheer

**Table 4.7** Who is Bearing the Burden of Stabilization?  
(Rs. Billion)

Heads/ Years	Interest payments from Provinces	Recovery of Loan from Provinces	Self-Financing of PSDP by Provinces	Provincial Surplus	Total	Fiscal Budget Deficit	Provincial Share of Containment Fiscal Deficit (%)
1990-91	13.5	1.5	0.0	0.0	15.0	65.3	23.0
1991-92	15.9	1.7	0.0	0.0	17.6	93.7	18.8
1992-93	18.0	2.1	0.0	0.0	20.1	95.6	21.1
1993-94	20.1	2.4	0.0	0.0	22.5	99.1	22.7
1994-95	21.9	2.8	5.0	0.0	29.7	109.6	27.1
1995-96	22.7	3.4	10.7	0.0	36.8	132.4	27.8
1996-97	24.2	5.0	14.0	0.0	43.2	153.3	28.2
1997-98	26.1	5.8	3.9	0.0	35.7	141.0	25.3
1998-99	25.5	6.4	3.9	0.0	35.7	103.4	34.6
1999-00	28.3	8.0	6.8	14.8	57.8	122.0	47.4
2000-01	29.4	9.0	20.5	0.4	59.3	185.6	32.0
2001-02	29.5	10.1	15.4	1.6	56.6	257.1	22.0
2002-03	28.0	18.8	28.7	16.6	92.0	181.3	50.7

**Source:** Federal Budget in Brief and Explanatory Memorandum of Federal Receipts

Simultaneously, the federal government began to implement the structural adjustment reforms, scaling down customs duties drastically and expanding sales taxes significantly. Had the 1991 Award distribution arrangement continued, the provinces would have borne no burden of the decline in customs duty revenues and would have accrued 80 per cent of the additional revenues from sales taxes. Under the 1997 Award, the federal government shifted one-third of the loss from customs duties to the provinces, and increased its share of the larger sales tax revenues from 20 to 63 percent. Viewed from the provincial perspective, the provinces had to bear one-third of the burden of reduction in customs duties revenues and accrued only one-third of the additional sales tax revenues.

Third, in view of the reduced provincial receipts from the federal pool and the additional PSDP expenditure burden on the provinces, provincial governments were allowed to take loans from the federal government to finance their deficits. However, the federal government retained a premium on the interest rate charged. In other words, the federal government borrowed money at lower rates and lent it to provincial governments at higher rates. In most cases, this premium was significant.

These three measures - plus recovery of loans from the provinces and generation of the provincial surplus - have imposed a fiscal cost on the provinces, which increased from Rs. 15 billion in 1990-91 to Rs. 92 billion in 2002-03; the average annual growth rate being 15 percent. At the same time, the (overall) fiscal deficit increased at about half the rate by 8 percent per annum, from Rs. 65 billion to 181 billion. Thus, the provincial share of the containment of the fiscal deficit nearly doubled

*The federal government borrowed money at lower rates and lent it to provincial governments at higher rates.*

**Table 4.8** Burden of Fiscal Deficit on Provinces  
(Rs. Billion)

Years	Provincial Share of Containment of Fiscal Deficit	Total Provincial Expenditures	Provincial Share as % of Total Provincial Expenditure
1990-91	15.0	86.5	17.4
1991-92	17.6	103.4	17.0
1992-93	20.1	114.0	17.7
1993-94	22.5	124.1	18.1
1994-95	29.7	155.6	19.1
1995-96	36.8	185.0	19.9
1996-97	43.2	182.2	23.7
1997-98	35.7	197.9	18.0
1998-99	35.7	208.9	17.1
1999-00	57.8	243.9	23.7
2000-01	59.3	259.3	22.9
2001-02	56.6	283.8	19.9
2002-03	92.0	318.2	28.9

**Source:** Federal Budget in Brief, Explanatory Memorandum of Federal Receipts and Provincial Annual Budget Statements, Various Issues

from 23 to 51 percent over the post-1991 period. Simply put, the burden of financing the fiscal deficit steadily shifted to the provinces as without the provincial contribution, the fiscal deficit would have been 23 per cent higher in 1990-91 and 51 per cent higher in 2002-03 (see table 4.7).

As a percentage of total provincial expenditures, the provincial share of financing the fiscal deficit rose from 17 per cent in 1990-91 to 29 per cent in 2002-03. Had the provinces not been burdened with the responsibility of sharing the fiscal deficit, they would have had Rs. 92 billion more at their disposal in 2002-03 (see table 4.8).

Over the years, these developments have shrunk the fiscal space for the provinces, leaving little to spend on the provision of economic and social services. Expenditure trends show that annual growth in expenditure on economic services declined from 5.4 percent during the

**Table 4.9** Real Provincial Economic and Social Services Expenditures (%)  
(Average annual growth rates)

	1973-91	1992-97	1998-2003
Total Economic Services	5.4	2.8	1.6
Education	9.7	6.3	0.4
Health	11.6	4.6	3.2
Public Health	20.9	12.4	-2.0
Other Social Services	56.0	-4.0	0.9
Total	10.4	5.4	0.8

**Source:** Provincial Annual Budget Statements, various issues

**Table 4.10 Trends in Development Expenditure (%)**

	1973-91	1992-97	1998-2003
PSDP/GDP	8.3	4.8	3.2
PSDP/Total Expenditures	36.6	25.0	19.3

**Source:** Federal Budget in Brief and Provincial Annual Budget Statements, various issues.

pre-1991 NFC Award period (1973-91) to 2.8 percent between the 1991 and 1997 NFC Awards, and to 1.6 percent in the post-1997 period. Similarly, the annual growth in expenditure on social services, including education, health, public health and social security, halved from 10.4 percent during 1973-91 to 5.4 percent during 1992-97, and to less than one percent during 1998-2003 (see table 4.9).

**Box 4.4****A Purview of PRSP-related Expenditures**

**P**overty reduction emerged as an explicit and primary objective of development planning with the adoption of the Poverty Reduction Strategy Paper in December 2003. The PRSP has been designed with built-in mechanisms to monitor its implementation and progress towards achievement of poverty reduction targets. Details of PRSP-related expenditures are being published on a quarterly basis since 2001.

A review of such data raises some conceptual questions. The list of expenditure heads classified as being PRSP-related includes: public health services, education, health, population planning, social security and social welfare, natural calamities, and food subsidy. It also includes: highways, roads and bridges, irrigation, land reclamation, and rural development. As the latter group of expenditures is part of the overall economic development agenda, their re-definition and inclusion as part of PRSP-related agenda is questionable.

Given that the PRSP was only adopted in late 2003, it is too early to comment on its implementation. However, a comparative review of the last five years of PRSP-related total expenditures on human and infrastructural development heads shows that while human development related expenditure increased at 2 percent per annum, infrastructure related expenditure increased at 15 percent. Corresponding current expenditures increased at one and 14 percent and development expenditures at 3 and 16 percent, respectively. Clearly, the expenditures are weighted heavily in favour of the traditional infrastructure development as opposed to the traditionally under-funded human development sectors. Needless to say, an appropriate balance between the two will be necessary in future years in order to impact poverty.

Growth in Total Real PRSP-related Expenditures (%)			
	Current Expenditure	Development Expenditure	Total Expenditure
<b>Human Sectors</b>			
Public Health Services	-10	-19	-16
Education	2	15	3
Health	4	-3	3
Population Planning	31	4	5
Social Security and Social Welfare Measures	-12	4	-11
Natural Calamities and Other Disasters	10	-	10
Food Subsidy	-4	-	2
<b>Sub-total</b>	<b>1</b>	<b>3</b>	<b>2</b>
<b>Infrastructure Development</b>			
Highways, Roads and Bridges	14	9	11
Irrigation	3	11	7
Land Reclamation	22	-	22
Rural Development	47	28	33
<b>Sub-total</b>	<b>14</b>	<b>16</b>	<b>15</b>
<b>Total PRSP Related Expenditures</b>	<b>3</b>	<b>10</b>	<b>5</b>

Figures are Annual Compound Growth Rates covering the period 1997-98 to 2002-03

**Source:** IPRSP and PRSP Progress Report (various issues)

The fiscal space created at the federal level at the cost of the provinces was, however, not utilized for enhancing development expenditures. This can be seen from the fact that development expenditure as a percentage of total expenditure and as a percentage of GDP declined from 36.6 and 8.3 percent during 1973-91 to 19.3 and 3.2 percent, respectively, during 1998-2003 (see table 4.10). The PRSP too is found to be wanting in this respect (see box 4.4).

Given the importance of social sector spending in ensuring the progressivity of the public expenditure system, the significant decline of public expenditure on economic and social services and on development leads to the conclusion that the expenditure regime is perhaps not progressive and may even be regressive. In other words, it appears that the poor are not the primary beneficiaries of public expenditure. Given that the tax structure is also regressive, this is a telling comment on the equitability of the country's fiscal regime.

## SOCIAL PROTECTION<sup>1</sup>

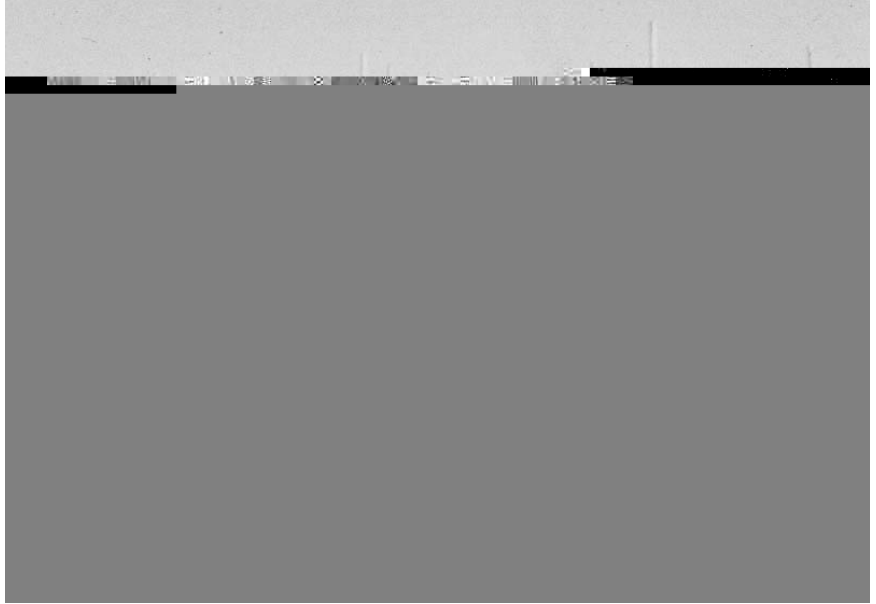
Public expenditure, even if directed towards sectors that impact positively on the poorer sections of the population, can face coverage and targeting problems, and even capture by the rich. Moreover, the most marginalized groups may find it difficult to access the pro-poor services that are publicly provided. It may, therefore, be considered essential that a part of public expenditure be channeled towards services that directly target the poor in order to reduce their vulnerability to exigencies. A review of such protection and support schemes, from the point of view of their effectiveness in alleviating poverty, is in order.



Precarious employment

Photo: Akhtar Soomro

<sup>1</sup>This section is excerpted from Sayeed (2004)



The poor resort to incremental house building

Photo: SKAA

Current parlance describes such support services as 'social protection', a term used interchangeably with 'social security' in popular discourse and more recently with the concept of 'social safety nets'. While the first two are complementary in terms of their implications (as social security is a subset of social protection), the concept of social safety nets is not only analytically different but its potential implications are also rather different. Essentially, social security is a rights based concept, while social safety nets is a welfare based one.

The system of social protection is postulated to offset the loss of income due to unemployment, infirmity, old age, invalidity, a debilitating injury, or death of a bread winner. These contingencies generally have more severe consequences for the poor than for the rich - given that they do not command sufficient resources to cushion the impacts. Often the situation leads to distress sale of assets, pushing the affected households below the poverty line or deeper into poverty. Social protection is, in principle, designed to protect vulnerable households from such dire possibilities.

In general, social security refers to that aspect of social protection that society accepts as its collective responsibility towards households and individuals who are at risk for the reasons described above. There is public provisioning for such support, and all households and individuals derive benefits as a matter of their rights and entitlements. Social safety nets refers to mechanisms that aid affected households and individuals cope with the impact of such privations. There may be public or market-based provisioning, subject to the interest and willingness of the state or private entity.

The provision of social protection is emphasised in the Constitution, which states: 'The State shall provide for all persons employed in the service of Pakistan or otherwise, social security by compulsory social insurance or other means; provide basic necessities of life such as food, clothing, housing, education and medical relief, for all such citizens, irrespective of sex, creed, caste, or race, as are permanently or

temporarily unable to earn their livelihood on account of infirmity, sickness or unemployment; reduce disparity in the income and earnings of individuals.' [Article 38 (d) and (e), (Principles of Policy) of the Constitution of Pakistan, 1973].

Despite the constitutional provision, the application of social protection is fairly limited. The process of providing some forms of labour protection commenced only in 1967 and continued to expand till 1976. Currently, the major social protection schemes that cover employees and workers in formal sector organizations include the provincial Employees Social Security Institutions, the federal Employment Old Age Benefit Institution, and the Workers Welfare Fund (see box 4.5).

In 1980, the zakat system was introduced as the first major across-the-board social protection scheme. In 1992, the *Bait-ul-Mal* was set up to provide a variety of supports, particularly the Food Support Programme. Unlike the pre-1980 schemes which are enterprise-based and contribution-financed, *Zakat* and *Bait-ul-Mal* are state-administered, with *zakat* being self-financed through mandatory contributions and *Bait-ul-Mal* being revenue-financed. However, neither *Zakat* nor support from *Bait-ul-Mal* can be claimed as a right or entitlement. Furthermore, the entire populace remains deprived of any form of health insurance or child welfare benefits.

The labour protection schemes do not cover the bulk of the workforce; that is, those engaged in agriculture and in the large urban unorganized and informal sector. Moreover, given that these schemes are funded through employer/employee contributions, they have the effect of a payroll tax and discourage the formal hiring of employees/workers. Not surprisingly, these schemes cover a very small proportion of the total labour force.

Since the 1980s, the organized formal sector has been undergoing a structural transformation towards flexible production processes as well as labour markets. "This tendency has resulted in two distinct phenomena. First, technology permitting, work is being farmed out to the



Looking forward to the future

Photo: Nasim Akhtar

*The labour protection schemes do not cover the bulk of the workforce; that is, those engaged in agriculture and in the large urban unorganized and informal sector.*

## Box 4.5

Social Protection Schemes in Pakistan:  
An Overview

There are five major social protection schemes in Pakistan, three of which are labour-specific and two across-the-board. The former three are the provincial Employees Social Security Institution, Employees Old Age Benefit Institution, Workers Welfare Fund and the latter two are *Zakat and Bait-ul-Mal*.

The provincial Employees Social Security Institution was the first social insurance scheme introduced in Pakistan. It came into force in March 1967 and was reorganized on provincial basis in 1970. The scheme is implemented by provincial Employees Social Security Institutions (ESSIs), which are government agencies administered by the provincial Departments of Labour. It covers all the employers of commercial and

industrial establishments employing five or more workers, earning up to Rs. 5,000 per month or Rs 200 per day. ESSIs are financed through employer contributions at the rate of 7 percent of employee wages. Secured workers are also required to pay employees' contributions of Rs. 20 per month. ESSIs provide a range of benefits to registered workers and their dependants, including medical care and cash benefits related to sickness, injury, maternity, disability and death. However, the main emphasis of the scheme is on the provision of medical care; as the medical expenses of ESSIs encompass more than 90 percent of the total benefit expenditure. ESSIs run a number of hospitals, dispensaries and medical centers in all the provinces, mainly in urban areas.

The Workers Welfare Fund, established in 1971, is executed by provincial Worker Welfare Boards. The major objective of the Fund is financing of projects connected with the establishment of housing estates or construction of houses for industrial workers. It also finances programs for the development of medical facilities and purchase of medical equipments and new schools for workers' children. Medical facilities are handed over to ESSIs after completion. The schools are managed by separate provincial Workers' Children Education Boards (WCEBs). Other welfare benefits include scholarships and grants for marriages as well as provision of sewing machines, bicycles, and so forth.

The Fund has three sources of funding: (1) employers in private sector industrial establishments are required to contribute 2 percent of their assessable income, exceeding Rs. 100,000 in any year of account; (2) employers are required to contribute 5 percent of company profits to the Workers' Participation Fund, from whence workers are given their share of profits/bonuses; and (3) amounts left over are transferred to the Workers Welfare Fund. The WCEBs receive funding from the Education Cess, charged at the rate of 3 percent on profits. The Cess has been abolished in Punjab.

Total expenditure of the Fund for the year 2004-05 has been budgeted at Rs. 3.7 billion. A major proportion (70 percent) of the expenditure is devoted to development schemes while education and welfare scheme receive 9 percent and 18 percent, respectively, of the total expenditure.

The Employees' Old Age Benefit Institution (EOBI) was established in 1976 as a federal scheme with a view to provide income to old aged workers after retirement. The scheme provides benefits for old age, and invalidity and pensions to survivors of registered employees. Its ambit covers formal sector establishments that employ 10 or more workers. Employers

Provincial Employees Social Security Schemes,  
2002-03

<i>Number of (in thousands)</i>	
Registered Establishments	48.6
Registered Workers	851.3
Dependants Covered	4777.9
<i>Expenditure (Rs. Million)</i>	
Benefits	1,352
Administration	322
Total (including others)	1,970

**Source:** Employees Social Security Institutions of Punjab, Sindh, NWFP and Balochistan.

Employees Old Age Benefit Institution,  
2002-03

<i>Number of (in thousands)</i>	
Registered Establishments	54.0
Registered Workers	1,881.5
Pensioners	248.2
<i>Expenditure (Rs. Million)</i>	
Benefits	1,744
Administration	550
Total	2,294

**Source:** Employment Old Age Benefit Institution.



contribute 5 percent of the workers' wages, subject to a maximum of Rs. 150. Employees are also required to pay Rs. 20 per month as their contribution. EOBI manages a pension fund that presently stands at about Rs. 80 billion. The federal government previously provided an annual grant that at times exceeded employers' contribution. However, government grants have been discontinued since 1995-96.

*Zakat* is the most comprehensive state-level social safety net of the country in terms of resources and organization. The system was introduced in 1980 under the *Zakat and Ushr* Ordinance, with the objective of assisting the needy, indigent, and the poor (termed as *mustahiqeen*) by providing them with financial assistance from a charge levied wealth (*sahib-e-nisab*). *Zakat* funds are collected as a tax at source from bank accounts, saving certificates and share dividends. This revenue is transferred to the Central *Zakat* Council (CZC), which has defined procedures for the disbursement of funds. The Central *Zakat* Council retains a portion of the Central *Zakat* Fund for non-interest-bearing investments, and distributes the balance to individuals and organizations, namely madrassahs, hospitals, and vocational training institutions, through Provincial *Zakat* Councils and Local *Zakat* Committees.

The *Zakat* system provides two main types of support: a monthly subsistence allowance and a rehabilitation grant. The amount of monthly allowance for each *mustahiq* is Rs. 500. The rehabilitation grant scheme aims at enabling *mustahiqeen* to become self-sufficient with support ranging from Rs. 5,000 to Rs. 50,000 for 44 types of businesses. Other benefits include educational stipends, assistance for medical treatment, and marriage assistance.

The *Bait-ul-Mal* (Food Support Programme) was established in 1992 with the objective of providing assistance to *mustahiqeen* including those who are not eligible to receive zakat, namely religious minorities. The operations of the *Bait-ul-Mal* are primarily financed from federal government grants. Funding is provided by national organizations, international agencies, and voluntary donations. It also receives small grants from the central *zakat* fund, and provincial and local governments.

*Bait-ul-Mal* funds are available to non-governmental organizations and voluntary agencies, which are involved in community-based welfare projects.

The *Bait-ul-Mal* mainly provides two types of benefits: the Food Support Programme (FSP) and the Individual Financial Assistance (IFA) schemes. Under FSP each deserving household gets Rs. 1000/- every 6 months as compensation against rise in the prices of wheat. IFA includes assistance related to medical treatment, education, and the like. Another scheme of *Bait-ul-Mal* called *Tawana* Pakistan provides school nutrition packages for girls.

#### Zakat Disbursement, 2002-03 (Rs. Million)

Guzara Allowance	1923
Education stipend	409
Deeni / Madarssahs	174
Health care	153
Social welfare	121
Marriage assistance	122
Rehabilitation grant	2427
Total	5330

**Note:** Total number of beneficiaries is 1.64 million.

**Source:** PRSP Progress Report 2003-04

#### Bait-ul-Mal: Expenditure and Beneficiaries, 2002-03

	Expenditure (Rs. Million)	Beneficiaries (Number '000)
Food Support Programme	2,084	1,250
Individual Financial Assistance	222	21
<i>Tawana</i> Pakistan	542	247
NGOs	43	457
Others	126	13
Total	3,736	1,988

**Source:** GVG (2004)

Table 4.11

## Coverage of Social Protection Schemes

	Coverage as % of		Total Benefit Expenditure (Rs. Million)	Average Benefit per beneficiary (Rs. per annum)	Administration Expenses as % of Benefit Expenditure	Benefit Expenditure as % of GDP	Beneficiaries as % of poor Population
	Total Labour Force	Non- Agricultural Labour Force					
Provincial							
Employees Social Security Scheme	2.1	3.6	1,352	1,588	23.8	0.03	1.9
Employment Old Age Benefit Institution	4.6	7.9	1,744	7,026	31.5	0.03	4.2
Workers Welfare Fund	NA	NA	3,546		3.4	0.07	-
Zakat	4.0	6.9	5,330	3,252	10.0	0.10	3.7
Bait-ul-Maal	4.8	8.3	3,736	1,879	2.0	0.07	4.5
Total	15.5	26.7	15,708	2,466	10.2	0.3	14.3

**Sources:** Evaluation of Social Safety Nets in Pakistan, SPDC Research Report No. 32, 2000; GVG (2004); PRSP Progress Report 2003-04; EOBI and Provincial ESSIs.

unorganized sector, where the statutory provisions of labour protection laws do not apply. Second, where work is not being farmed out, employers hire workers 'casually' that is, on contract or piece rate, daily wage or ad hoc basis to minimize non-salary costs" (Sayeed, 2004:3). Both these factors imply that employer contribution towards labour protection has declined and coverage of these schemes has contracted even further. Across-the-board schemes, Zakat and Bait-ul-Mal also suffer from endemic problems of low coverage and poor targeting.

As such, the schemes together cover only 16 percent of the labour force or 27 percent of the non-agricultural labour force, benefiting only 14 percent of the population below the poverty line. In other words, 84 percent of the labour force, 73 percent of the non-agricultural labour force, and 86 percent of the population below the poverty line is not covered by any form of social protection. Apart from low coverage, average benefits per beneficiary are also meagre, ranging from Rs 132 to Rs. 585 per month. Zakat, which has the highest extent of coverage, pays out an average of Rs. 271 per month to each beneficiary family (see table 4.11 ). These payouts are significantly below the official poverty line of Rs 849.

While the problems with provision of social protection lie partly in institutional factors, the issue is largely one of insufficient resources. This is evident from the fact that the combined disbursement of the five schemes amounted to about Rs. 16 billion in 2003-04, totaling to a meagre 2.2 percent of total federal and provincial current expenditure and a mere 0.3 percent of GDP. An estimated Rs. 1.75 billion - or 11 percent of disbursed amounts - is expended additionally in administering these schemes.

*Consideration may, therefore, be given to replacing the existing variety of schemes with a national social security system that covers the entire population.*



The conclusion that follows from the above discussion is that the existing social protection schemes present a rather dismal scenario. They have generally failed to provide meaningful protection or support to the vulnerable sections of the population and their impact on poverty alleviation is negligible. Clearly, the public expenditure needs to be made progressive, with protection and support to the vulnerable sections of the population ensured.

## DIRECTIONS FOR POLICY

**P**akistan presents a case of unequal asset ownership along with a regressive fiscal structure. A greater burden of taxation falls on the poor, though they do not appear to be the primary beneficiaries of public expenditure. This situation results in a process of transfer of resources from the relatively less endowed to the relatively well-endowed, compounding inequality and poverty.

Thus, the major reform of the fiscal regime is in order. The share of direct taxes needs to be enhanced substantially relative to that of indirect taxes in order to render the tax regime progressive. Public expenditure needs to be directed to sectors that are considered 'pro-poor'. And significant initiatives need to be launched with respect to provision of social protection to the vulnerable sections of the population.

Two main issues arise with respect to social protection. The principal problem with labour protection schemes is that they apply to shrinking cadres of formal employees and workers of the urban organized sector only, resulting in abysmally low coverage. On the other hand, the main problem with across-the-board schemes is insufficient funding, which forces some form of rationing and results in low coverage and poor targeting. Consideration may, therefore, be given to replacing the existing variety of schemes with a national social security system that covers the entire population. Substituting a number of administrative entities with one entity is also likely to effect savings on overhead costs, which could be channeled to funding direct benefits to the targeted population.



# LAND AND RURAL POVERTY

# 5

*Higher land inequality  
is associated with  
higher levels of  
deprivation and poverty.*



## LAND AND RURAL POVERTY

Asset ownership has been established as one of the principal variables impacting poverty, with land ownership emerging as the critical determinant of rural poverty. The World Bank's Pakistan Poverty Assessment, using PIHS 1998-99 data, also reports the incidence of poverty among rural landless at 40.3 percent, and for those owning land at 28.9 percent. Even owners of marginal holdings of less than one acre post poverty incidence at 31.8 percent, or 8.5 percentage points lower than the landless; thus, underlining the importance of land in rural poverty reduction.

An examination of the relationship between the level of land inequality, on one hand, and under-development and poverty levels, on the other, for 49 districts of Punjab and Sindh - the agricultural heartland of the country - further confirms the correlation. Land inequality level is measured through the Gini coefficient; low, medium and high land inequality are defined by Gini coefficient values of less than 0.45, 0.45 - 0.6 and greater than 0.6, respectively. The level of under-development level is gauged in terms of deprivation, defined by a range of selected education, housing quality, housing services and employment variables (see Box 5.1); and poverty is assessed in terms of incidence, i.e., the percentage of population below the poverty line.

Results show that higher land inequality is associated with higher level of deprivation and poverty. As the value of the Gini coefficient rises from low to high level, the deprivation level rises from 65 to 75 percent, and poverty incidence rises from 33 to 44 percent. Deprivation and poverty in high land inequality districts is about 10 percentage points higher than in relatively lower land inequality districts (see table 5.1).

**Table 5.1** Land Inequality and Level of Rural Deprivation (%)

Level of Inequality (Gini Coefficient)	Deprivation	Poverty Incidence
Less than 0.45	65.29	33.03
Between 0.46 and 0.6	73.33	39.85
Greater than 0.6	74.58	44.07

**Source:** SPDC estimates

Land inequality is also shown to have an adverse impact on education, which is universally established as a major determinant of development, particularly social development. Adult literacy rate in low land inequality districts is over 40 percent higher than in relatively high inequality districts and female literacy is twice as high (see table 5.2). The

**Table 5.2** Land Inequality and Rural Adult Literacy (%)

Level of Inequality (Gini Coefficient)	Total	Male	Female
Less than 0.45	42.53	53.85	30.26
Between 0.46 and 0.6	35.31	47.57	22.2
Greater than 0.6	29.94	43.5	15.38

Source: SPDC estimates

primary enrolment rate for the 5-9 age cohort in low land inequality districts is nearly 80 percent higher than in relatively low inequality districts, and the female enrolment rate is about 120 percent higher; for the 5-24 age cohort in low land inequality districts, the combined enrolment rate is 60 percent higher and the female enrolment rate is 115 percent higher (see table 5.3).

**Table 5.3** Rural Enrolment Rate by Land Inequality (%)

Level of Inequality (Gini Coefficient)	Primary Enrolment Rate (5-9 Age Cohort)			Combined Enrolment Rate (5-24 Age Cohort)		
	Total	Male	Female	Total	Male	Female
Less than 0.45	52.90	55.18	50.43	40.20	44.28	35.85
Between 0.46 and 0.6	37.84	41.96	33.30	30.45	36.16	24.30
Greater than 0.6	29.86	36.51	22.57	25.05	32.27	16.70

Source: SPDC estimates

Although all landless are not poor, there is a high likelihood that the bulk of the rural poor is among the landless. This is not only because this group is unable to benefit from the direct value of land as a means of livelihood and food security, but also because the poor are unskilled and less mobile across trades and regions. Studies showing rising rural poverty since the 1980s, caused in part by the decline in the use of casual labor and real wages, all point towards deteriorating conditions for the landless poor who can neither find alternative employment in rural areas nor migrate to urban centers due to the lack of human capital and/or economic resources. Thus, the main policy instrument to reach this segment of the poor has to be related to their ownership of and/or access to land.

## LAND DISTRIBUTION PROFILE

Land is the direct means of livelihood for over three-fifths of the rural workforce, and is established as a crucial determinant of reduction in inequality and poverty. However, the distribution of land ownership and operation in Pakistan has been and continues to be highly unequal.

At the time of Independence, the overall distribution of land ownership was extremely unequal. Less than one percent of the landowning population possessed farms averaging 100 acres or more in

*Land is established as a crucial determinant of reduction in rural inequality and poverty.*



## Box 5.1

## Methodology for Constructing Deprivation Index

The Index of Multiple Deprivation (IMD) is based on the premise that deprivation is composed of multiple dimensions. These dimensions or sectors reflect different aspects of deprivation. Each sector is made up of a number of indicators. The selection of indicators is based entirely on the data available in the Population and Housing Census of 1998. No other published or unpublished information is used in the analysis to render the exercise less disputable or debatable as far as the data source is concerned. While this approach makes some sectors less representative, it is deemed preferable in order to avoid any reservations regarding the quality of data.

The following indicators from four dimensions or sectors are used to compute district-wise indices of multiple deprivation:

**EDUCATION***Out of School Children - Male*

(Male children aged 5 to 9 years, not attending school)

*Out of School Children - Female*

(Female children aged 5 to 9 years, not attending school)

*Illiteracy Rate - Male*

(Percentage of illiterate males among the male population aged 10 years and above)

*Illiteracy Rate - Female*

(Percentage of illiterate females among the female population aged 10 years and above)

**HOUSING QUALITY AND CONGESTION***Inadequate Wall Structure*

(Houses with walls of un-baked bricks, earth bound, wood or bamboo material)

*Inadequate Roofing*

(Houses with un-baked bricks, earth bound, wood or bamboo used in roofing)

*Index of Overcrowded Housing*

(Persons per room standardized with (Actual - 1.5) / (Maximum - 1.5) \*100)

*Housing Units with One Room*

(Percentage of houses reporting only one room in the house)

*Percentage of Homeless Population*

(Population with no shelter)

*Percentage of Non-Owners' Households*

(Rented or rent free houses)

*Percentage of Households with No Facility of*

- Separate Kitchen
- Bathroom
- Latrine

**RESIDENTIAL HOUSING SERVICES***Households without Electricity*

(Percentage of Households having no electricity connection)

*Households not using Cooking Gas*

(Households using wood or kerosene oil as cooking fuel)

*Households with no Inside Piped Water Connection***EMPLOYMENT***Unemployment Index*

(Unemployment rate is referred to as the percentage of the population aged 15 to 65 not working and looking for work) standardized with (unemployment rate/maximum unemployment x 100)

*Index of Non-Manufacturing Employment*

(Share of non-manufacturing employment in total employed labor force) standardized with (share/maximum share x 100)

**The following formula is used to derive the Index of Multiple Deprivation:**

$$IMD = [1/4^\alpha \{(E)^\alpha + (HQ)^\alpha + (HS)^\alpha + (L)^\alpha\}]^{1/\alpha}$$

Where;

IMD = Index of Multiple Deprivation

E = Index of Education Deprivation

HQ = Index of Deprivation in Housing Quality

HS = Index of Deprivation in Housing Services

L = Index of Deprivation in Employment

$\alpha = 3$

The value of  $\alpha$  has an important impact on the value of the Index. If  $\alpha = 1$ , the IMD is the average of its four sectors. As  $\alpha$  rises, greater weight is assigned to the sector in which there is the most deprivation. Following the UNDP formula, the value of  $\alpha$  is set at 3 to give additional but not overwhelming weight to the areas of greater deprivation.

**Note:** For methodology, see Human Development Report, 1997, UNDP



Whose land are they tilling?

Photo: Akhtar Soomro

size, which aggregated to over 25 percent of the total agricultural land. The percentage of such landowners in Sindh was substantially higher at 8 percent, and they owned 55 percent of the farm area. Most were absentee landlords; contributing little to production but extracting as much as possible from the sharecroppers tilling the land. At the other extreme, about two-thirds of the farmers held 15 percent of total agricultural land in holdings of about five acres or less. A large number of landless rural inhabitants worked as agricultural laborers. Farm laborers and most tenants were extremely poor, undernourished and uneducated, in sharp contrast to the wealth, status and political power of the landed elite.

According to the Agriculture Census of 2000, nearly half of all rural households - about 6 million - neither own any land nor have access to land, even through tenancy; about 7 percent of rural households - about one million - do not own any land, but have access to land through tenancy, while about 6 million rural households own land in various size holdings (see table 5.4)

**Table 5.4** Distribution of Rural Households by Access to Land and Province: 2000  
(% of rural households)

	Owner	Tenants	No Access to Land
Punjab	47	6	47
Sindh	26	11	62
NWFP	66	8	26
Balochistan	36	7	57
Pakistan	45	7	48

Source: Pakistan Agricultural Census, 2000 and Population Census, 1998



**Table 5.5** Size Distribution of Farms and Areas under Ownership (%)

	Less than 5 acres		100 acres and more	
	Farm	Land	Farm	Land
Pakistan	62	17	0.47	13
Punjab	62	19	0.25	7
Sindh	43	10	0.96	15
NWFP	81	33	0.20	10

Source: Pakistan Agricultural Census, 2000

There is considerable variation between the provinces as well. Sindh has the highest incidence of absolute landlessness - 62 percent or nearly 2 million rural households and the lowest share of land ownership - 26 percent or about 700,000 households. It also has the highest share of tenancy at 11 percent or about 300,000 households. NWFP has the highest share of land ownership - 66 percent or about 1.2 million households - and the lowest incidence of absolute landlessness - 26 percent or about half a million households. In Punjab, the number of landowning and landless households are equal at 3.5 million each. Balochistan has less than a million rural households, of which 57 percent are landless.

The size analysis of farm holdings also points towards the highly unequal distribution of land (see table 5.5). On the one hand, 62 percent of farms - numbering 3.2 million - are holdings of less than five acres each and the total area under such farms comprises 6.1 million acres or 17 percent of total farm area. The average farm size in this category is 1.9 acres. On the other hand, about half a percent of farms are holdings of over 100 acres - numbering 24,000 - and the total area under such farms comprises 4.8 million acres or 13 percent of total farm area. The average farm size in this category is 200 acres. On average, a large farmer owns 105 times as much land as a small farmer.

Sindh has the highest percentage of farm holdings of over 100 acres and such farms cover 15 percent of the farm area. In Punjab, the percentage of farms of less than five acres is the same as for the country as a whole; however, the percentage of farms and farm area of over 100 acres is half the national average. By contrast, NWFP has a lower percentage than Punjab of farms over 100 acres, but a greater area under such farms, implying that farm sizes in the over 100 acres category are greater in NWFP than in Punjab. NWFP also has the highest percentage of farm holdings of less than 5 acres. The land ownership system in Balochistan is completely different from other provinces and the statistics do not lend themselves to similar analysis.

The concentration of land ownership in the hands of the land owning elite leads to control over other rural markets as well. This happens because of the interlocking nature of transactions in the rural markets for land, labour, agricultural inputs, credit, output and commodity markets (see Box 5.2). The monopolistic (and/or monopsonistic) control that such interlocking provides to the landed elite generally results in the capture of

A mix of market and non-market forces characterize rural economies in old civilizations, en route to modernization, with inter-locking relationships in specified institutional contexts. It is this very feature of agrarian economies that has given rise to the sharecropping tenancy feature in agriculture.

A sharecropping tenancy arrangement is one where a landowner leases/rents a part of his land to a landless labourer, whose principal asset is his labour, under the condition that the latter will till the land to produce a crop or crops to be shared between the two. For this purpose, the landowner may extend credit to the tenant to procure the necessary inputs

Sharecropping tenancy involves multiple interlocking between different markets, primarily those of land and labour, but also including credit and input and output markets. A landowner and a labourer entering into a tenancy agreement are actually concluding several transactions at the same time: land renting, wage labor hiring, production and consumption credit, cost sharing of purchased inputs, sharing of output, and the like, as part of a comprehensive, interlinked contract encompassing several markets. These contracts, based largely on personal interlocking obligations in different transactions between the same parties, reduce information and transactions costs and uncertainty, and risk for both parties.

The labourer has few assets that are acceptable as collateral in the formal credit markets, but can commit his labour services to service his debt. The landowner requires labour services, has the incentive to extend credit to induce the labourer to work his land, is prepared to accept the tenancy contract itself as collateral, and has the capacity to enforce repayment from the borrower's share of produce at harvest time. An interlinked credit and wage contract between the 'employer-creditor' and the 'employee-borrower' is, thus, a way of catering to "double coincidence of wants".

There are several reasons why landowners opt for sharecropping arrangements. First, self-cultivation with hired labour entails costs of recruitment and supervision of the intensity of labour or effort input. Second, there is production uncertainty because of weather and other related factors, which renders it difficult to infer output from inputs. A sharecropping tenancy arrangement reduces costs on both counts.

There are also several reasons why landless labourers opt for sharecropping. Contracting labourers possess resources that are in the nature of indivisible factors, and are also somewhat non-marketable or not easily marketable. These include farm managerial skills, family labor (particularly female and child labor, which are subject to various social and economic constraints on their market participation), draught animals, and so forth. Tenancy arrangements enable farm labourers to reap the scale economies arising out of the application of such factors. Labourers also face uncertainty of sustained employment at a given wage rate or uncertainty of the wage rate, particularly the real wage rate. Tenancy contracts provide the certainty of employment as well as some certainty of wages.

Sharecropping tenancy in the land-lease/rental market constitutes a partial response to imperfections or inadequacies in other markets. Imperfections in the credit and labour markets and in markets for specific inputs, such as fertilizers, are partially overcome by the system of cost sharing along with crop sharing.

#### *The equity view*

Given the interlocking of rural markets, the concentration of economic power in any one market is likely to lead to a situation akin to a monopoly (or monopsony), enabling the monopolist (or monopsonist) to dominate other markets. This is particularly the

case, where the concentration exists in the ownership and control of land - the principal factor of production in the agrarian economy. The unequal balance of economic power - hence, political power - between the landowner and the landless labourer creates an unequal patron-client relationship and exposes the latter to exploitation by the former.

Where (interlocked) markets are not 'perfectly competitive' and one or a few economic agents, i.e., landowners, are in a position to exert monopolistic (or monopsonistic) power, a situation of 'forced commerce' exists and the market mechanism is operated to extract economic surplus rather than to allocate resources efficiently.

Consider the case of a tenant who takes a consumption loan from his landowner during the lean season, just before the harvest. The loan may be advanced on the understanding that it will be repaid (i) in terms of crops after the harvest at some predetermined contract price, (ii) in terms of labour services at some predetermined wage rate, or (iii) in terms of some other tenurial conditions.

These interlocked transactions across credit, land, product and labour markets do not take place voluntarily between two equally balanced economic agents. Given the relatively weak bargaining power of the landless labourer, it is unlikely that he is able to obtain a price for the crop or a wage rate for his labour that is advantageous or even fair to himself relative to the landowner. And given that the collateral possessed by the borrower is not acceptable in the formal credit market, the landowner/moneylender is in a position to undervalue the offered collateral substantially; thereby, transferring the bulk of the risk of loan default to the borrower. Moreover, the compulsions for repayment of the loan are less economic and more political.

As such, an underdeveloped agrarian economy, considered inefficient in terms of allocative or productive efficiency, may be efficient in terms of expropriation of economic surplus through interlocked transactions or 'forced commerce'. A range of seemingly archaic economic and political institutions in the rural economy continue to survive and even thrive because they serve - or do not serve - the purpose of expropriating the economic surplus, irrespective of whether they serve the purpose of allocative or productive efficiency. Consequently, while one set of economic agents - the landowners - prosper, the other set of agents - the landless - remain trapped in poverty, while the economy as a whole remains cornered in a state of underdevelopment.

Allocative efficiency is a necessary condition for economic growth and an equitable distribution of the economic surplus is a pre-requisite for poverty reduction. Both these imperatives of development require the dilution of the capacity for the exercise of monopolistic (or monopsonistic) power by any set of economic agents for rural markets to begin to operate. This dilution requires the reduction of the concentration of ownership and control of land - the principal factor of production in the agrarian economy. In addition, it requires the reduction of the element of interlocking of rural markets, and the enhancement of their market-orientation.



A rural school

Photo: Dr. Iftikhar Salahuddin

public resources; thus, compounding poverty. Indeed, such situations tend to negate pro-poor interventions designed to address the problems of the traditionally marginalized and landless population.

There does exist an understanding in policymaking circles that a more balanced land holding system is necessary for economic and political reasons. Efforts have, as such, been made on more than one occasion to render land distribution more efficient and equitable as shown below.

## HISTORY OF LAND REFORMS<sup>1</sup>

Land distribution, as a subject of policy debates and legislation, gained prominence during the 1940's and 1950's years and peaked during the 1970's. The main elements of reform were abolition of intermediary interests, tenant protection, and land ceiling laws. However, land distribution issues virtually ceased to be part of the political agenda after the military takeover in 1977. Since the 1990s, land policy has centered exclusively around distribution of state lands.

### Abolition of Intermediary Interests

One of the main features of the feudal system was the existence of tax-exempt *jagir* and *inam* land which were quite prominent in Sindh, and in the princely states in Punjab and NWFP. Such entities, introduced as intermediaries between the colonial state and local *zamindars*, were now considered an anachronism in the newly independent state. Further, their tax-free status was looked upon as a loss to the state treasury. The *jagirs*, were first abolished in NWFP by an executive order in 1949, and confirmed legislatively with the passage in 1952 of the NWFP Abolition of *Jagirs* Act. The Punjab Government also legislated the Punjab Abolition

*Land distribution issues virtually ceased to be part of the political agenda after the military takeover in 1977.*

<sup>1</sup>This section is excerpted from Gazdar (2004).

of *Jagirs* Act in 1952. However, this Act did not affect lands held by the military and by the religious and charitable institutions. The task of abolishing *jagirdari* in Sindh was completed through Martial Law Regulation No. 64, called the West Pakistan Land Reforms Regulation, in 1959. Abolishing *jagirs* did not always reduce the size of ownership of large landed estates. Supposedly, it meant that *jagirdars* were now required to pay land revenue to the state. Accordingly, the *jagirdar* was turned into a *zamindar*, and the *zamindari* system remained intact. There was still no limit on the area one could own as long as the owner paid legal dues to the government. The abolition of *jagirs* was motivated more by a desire to increase the state's revenue than to dilute the concentration of land ownership, and beyond taxing the former *jagirdar*, this legislation did not affect land ownership itself.



### Tenancy Reforms

Reform legislation for the protection of tenants contained provisions recognizing and protecting the rights of tenant farmers. “Traditionally, tenants had been classified under two groupings: hereditary tenants and tenants-at-will. While both forms of tenure recognized rights of landlords and tenants to their respective shares of the crop, a hereditary tenant had the right to possess and cultivate his plot of land in perpetuity” (Gazdar, 2004:10). The landlord's property right did not entitle him to take possession of the land for self-cultivation or to rent it to another person. The tenant's rights were inherited by his future male generations, and this right was preserved regardless of the transfer of land ownership through sale or inheritance. A tenant-at-will, on the other hand, could be evicted and the landlord was at liberty to do what he wanted with the land.



Fragile livelihoods

Photo: Nasim Akhtar

Following independence, tenancy reform legislation was enacted in 1950 in Punjab, Sindh and NWFP. The reforms provided for hereditary tenants to acquire ownership rights in land and for the graduation of tenants-at-will to hereditary tenure under certain conditions. These conditions dealt mostly with continuous possession and cultivation of land for a given number of years. The reforms also fixed *batai* (the share of the produce), payable to the landlord and abolished all additional levies traditionally imposed upon the tenants.

The rights granted to tenants were difficult to enforce partly because of ambiguities in the legislation, but mainly because of the disproportionate bargaining power of landlords, who were often supported by the state machinery. These difficulties were highlighted by the large-scale pre-emptive eviction of tenants in Sindh, continued imposition of illegal levies and retention of old *batai* shares. Therefore, it remains debatable whether or to what extent tenancy reforms turned out to be a pro-poor measure, given the inability of the government to prevent pre-emptive evictions, or otherwise to enforce the law. Further, these reforms dealt with tenancy issues, and did not cover the poorest sections of the rural population, i.e., the landless.

The 1959 land reform legislation did not address the tenancy issue at all, but the 1972 and 1977 Land Reforms strengthened protection against eviction for tenants and provided the first right of preemption on the land they had cultivated in case the landlord decided to sell the land. The responsibilities and costs to be borne by tenants were defined, and the abolition of extra-legal levies was reconfirmed; however, the payment of in-kind based *batai* system was retained.

### Land Ceilings and Redistribution

Land ceiling laws were employed to influence the ownership distribution of land. Ceilings on individual land holdings were legislated, and land held above the permitted ceiling was resumed for redistribution to landless or land-poor families.

The first move to limit the size of land holdings was made with the promulgation of the West Pakistan Land Reforms Regulation in 1959. The ceiling on land holding was fixed on an individual basis at 500 acres of irrigated land and 1,000 acres of un-irrigated land or 36,000 Produce Index Units (PIUs). Land holdings in excess of the prescribed limits were not only resumed but the owners were also compensated as specified in the Regulation. A total of 2.3 million acres or less than 5 percent of total farm area was resumed for distribution among tenants, small cultivators and landless families. The number of beneficiary families constituted less than two percent of rural households. Holdings such as orchards were exempted from the ceiling, and intra-family transfers of land in the form of gifts were also allowed.

The Land Reforms Regulation of 1972 lowered the land ceiling to 150 acres of irrigated and 300 acres of unirrigated land, or 10,000 PIUs. It also removed several exemptions, for example, orchards and limited intra-family transfers of land, but provided for compensation to owners. However, previously exempted lands now resumed could be leased out at the discretion of the government, with preference given to former owners. A total of 1.3 million acres were resumed and 0.9 million acres were distributed to 76,000 families.

*The rights granted to tenants were difficult to enforce partly because of ambiguities in the legislation, but mainly because of the disproportionate bargaining power of landlords.*



The Land Reforms Act of 1977 further reduced the land ceiling to 100 acres of irrigated and 200 acres of un-irrigated land, or 8,000 PIUs. Landowners were to be compensated and land redistributed according to the 1972 regulations. A total of 176,000 acres was resumed and 88,000 acres distributed among 3,000 beneficiaries. However, the implementation of the 1977 land reforms was suspended upon the military take-over in July 1977.

“By 2001, a total area of 3.76 million acres had been resumed ... of which 3.2 million acres (were) distributed among 250,000 beneficiaries. Sindh (had) a relatively higher proportion of resumed area (10 per cent of the total owned area), while in Punjab and NWFP the resumed area constituted around 6 per cent of total owned area. The average allotment per beneficiary was 16 acres in Sindh, 10 acres in Punjab and 8 acres in NWFP” (ibid:12).

### Allotment of state-owned land

In addition to land redistribution, allotment of state-owned land was also used to change the distribution of land ownership. Out of 8.4 million acres of available state-owned land up till 2001, 5.6 million acres had been allotted to approximately 530,000 beneficiaries. About 2.7 million acres is currently available for distribution. The primary target group of the allotment policy comprises of ‘self-cultivating tenants’, classified as such in the local revenue record. The poorest are again discriminated against, given that they do not have the access to land that tenants have.

The predominant proportion of state-owned land available for allotment is cultivable land in the command area of government-developed canal irrigation systems. These lands have been allotted to different groups of beneficiaries including local landowners, refugee claimants from India, families displaced as a result of dam and irrigation works in Azad Kashmir, NWFP and Punjab, special interest groups such as military personnel, government functionaries, and the landless. Notably, therefore, the allotment of state-owned land carries inter-provincial political, social and economic implications.

### An Assessment of Land Reform Measures

Overall, land reforms have resumed and distributed only 9 and 7 percent, respectively, of total farm area since 1959, and they have failed to meaningfully reduce the concentration of land ownership. The reasons for the limited impact of the reform measures were the individual basis of fixing the land holding limit, the generous ceiling and exemptions under the 1959 reforms, the alternative measure of the ceiling in terms of Produce Index Units (PIUs) provided under all three reforms, and back-dated transfers of land to real or presumed heirs and relatives resorted to on all occasions. The application of the PIU criteria was significant, as it raised the effective ceiling over three-fold in some areas in Sindh and over two-fold in some areas in Punjab and NWFP.

Given the depth of the problem, the land reform measures detailed above proved inadequate in changing the pattern of landholding. Even as late as 2000, 16.3 per cent of the area remained in ownership holdings of over 50 acres, owned by only 0.2 percent of rural households. Not only were the measures inadequately applied and/or subverted, they were also not aimed at eradicating landlessness.

## THE LAND REFORM DEBATE

Land reform has always been an issue in the political arena and a historical overview of the political debate on the subject appears to be in order. The land reform debate in Pakistan precedes Independence. Institutionally, the land system that independent Pakistan inherited differed in various parts of the country, and was characterized by various forms of medieval feudalism. Broadly, however, there were three principal parties: landowners, tenant farmers and landless labourers. Landowners included *jagirdars/inamdars*, who were intermediaries between the state and the *zamindars*, and 'independent' *zamindars*. Tenants cultivated the lands on a produce-sharing basis under contractual conditions that were highly exploitative. There was no security of tenure, forced labour was common, and landowners charged a variety of levies that effectively reduced the tenants' share of the produce. The social and economic condition of landless labourers was worse.

The formation of the Sind Hari Committee in 1930 represented the first organized resistance from the *haris* (tenants) in Sindh, with a view to securing some rights for themselves. The construction of the Sukkur (then Lloyd) Barrage on the river Indus in 1932 opened a vast area of newly irrigated lands. The allotment of over one million acres to local *zamindars* and settlers from outside the province and a meager 85,000 acres to *haris* caused widespread resentment and energized the *hari* movement. Responding to the growing pressure, the then Sindh government appointed the Tenancy Legislation Committee in 1943 to define tenancy rights. The Committee recommended granting permanent tenancy rights to tenants to 'secure more efficient cultivation'; subject to a number of restrictive conditions that effectively nullified the concession. It also recommended continuation of levies charged by landowners, subject to limits.



Millions do not have access to land

Photo: Nasim Akhtar

*The formation of the Sind Hari Committee in 1930 represented the first organized resistance from the haris (tenants) in Sindh, with a view to securing some rights for themselves.*



The Committee's Report evoked sharp opposition from two members in the form of notes of dissent. The note of dissent by G.M. Syed rejected the Report's basic premise to maintain the status quo in landowner-tenant relations and condemned the suggested reforms as cosmetic. He maintained that the *zamindar* was nothing more than a rent collector on behalf of the state, that there was no room for middlemen, and that "the tiller of the soil is the rightful owner of the land". He demanded uncompensated nationalization of large estates and grant of unconditional tenancy rights to all self-cultivators. The other dissenting note was by Djalma Doulatram, who rejected the very principle of reform on the grounds that the "rural economy should not be disturbed as far as possible". He advocated continued control of landlords over tenants and deplored the process of depriving the *zamindars* "of their ownership in favour of landless *haris* to turn them into peasant-proprietors" as morally unjust. He condemned *haris* as dishonest, adding that "it is a recognized fact that *haris* generally steal crop(s)..." and claimed that it was a "forlorn hope to expect a landless *hari* to be more efficient....without the supervision of the *zamindar*".

In response, the then government appointed another three-member committee, the *Hari* Enquiry Committee, in early 1947. The Committee split 2-1. The majority members condemned the institution of absentee landlordism thus: "Next to war, pestilence and famine the worst thing that can happen to a rural community is absentee landlordism". Ironically, however, they argued for maintaining the *status quo* in the existing landlord-tenant relations, because the *haris* "will lose more than they will gain by revolutionary tactics". They also rejected granting permanent tenancy rights to the *haris*, a principle that had been conceded earlier by the Tenancy Legislation Committee. They even exonerated the *zamindar* of responsibility for the deplorable conditions of the *haris*; instead, pinning responsibility on "natural factors of climate and soil" and the *haris* "own dishonesty and bad habits". Acknowledging the shortcomings in the *batai* (produce-sharing) system in that "it offers no incentive to the *hari* to invest in capital or expend labour in any permanent improvement of land or in preserving its natural fertility", they recommended its continuation, with minor adjustments. The dissenting member, M. Masud, advocated abolishing *zamindari*, compensated expropriation of all large estates, cancellation of leases on Barrage lands, and occupancy of land by self-cultivators under a nationalized land ownership system.

Post-independence, in contrast to the earlier tendency to decry land reform measures in their entirety, the official debate tended to focus on the nature and adequacy of reform measures to achieve social justice and economic progress. The Pakistan Muslim League found itself bound by the pledges made during the Pakistan movement concerning the abolition of feudalism. After all, no less than the person of the Quaid-e-Azam in his presidential address to All-India Muslim League meeting in Delhi in 1943 had said: "....I want to warn the *zamindars* and capitalists, that they are living in luxury as part of a satanic system....Lust for usurping fruit of hard earned labour of the masses has become second nature to them". Furthermore, landlord-tenant clashes in Punjab and Sindh had become common occurrences.

The Agrarian Committee of the Pakistan Muslim League took up the matter of land reforms and saw the problem thus: "Considerably more



than half of the cultivable area is owned by landlords who do not directly till the soil, who live on rent, and who cannot therefore be called the producers of national wealth" and "the tenants-at-will stand lowest in the scale of tenancy rights"; and complete dependence on the will of the landlords "gives the latter power of life and death in the village economy". It stated that "an equitable and prosperous land system in Western Pakistan must be founded on a state-regulated ownership of holdings by self-cultivating peasant-farmers, coupled with the economic enlargement of the size of holdings", which "must involve the gradual elimination....of landlordism and all superior but idle interests in land above the actual cultivator".

For the short-run, the Committee recommended abolition of intermediary interests, that is, *jagir* and *inam* lands, with a view to increasing government revenues, granting full land ownership to all hereditary tenants, and ensuring security of tenure to tenants-at-will. It also called for taxation of the incomes of *zamindars* and a minimum wage rate, fixed working hours, unemployment and health insurance, and a pensions scheme for tenants and labourers. For the long-run, it called for specification of ceilings on land holdings and distribution of resumed land among tenants, small self-cultivators and labourers.

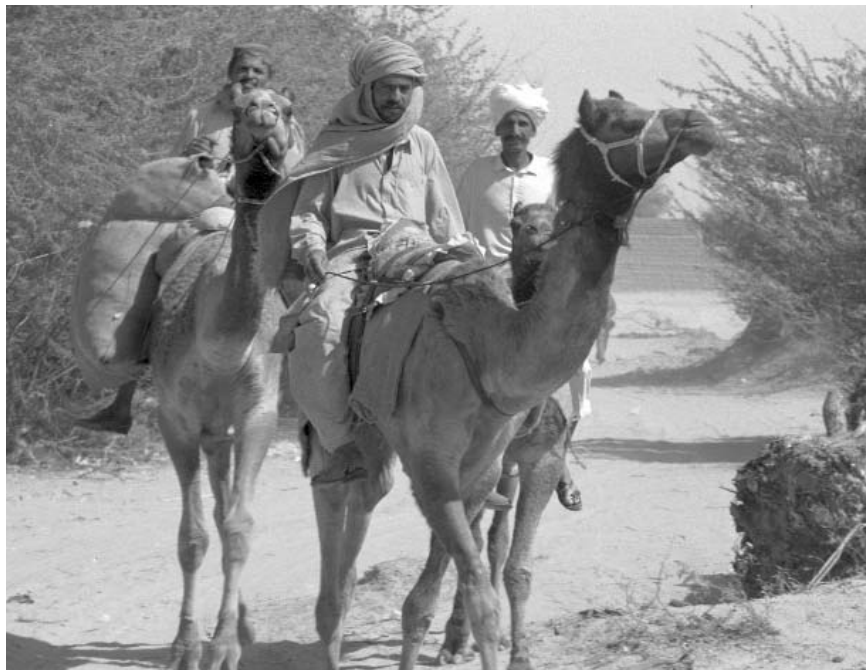
Similarly, the First Five Year Plan (1955-60) stated that "the problem of land reforms is fundamental to all development" and that the aim of these reforms must be to "build a rural society largely consisting of independent and self-reliant peasant-proprietors". It endorsed the fixing of ceilings on land holdings and the distribution of resumed lands among cultivating tenants.

The Land Reforms Commission, set up by the Martial Law regime in 1958, was mandated "to consider problems relating to the ownership and tenancy of agricultural land and to recommend measures for ensuring better production and social justice as well as security of tenure for those engaged in cultivation". That the prevalent landlord-tenant paradigm was



Carrying water for a lifetime

Photo: Dr. Iftikhar Salahuddin



Remote areas need more attention

Photo: Nasim Akhtar

to continue as the premise upon which reform was to be considered was implicit.

The Commission acknowledged that "those who do not own land are relegated to a socially inferior position with all the disabilities of that position". However, far from addressing the interests of the tenants and landless labourers in any meaningful way, it explicitly declared: "We are anxious that the transition from unlimited ownership to [sic] ceiling on individual holdings should be smooth and should not involve for the landlord too abrupt a break with the past [sic] making it difficult for him to adjust to the new way of life which the change, in the form of sudden reduction in income from land, will impose on him". Accordingly, it recommended the final abolition of *jagir* and *inam* lands, but took a 'pragmatic' and 'middle-of-the-road' position on the question of imposing a ceiling on private ownership of land. It recommended a rather generous ceiling on land holding, justified thus: "Even if we were to recommend a much lower ceiling than what we have suggested, the surplus land which would have become available for redistribution among landless tenants would have been too small to secure for each of them a subsistence farm unit".

Again, there was a dissenting view from a member of the Commission. Ghulam Ishaq Khan asserted that "the control of economic opportunity, in the form of concentration of landed wealth in the hands of relatively few, to the exclusion of the great majority dependent on it for a living, in turn, divides the society into economically and socially inferior and superior strata of 'haves' and 'have-nots' ...". He was of the view that the objectives of "breaking the monopolies on land" and of making "access to opportunity through land more free" in order to ensure economic progress and social justice could be best achieved by fixing the ceiling on land holdings at a sufficiently low level and on family instead of individual basis. He also dissented from the majority view on exempting



Rural livelihoods may be at stake

Photo: Nasim Akhtar

orchards from the prescribed ceilings and on transfer of land by gift to any or all of the presumptive heirs.

The Pakistan People's Party, which had campaigned on a platform of egalitarianism, declared that "breaking up of the large estates to destroy the power of the feudal landowners is a national necessity that will have to be carried through by practical measures". However, the institution of private ownership of land and the traditional landlord-tenant paradigm remained unchallenged. The reforms in 1972 retained the land holding ceiling on an individual basis, reduced it below that set in 1959, and strengthened safeguards for tenants. The follow-up reforms in 1977 further reduced the ceiling.

The assumption of power by the Martial Law regime in 1979 halted the land reform process. In 1980, the newly established Federal Shariat Court declared mandatory acquisition of private land by the state as being against the injunctions of Islamic religious law and the Supreme Court confirmed the judgment in 1989. The ruling constituted a reversal of the moves, albeit small and slow, towards land equity.

The land reform issue has since remained off the political agenda. Even the ambitious Poverty Reduction Strategy Paper, officially adopted in 2001, confines itself to distribution of state lands, refrains from questioning the basic landlord-tenant paradigm, and aims to reduce rural poverty without affecting the privileged position of the upper-income proprietor class. Rather, the introduction of a new element of corporate farming has tacitly wiped out the whole issue of size distribution of landholdings (see Box 5.3). Addressing the nation on radio and television on March 11, 2003, Prime Minister Zafarullah Jamali declared unequivocally: "My government has decided that there will be no more land reforms so that farmers could bring maximum area under cultivation without any fear". Nearly six decades down the road since independence, it appears that Dilmal Doulatram continues to prevail over the Quaid-e-Azam.

Corporate farming is one of the only two references in the PRSP to the land question as a measure to reduce poverty. Subsequently, the government announced the Corporate Agricultural Farming (CAF) Policy\* in 2002. The main features of the CAF Policy are as follows:

- 60% foreign equity allowed
- Minimum \$0.3 million foreign investment
- Remittance of capital, profits, dividends allowed
- Credit and other facilities
- Local or foreign, private or public limited companies to invest in corporate farming
- No ceiling on land holding
- State land can be purchased or leased for 50 years through open auction, extendable for another 49 years
- All bank and financial institutions will earmark separate credit share
- Fiscal incentives
- 0% customs duty on import of agricultural machinery, equipment and implements
- Exemption of duty on transfer of land for CAF
- Tax relief; Initial depreciation allowance @50% of machinery cost
- Dividends from corporate agriculture farms not subject to tax
- Farm income given more favorable treatment

It is clear from the above terms of investment that the CAF Policy aims to promote large, (imported) capital-intensive farms, which will be provided with liberal [bank] financing and fiscal incentives. The Policy also encourages foreign investment in agriculture.

The risks and threats associated with this policy to rural livelihoods are evident. Pakistan classifies as a densely populated country, given the relatively scarce cultivable land area and water resources. The nature of resource endowments renders the country infeasible for technology options that corporate farming entails.

To begin with, sharecropping or lease-cropping tenants are likely to be evicted, and there is evidence of tentative moves in this direction in Punjab. There is also evidence from the 1960s of small farms being taken over by large farmers in the wake of the 'green revolution'. Similarly, the scale economies enjoyed by corporate farms, particularly in view of the substantial fiscal concessions, can be expected to render small farms uncompetitive and risk absorption into the corporate net. Small farms are also likely to be disadvantaged in terms of access to water - and, as a result forced out of the agrarian economy. Water is already a contentious political issue, and the entry of corporate farms is likely to compound the conflict. Landless livestock farmers, whose herds graze on state lands, are also likely to lose access consequent upon the sale of such lands to corporate interests.

In fact, existing large farms are also unlikely to be able to survive the corporate juggernaut, the reason being that large farmers in Pakistan are remnants of the medieval feudal order, and neither possess the intellectual orientation nor the capability to engage in corporate operations. As such, it is likely that they will initially be induced to cede control, and eventually even ownership, to corporate interests. Moreover, given that national expertise in corporate farming does not exist, domestic entities can be expected to enter the corporate farming arena in partnership with foreign firms. The apprehension that control of land in Pakistan

will, in the long run, rest with foreign interests cannot be discounted.

The nature of the terms of investment and fiscal inducements being offered to corporate farms - particularly duty free import of agricultural machinery, equipment and implements and accelerated depreciation allowances - is likely to lower the cost of capital relative to that of labour and create highly capital-intensive entities. Hundreds and thousands of displaced tenants and dispossessed small farmers are likely to have to compete for the fraction of jobs as wage labour on these farms or migrate to urban areas to seek employment in the manufacturing or services sectors. The social upheaval that follows such large-scale displacement and movement of population, coupled with the uncertainty of manufacturing and services sectors being in a position to absorb the multitude of migrants from rural areas, should not be difficult to comprehend.

Corporate farms are likely to pose serious threats to biodiversity and ecosystems on at least two counts. First, corporate farms can be expected to gravitate towards monocropping, with all its attendant ecological implications. Second, they are likely to employ modern technology, and heavy equipment and bore deeper to exploit underground water sources. Where the aquifers are not rechargeable, firms are likely to cost their operations so as to recover their investment - with profits - within the timeframe of water availability. Thereafter, they are likely to exit, leaving behind a 'desertified' terrain for the local population to eke out a living.

Food security is likely to be under threat, given that corporate farms can be expected to produce cash crops instead of staple food crops required for consumption by the people and their livestock. As a result the country would become dependent - on, perhaps, the same corporations - for importing essential food items, including cereals, to meet the basic caloric requirements of the people.

The package of monetary and fiscal incentives offered to corporate farms is likely to impose a heavy burden on the national exchequer. The revenue loss is likely to be recouped through higher taxation on other domestic tax bases. The cost of maintaining corporate farm profits will, therefore, have to be borne by the people at large. Hence, corporate farms will also have to be insulated from the prevailing rural sociopolitical milieu, and the cost of such measures will also have to be borne by the domestic taxpayers.

In the final analysis, while corporate farming can certainly be expected to contribute to accelerated growth in agricultural GDP, such growth would equally certainly not classify as contributing to pro-poor development.

\* As posted on the Board of Investment website.



# TARGETING EXPORT GROWTH

# SECTOR STUDY

*The potential for expanding exports clearly exists. However, the challenge in fully realizing the inherent potential lies in enhancing the competitiveness of Pakistan's manufacturing sector.*

## SECTOR STUDY

### TARGETING EXPORT GROWTH

The simulation in Chapter 3 of the effects of changes in the composition of taxes and expenditures showed improvements in all key variables - GDP, employment, budget/GDP ratio, inflation, and poverty - except in current account balance. However, ensuring macroeconomic stability requires that the current account balance be either in surplus or at the least, the deficit be kept under control, in order to obviate concerns about the external account.

The current account posted a surplus for the first time in 2001-02; although, the surplus was generated from sources that are external to the economy. Both the trade and services balances have been negative, and it is the relatively larger receipts on account of remittances and cash grants from abroad that posted the surplus (see table ss-1). Given that the external environment is now deteriorating, largely on account of the rise in international oil prices, the current account surplus has shrunk, and is in danger of reverting to a deficit in the near future. There is now a need to maintain an appropriate current account balance on a sustainable basis, with the onus falling primarily on the trade balance.

There are two ways to improve the trade balance. One is import compression, which besides being undesirable is also unfeasible because it is essential for Pakistan to import certain food items, (wheat, pulses, palm oil), fuel oil, machinery, industrial raw materials and so forth. The other is enhancing exports. The need for exports arises because

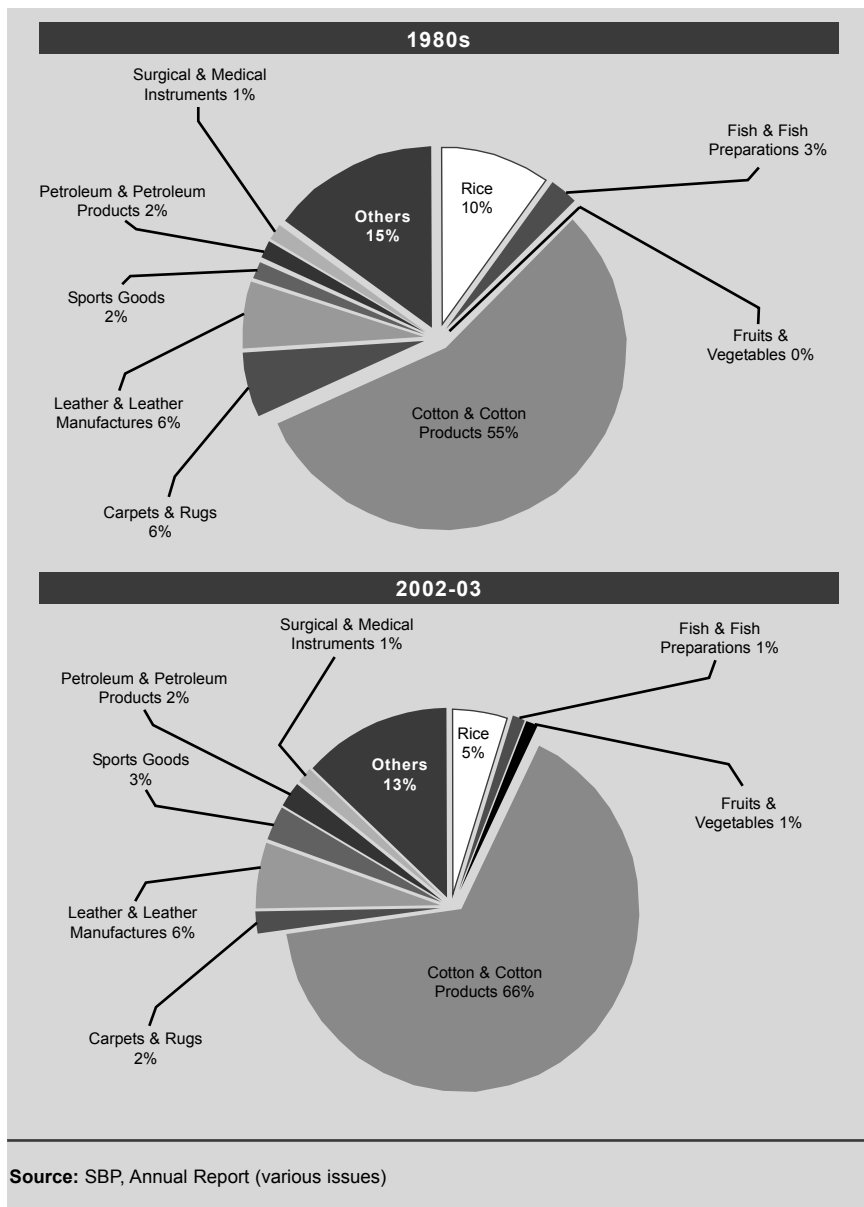
	2000-01	2001-02	2002-03	2003-04*
<b>Trade Balance</b>	<b>-1269</b>	<b>-294</b>	<b>-444</b>	<b>-757</b>
Exports (f.o.b)	8,933	9,140	10,889	9,175
Imports (f.o.b)	-10,202	-9,434	-11,333	-9,932
<b>Services (Net)</b>	<b>-3,142</b>	<b>-2,617</b>	<b>-2,128</b>	<b>-2,260</b>
Receipts	1,464	2,027	2,967	2,376
Payments	-4,606	-4,644	-5,095	-4,636
Shipment	877	-809	-951	-911
Investment Income	2,274	-2,430	-2,381	-1,687
Others	1,455	-1,405	-1,763	-2,038
<b>Private Unrequited Transfers (net)</b>	<b>3,898</b>	<b>4,249</b>	<b>5,737</b>	<b>4,386</b>
(Workers Remittances)	1,087	2,389	4,237	2,875
<b>Current Account Balance</b>	<b>-513</b>	<b>1,338</b>	<b>3,165</b>	<b>1,369</b>

\*July - March  
Source: Economic Survey (2003-04)

*Despite its critical importance, Pakistan's export sector is narrowly based and heavily dependent on the textile sector, particularly on cotton-based products.*

Chart ss-1

## Major Exports

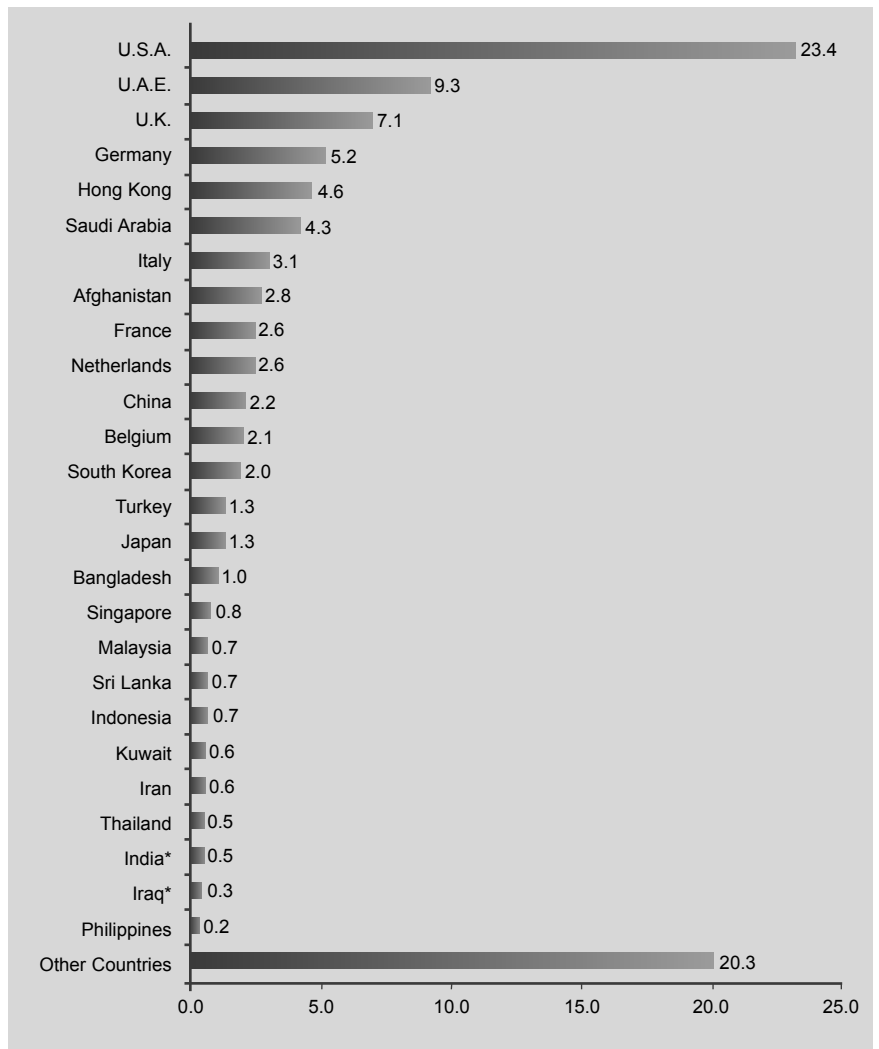


imports are paid for in foreign exchange, which can be earned through exports of goods and services, including manpower. Given, however, that the scope for services and manpower exports is limited in the short or even the medium term, the major burden of foreign exchange earnings falls upon commodity producing sectors, primarily manufacturing. Exports also raise domestic income and employment and possibly contribute to poverty reduction.

Despite its critical importance, Pakistan's export sector is narrowly based and heavily dependent on the textile sector, particularly on cotton-based products. Cotton and cotton products, together with carpets and rugs, accounted for more than 60 percent of Pakistan's total exports during the 1980s and have now increased to nearly 70 percent (see chart ss-1).

Pakistan's exports are not only narrowly based commodity wise, but they are also concentrated in terms of markets. Of the top 26 export destinations, 16 countries each account for at least one percent of Pakistan's exports, and these together account for 75 percent of exports. The United States dominates the export market, accounting for nearly one quarter of the exports. The rest of the countries post shares in single digits, with the United Arab Emirates being the second largest market accounting for 9 percent of exports. Other important export destinations are the United Kingdom Germany, and Hong Kong. About 10 of these 16 countries are distant destinations, involving high shipping costs. Bordering neighbours, Afghanistan, China, Iran, and India, account for only 6 percent of exports (see chart ss-2).

**Chart ss-2 Exports by Destination: 2002-03**  
(% of total exports)



\*Indicates data are for 2001-02  
Source: SBP, Annual Report (various issues)

Undoubtedly specialization has a positive value. A key result from international trade theory is that countries should specialize in the production of goods and services in which they have a relative comparative advantage and import other goods and services. However, caution and the need for balance are in order. A heavy dependence on products related to cotton - a primary commodity - renders the economy vulnerable to the vicissitudes of weather and fluctuations in world prices. Since it is not possible to completely hedge against the risks associated with the narrow base of exports, diversification is called for in order to reduce the volatility of the economy.

This is not to say that comparative advantage can be ignored; rather, the case emerges for policies and practices that can, through enhanced cost efficiency and productivity, enable the country to develop comparative advantage in a greater range of products. Similarly, the case arises for exploring a wider range of markets, particularly in countries that are geographically closer.

A comprehensive focus on Pakistan's international trade would involve the analysis of many diverse factors. Among these are: Pakistan's competitiveness and productivity vis-à-vis its third-party trade competitors in various sectors; the country's trade policies (including both explicit and implicit trade restrictions) relative to those of its potential trading partners and competitors; its exchange rate regime; the costs of transportation and other transaction costs involved in taking goods to potential markets; the size of foreign markets relative to the domestic market; the effects of the increased importance of China and India in world markets; the post-2004 world trade environment after the removal of textile quotas; and the political environment. The analysis in this chapter primarily focuses on issues related to the export sector rather than on the overall agenda.

The demand for and supply of a country's exports are determined by three basic factors: income level of foreign countries, domestic production of tradable goods and services, and relative prices. Income levels in foreign countries cannot be affected by domestic policies; however, domestic production and relative prices can be influenced through policies to improve cost efficiency and productivity; i.e., measures that enhance competitiveness. Competitiveness is a necessary condition to (1) ensure adequate supply of exportable goods and services that can be profitably marketed abroad and (2) create sufficient demand for exportable products.

## ISSUES IN POTENTIAL FOR EXPORTS

**H**igher exports or greater export orientation by definition implies a relatively open economy or greater trade orientation. In theory, greater openness can have both positive and negative effects on poverty.

The positive effects of openness or greater trade orientation can occur through:

- effectively lower export taxes
- development of new industries and occupations
- greater opportunities for employment
- greater access to more diversified products
- higher growth.

*Since it is not possible to completely hedge against the risks associated with the narrow base of exports, diversification is called for in order to reduce the volatility of the economy.*

However, greater trade orientation can have negative effects on the poor, resulting from:

- possible lack of enterprise ability and skills to take advantage of the new opportunities that arise
- transition costs of trade liberalization, which often fall disproportionately on the poor
- unequal wage growth in exports relative to other sectors, which could further disadvantage the uneducated poor
- lower government trade-related revenues, which could lead to cuts in welfare programs for the poor
- greater general vulnerability of the economy to external shocks, which is particularly burdensome for the poor.

It should be noted that the empirical literature on the implications of openness and trade liberalization for income inequality and poverty is relatively limited and there are cases that point in both directions. East Asian economies present the case of sustained export-led economic growth accompanied by substantial reductions in poverty rates. India, on the other hand, presents the case where improvements in trade seem to have left the poor behind. This is likely because India's progress towards greater trade has resulted because of the flourishing high-tech related services exports, widening the gap between the earnings of skilled and unskilled labor. Clearly, the structure and composition of exports are important determinants of whether or not greater trade in fact reduces inequality and poverty.

### Trade and Growth

Reservations about the inequality and poverty implications of openness of economies, notwithstanding, countries all over the world are becoming increasingly more open and integrated in terms of greater trade of goods and services as well as a freer flow of technology, information and ideas across national borders. Globalization is a force that is here to stay.

Trade literature generally finds that openness and international integration is directly conducive to increasing economic growth and per capita incomes. One seminal study (Frankel and Romer, 1999) based on the 1985 data on a cross-section of 150 countries found that a one percentage-point higher ratio of trade/GDP is associated, on average, with a two percent higher level of per capita income. Another study (Sachs and Warner, 1995) showed that countries with a high trade orientation have average growth rates about 2.5 percentage points higher than average growth rates in countries that are largely closed.

Needless to say, these results on the effects of trade on growth and per capita income are not absolute. To begin with, there are problems of causality, i.e., it is unclear whether greater trade leads to higher GDP or vice versa. Furthermore, it is also questionable whether the effects of openness can be effectively isolated from the effects of other important influences on growth, such as the stability of macroeconomic policies, the quality of the physical and institutional infrastructure, and the level of education and quality of human capital. This is because trade liberalization is often accompanied by a host of other policy reforms and changes. It may be that the effects of increasing trade on growth and

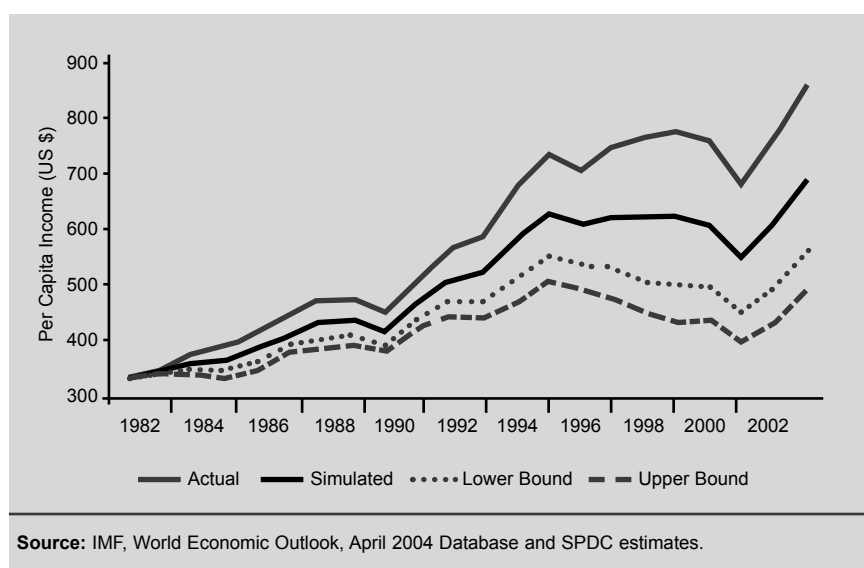
*Trade literature generally finds that openness and international integration is directly conducive to increasing economic growth and per capita incomes.*

incomes will not be as large as suggested unless simultaneous gains in macroeconomic policies and improving the quality of infrastructure and institutions, and education and human development are also made.

Nonetheless, it would be useful to consider the implications for Pakistan's per capita income for increasing the country's international trade and openness, under the assumption that causality runs from trade to income. Pakistan's international trade as a percentage of GDP has been rising by only about 0.2 percentage points per year over the last two decades, as against one percentage point per year for the other developing Asian countries in the sample. An attempt as such has been made to determine the impact on Pakistan's per capita income had the country operated on a one percentage point per year increase in the trade/GDP ratio.

Under the above assumption, Pakistan's trade in 2003 would have been about 52 percent of GDP, instead of 34 percent. At the same time, simulation results - based on Frankel and Romer's estimates - show that per capita income would have risen from US\$ 350 in 1981 to US\$ 660 in 2003; that is, 35 percent higher than the actual 2003 level of US\$ 490. At even the most conservative estimate, the per capita income is estimated to be 12 percent higher at US\$ 550 (see chart ss-3).

**Chart ss-3** Simulated Effect of Trade on Per Capita Income  
(Based on Frankel-Romer estimates)



### Impact of Exports: Simulation Results

SPDC's 264-equation Macroeconomic Model has been used to simulate the impact of an exogenous 5 percent increment in exports over and above the projected baseline export levels over a five-year period on external account variables, in particular the current account and on poverty. While the exercise is notional, it clearly denotes the inter-relationships and the direction and magnitude of changes.

The results, projected on base year estimates for a five-year period, show that under conditions of *status quo* (Scenario 1), a 6 percent annual rate of GDP growth is likely to raise the trade/GDP, export/GDP and import/GDP ratios from 37.1, 16.6 and 20.5 percent, respectively, to 46.5, 19.9 and 26.6 percent in Year 5. Given that the import/GDP ratio is projected to rise faster than the export/GDP ratio, the current account balance as a percentage of GDP is estimated to deteriorate from a surplus of 0.8 to a deficit of 4.3 percent and the exchange rate is predicted to depreciate from Rs. 59.8 to Rs. 77.3 per US dollar in Year 5. The percentage of the population below the poverty line is expected to rise from 30 percent to 31.7 percent over the period (see table ss-2).

Scenario 2 and 3 present cases of departure from the *status quo*. Scenario 2 presents the case of exogenous increase of exports, without controlling the resultant money supply increase, and is shown to lead to higher Year 5 trade/GDP, export/GDP and import/GDP ratios at 53.2, 25.1 and 28.1 percent. The difference between the export/GDP and import/GDP ratios declines from 6.7 percentage points in the *status quo* regime to 3 percentage points and results in a marginally negative or zero current account balance/GDP ratio. The Year 5 exchange rate worsens on account of inflationary pressures to Rs. 78.2 per US dollar and the level of poverty remains the same.

Scenario 3 presents the case of the same exogenous increase of exports, with money supply held constant, and is shown to lead to even higher Year 5 trade/GDP, export/GDP and import/GDP ratios at 54.2, 25.9 and 28.3 percent. The difference between the export/GDP and import/GDP ratios declines further to 2.4 percentage points, and results in a current account balance/GDP surplus of 1.1 percent. The Year 5 exchange rate improves to Rs. 72.1 per US dollar, and the level of poverty falls to 29.4 percent.



Exports are vital for growth

Photo: Hassan Zaheer

*Pakistan's trade performance over the last two decades has been almost stagnant, with the trade/GDP ratio increasing by only about 0.2 percentage points per year over the period 1982-2002.*

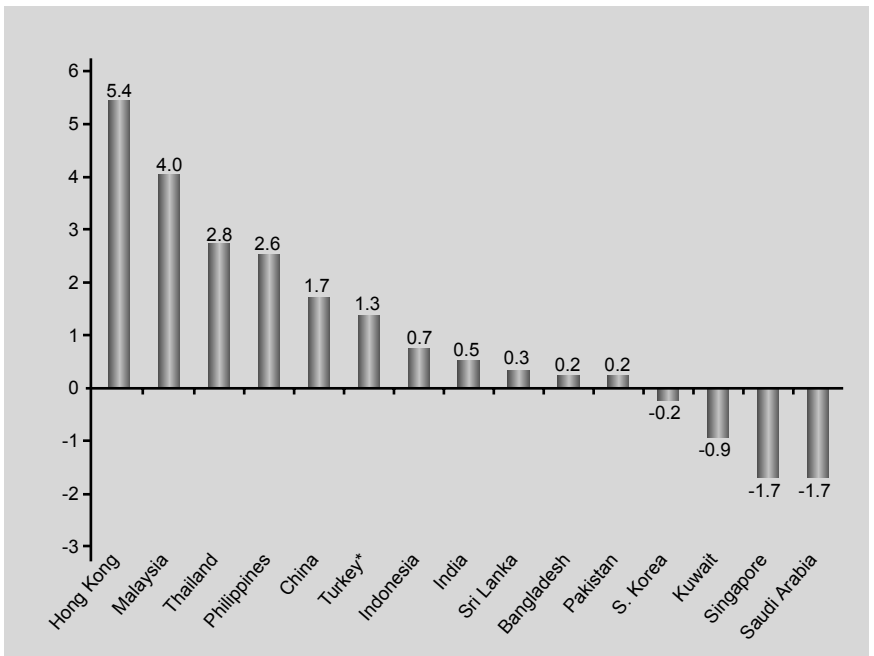
**Table ss-2** Impact of Increase in Exports

	Base Year	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Scenario - 1: Status Quo</b>						
GDP Growth	6.3	6.0	6.0	6.0	6.0	6.0
Trade/GDP	37.1	38.8	40.4	41.5	44.1	46.5
Exports/GDP	16.6	17.0	17.4	17.7	18.8	19.9
Imports/GDP	20.5	21.9	23.0	23.9	25.3	26.6
Current account balance/GDP	-0.8	2.4	3.0	3.0	3.9	4.3
Exchange Rate (Rs/US \$)	59.8	62.6	65.9	69.3	73.1	77.3
Poverty Incidence	30.0	30.1	30.5	31.2	31.2	31.7
<b>Scenario - 2: an exogenous 5 % increment in exports without controlling money supply increase</b>						
GDP Growth	6.3	6.2	6.2	6.4	6.3	6.3
Trade/GDP	37.1	39.8	42.5	44.8	49.0	53.2
Exports/GDP	16.6	17.8	19.2	20.4	22.6	25.1
Imports/GDP	20.5	22.0	23.3	24.5	26.4	28.1
Current account balance/GDP	-0.8	1.5	1.0	0.3	0.2	-0.3
Exchange Rate (Rs/US \$)	59.8	62.6	65.8	69.5	73.6	78.2
Poverty Incidence	30.0	30.0	30.4	31.1	31.2	31.8
<b>Scenario - 3: an exogenous 5 % increment in exports with money supply constant</b>						
GDP Growth	6.3	6.2	6.2	6.5	6.5	6.6
Trade/GDP	37.1	39.8	42.6	45.1	49.5	54.2
Exports/GDP	16.6	17.9	19.3	20.6	23.1	25.9
Imports/GDP	20.5	22.0	23.3	24.5	26.4	28.3
Current account balance/GDP	-0.8	1.4	0.9	0.0	-0.3	-1.1
Exchange Rate (Rs/US \$)	59.8	62.2	64.8	67.3	69.7	72.1
Poverty Incidence	30.0	29.9	30.0	30.2	29.7	29.4
<b>Note:</b> Except for Exchange Rate, all figures are in percentages						
<b>Source:</b> SPDC Estimates based on ISPM Model						

## Possibilities for Trade

Pakistan's trade performance over the last two decades has been almost stagnant, with the trade/GDP ratio increasing by only about 0.2 percentage points per year over the period 1982-2002 (see chart ss-4). Nonetheless, there is considerable scope for Pakistan's trade to expand. This can be discerned from a comparison of the country's trade orientation relative to 14 major Asian export destinations. Pakistan's trade in 2002 amounted to 33 percent of GDP in contrast to an average of 96 percent for these 14 countries (see chart ss-5). Of these, the trade/GDP ratio for Singapore, Hong Kong and Malaysia range from 178 to 274 percent, while only India and Bangladesh are lower than Pakistan at 23 and 29 percent, respectively. Even after excluding these five countries, the average trade/GDP ratio stands at 65 percent - almost twice that of Pakistan.

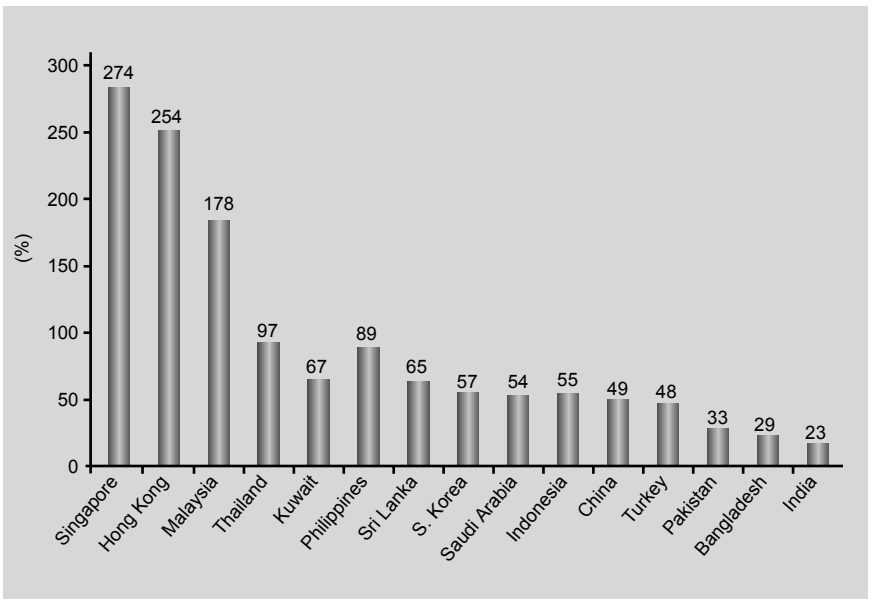
**Chart ss-4** Change in Trade/GDP Ratio: 1982-2002  
(Percentage points per year)



\*For Turkey, per year change is from 1987 to 2002

Source: SPDC estimates based on data from IMF, International Financial Statistics (various issues)

**Chart ss-5** Trade/GDP Ratio: 2002 (%)  
(Selected Asian countries)



Source: IMF, International Financial Statistics (various issues)

A more formal estimate of the potential for trade expansion can be made with the help of the Gravity Model. The Gravity Model provides benchmark estimates of the potential amount of trade, defined as the sum of a country's imports from and exports - to another country. This trade level is determined by the economic mass - size of GDP and population - of the two trading countries and the proximity/distance between them. The conceptual basis of the model is as follows: (1) the larger the economy and/or population, the greater is the source of demand for foreign goods and services and (2) the smaller the distance between the two countries, the lower are the costs of transportation (see Box ss-1).

### Box ss-1

### Specification of the Gravity Model

Many different versions of the gravity model have been estimated using worldwide bilateral trade data. The version that has been used to compute the potential for Pakistan's trade is taken from an IMF working paper, Coe et al (2000), which has several technical advantages over others. In that specification, trade between any two countries  $i$  and  $j$ ,  $Trade_{ij}$  (defined as the sum of country  $i$ 's imports from and exports to country  $j$ ), depends in a non-linear way on the products of their GDPs, the products of their populations, the distance between the countries, and dummy variables capturing country fixed effects, common border, common language, and common free-trade area effects. The specific equation estimated in the IMF working paper using non-linear econometric technique is:

$$Trade_{ij} = (Y_i Y_j)^\alpha (P_i P_j)^\beta D_{ij}^\delta e^{\mu_{ij}} + \varepsilon_{ij}$$

with,

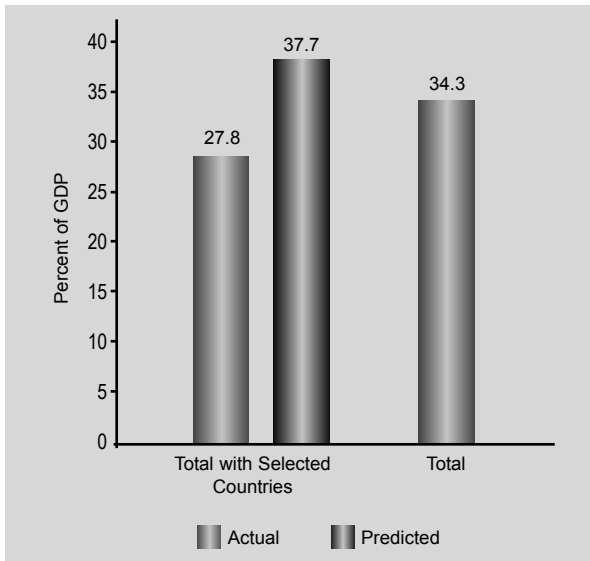
$$\mu_{ij} = \theta_i + K_j + \lambda B_{ij} + \phi L_{ij} + \sigma F_{ij}$$

where  $Y$  is GDP,  $D$  is the great circle distance between the capital cities of the two countries;  $P$  is population;  $e$  is the exponential operator;  $\theta_i$  and  $K_j$  are country fixed effects for country  $i$  and country  $j$  respectively;  $B$ ,  $L$ , and  $F$  are dummy variables equal to unity if the countries share a common border, have a common language, and are part of a free-trade area, respectively, zero otherwise; and  $\varepsilon$  is an error term. It is expected that  $\alpha, \beta, \lambda, \phi, \sigma > 0$  and  $\delta < 0$ . The main results and their implications for Pakistan's trade are discussed in the main text.

An IMF Working Paper postulates that trade between two countries is a non-linear function of the products of their GDPs, their populations, the distance between them, the presence or absence of a common border, and free trade area, and common language. Based on year 2000 data for a cross-section of 73 countries, the empirical estimates of the IMF study imply the following: a one percent rise in either country's GDP leads to a 0.67 percent increase in trade, a one percent increase in either country's population leads to 0.13 percent higher trade, and a one percent increase in distance leads to a 0.35 percent decline in trade. The common border and common free trade area variables are statistically significant, while common language is insignificant.

The Gravity Model is useful in providing a benchmark value of what our trade with various countries could be. However, it does not specify the optimal amount of trade and cannot be construed as definitive. The model is limited to quantifying the impact of economic mass and distance and it does not explicitly model other important determinants of trade, that is relative price (competitiveness) variables or trade policy variables such as tariff rates, quotas, and foreign exchange restrictions that influence relative prices. It also fails to consider natural endowments, specialization, and the law of comparative advantage. For example, two

**Chart ss-6 Actual and Predicted Trade Ratios: 2003**



**Source:** SPDC estimates based on data from IMF, International Financial Statistics (various issues), IMF, World Economic Outlook, April 2004 Database.

high economic mass countries may be located in close proximity, but if their respective production compositions are similar, the potential for trade may be limited.

The fact that the model has been estimated on the basis of total trade, and it is not disaggregated into exports and imports also limits its utility. In any case, the implicit assumption with respect to Pakistan's trade balance is that a major part of the requisite increase in trade will come from exports; even though imports are likely to rise along with exports. If the increase in trade occurred on account of enhanced imports, it would worsen the trade deficit, and in turn, the current account balance with its attendant macroeconomic problems.

Nevertheless, the Gravity Model can be a useful tool to highlight the difference between actual and potential trade, and to identify the countries that Pakistan under-trades with and the possibilities that exist for expanding trade. The scrutiny of 2003 data for Pakistan and its 24 major export markets, which account for 80 percent of Pakistan's exports, shows that Pakistan's actual trade with these countries totaled to about 28 percent of GDP. By contrast, the Gravity Model envisages potential trade between Pakistan and these countries in the order of about 38 percent of GDP, or about 35 percent more than the actual trade (see chart ss-6).

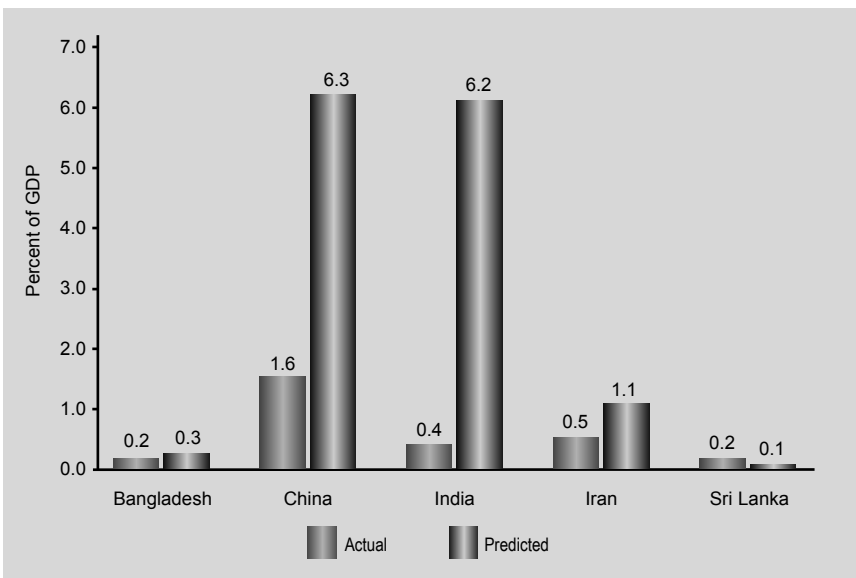
The individual country results show that total trade with the selected countries is significantly less than predicted by the Gravity Model (see charts ss-7 to ss-11). Pakistan's actual trade in 2003 with neighbouring Iran and India amounted to about 0.5 percent of GDP each and with China about 1.6 percent of GDP; whereas, the Gravity Model predicts trade with both India and China at 6 percent of GDP and with Iran at 1.1 percent of GDP. In other words, the potential exists for doubling trade with Iran, expanding trade with China four-fold and with India twelve-fold (see chart ss-7). The Model also envisages higher trade potential with the USA, Japan and France - all distant destinations, but with large economic mass. Trade with the United States in 2003 was over 5 percent of GDP - the highest trading ratio among all trading partners (see charts ss-8 and ss-9).



**Manufacturing needs to be increased**

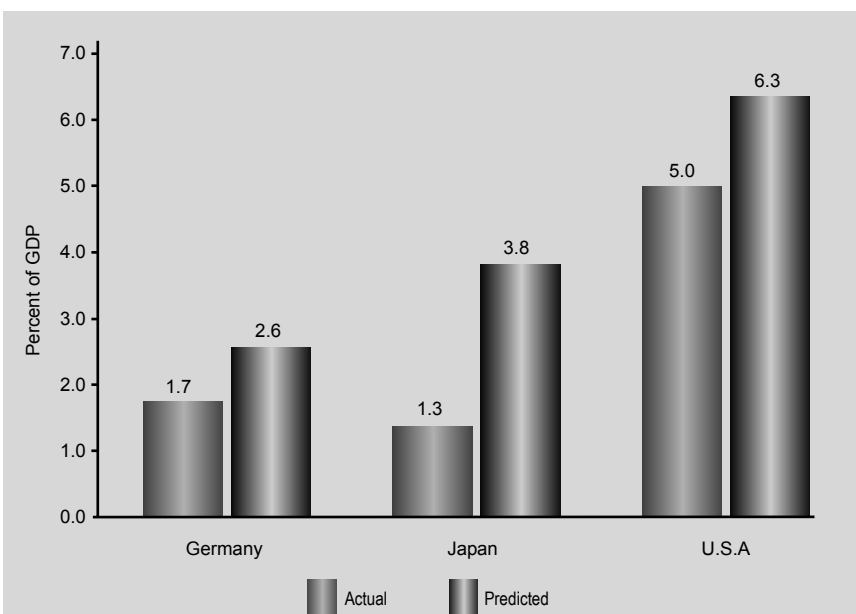
Photo: Hassan Zaheer

**Chart ss-7** Actual and Predicted Trade Ratios: 2003  
(Trade with neighbourhood countries)



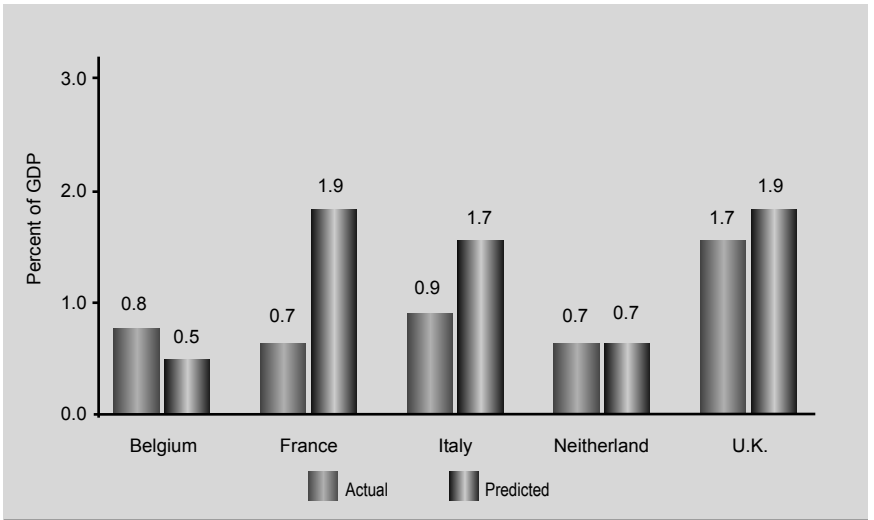
**Source:** SPDC estimates based on data from IMF, International Financial Statistics (various issues), IMF, World Economic Outlook, April 2004 Database.

**Chart ss-8** Actual and Predicted Trade Ratios: 2003  
(Trade with G-3 countries)



**Source:** SPDC estimates based on data from IMF, International Financial Statistics (various issues), IMF, World Economic Outlook, April 2004 Database.

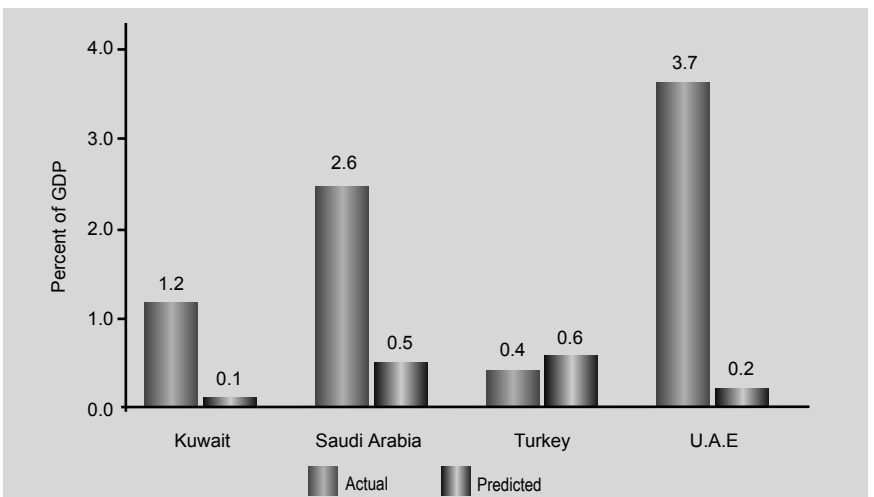
**Chart ss-9** Actual and Predicted Trade Ratios: 2003  
(Trade with other industrial countries)



**Source:** SPDC estimates based on data from IMF, International Financial Statistics (various issues), IMF, World Economic Outlook, April 2004 Database.

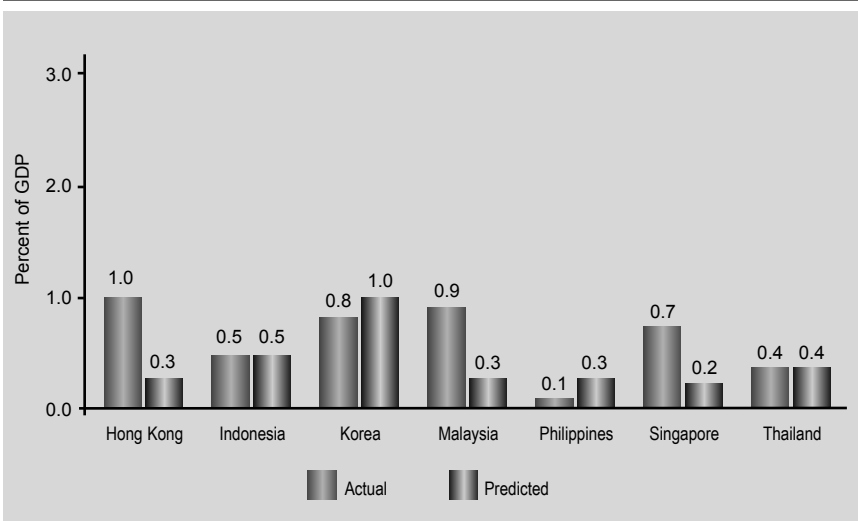
The Middle-Eastern countries like Kuwait, Saudi Arabia, and United Arab Emirates are among those with which Pakistan's trade in 2003 was substantially more than what the Gravity Model envisages (see chart ss-10). Kuwait and Saudi Arabia stood out high in trade more because they are oil exporters to Pakistan. In the case of the United Arab Emirates a further analysis is called for. Afghanistan, Iraq and the Central Asian countries have been excluded from the analysis due to data limitations. Yet, given the proximity of these countries, it seems reasonable to

**Chart ss-10** Actual and Predicted Trade Ratios: 2003  
(Trade with Middle Eastern countries)



**Source:** SPDC estimates based on data from IMF, International Financial Statistics (various issues), IMF, World Economic Outlook, April 2004 Database.

**Chart ss-11** Actual and Predicted Trade Ratios: 2003  
(Trade with other developing Asian countries)



**Source:** SPDC estimates based on data from IMF, International Financial Statistics (various issues), IMF, World Economic Outlook, April 2004 Database.

conclude that the Gravity Model would imply greater trade relations between Pakistan and these countries.

### Quota-free Textile Trade: Threat or Opportunity

The removal of worldwide quotas on imports of textiles and clothing by the end of 2004 has raised questions about Pakistan's ability to retain - and possibly expand - its market share in the world textile and clothing trade. Textiles command a dominating presence in the country's economy, in particular with respect to employment and incomes. Cotton is the most important cash crop in the agriculture sector, and cotton textile is the most important industry in the manufacturing sector. Textiles, apparel and related products account for nearly three-quarters of exports. As such, there is an urgent need to study the potential effects of this development on Pakistan's export trade, and to determine the prospects for the textile industry in the post-2004 quota-free world trading environment.

Quotas on imports of yarn, textiles and apparel from developing countries were put in place by several major industrial countries under the Multi-Fiber Agreement (MFA), which was in place from 1974 to 1995. It allowed industrial countries to impose complex quantitative restrictions on a bilateral basis on very specific textile and apparel products imported by them. In the Uruguay round, the MFA was replaced by the Agreement on Textiles and Clothing (ATC), which called for a gradual phase-out of quantitative restrictions over a ten-year transition period beginning 1995. In principle, this process is scheduled to be completed by December 31, 2004.

An assessment of how Pakistan is likely to manage under the changed circumstances beginning January 1, 2005 can be made based on an examination of how Pakistan's textile exports progressed under the MFA quota regime and responded to the gradual phasing out of quotas under the ATC.



Textile exports are expected to grow

Photo: Hassan Zaheer

The impact of the removal of quotas can be theorized as follows.

First, quantitative restrictions generally lead to an inefficient overall world allocation of resources. Thus, consumers world over are likely to benefit from lower prices emanating from efficiency gains, accruing from the removal of such restrictions.

Second, there are likely to be losers and gainers among producers. Presumably, the quantitative restrictions were put in place by industrial countries to protect their domestic producers of textile and apparel goods against competition from those developing countries that have a relative comparative advantage in the production of these goods. Therefore, countries that utilized their quotas fully, defined in practice as 90 percent or more utilization, and experienced a ceiling or binding constraint on their exports would be expected to expand their exports. Countries that have not fully utilized their quotas, ostensibly on account of supply inefficiencies are likely to lose market share.

There are two important factors with respect to relative competitiveness. First, if one of the countries had a lower import content of inputs, it would be in a relatively better position to apply policy tools, such as exchange rate depreciation to stay competitive. Conversely, countries with a high import content of inputs would be constrained from applying such measures as exchange rate depreciation in all likelihood would enhance input prices and largely offset the exchange rate advantage. Second, if the two countries were competing for the same market and both face binding quotas, the country with the greater comparative advantage would edge out the other country from the market. Pakistan and China are possible examples in this respect.

*Competitiveness means that the goods a country places for export on the world market command an edge, in price and quality, over those produced by its competitors.*

In light of the above argument, Pakistan's domestic consumers of textiles and clothing are likely to gain through lower prices from the post-2004 WTO environment. However, how producers would manage requires answering the following questions:

Has Pakistan been able to fully utilize its quotas under MFA/ATC?

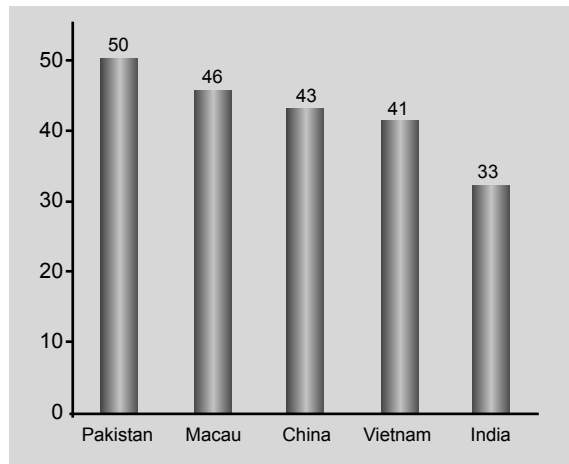
Is Pakistan competitive with other countries that have fully utilized the quotas?

What is the import content of Pakistani textile manufactures?

Based on the data from a WTO Working Paper (Nordas, 2004), it is shown that five economies with the most binding textile quotas in 2000 were Pakistan, Macao, China, Vietnam, and India. Pakistan had the highest percent of binding quotas and it was also on the list of countries that faced high export-tax equivalents, that is effective tax rates on exports implied by the quotas (see chart ss-12). It appears, therefore, that Pakistan's textile exports may have been substantially constrained by the existence of quotas, creating a potential for some gains in the post-quota environment.

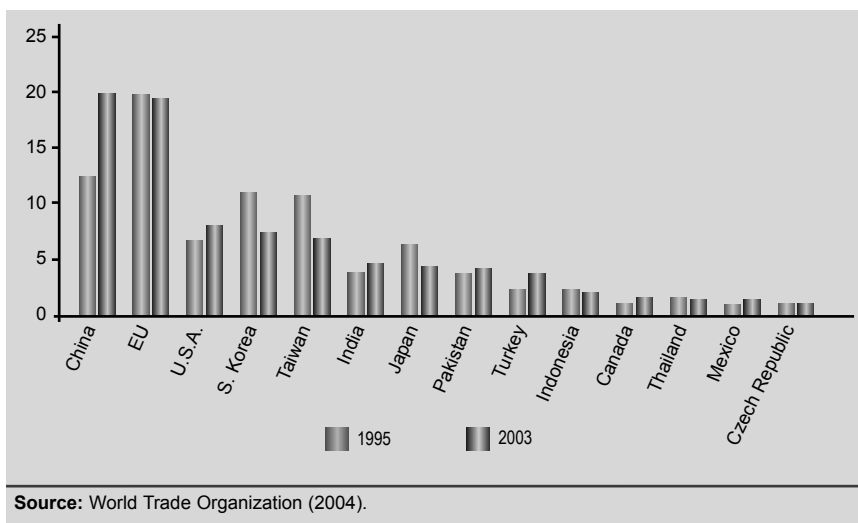
A perusal of world market shares of leading textile exporters for 1995 - the first year of the transitional ATC when the gradual phasing out of quotas commenced - and 2003 shows that China benefited the most with its world market share going up from about 12.5 percent to nearly 20 percent (see chart ss-13). The other countries that gained market share were the United States, Turkey, India and to a much more modest degree, Pakistan, Mexico and Canada. It is noteworthy that gains in market shares of China and India did not come at the expense of Pakistan's

**Chart ss-12** Binding Textile Quotas: 2000 (%)



Sources: Nordas (2004), WTO Working Paper.

**Chart ss-13** Market Shares of Leading World Textile Exporters (%)

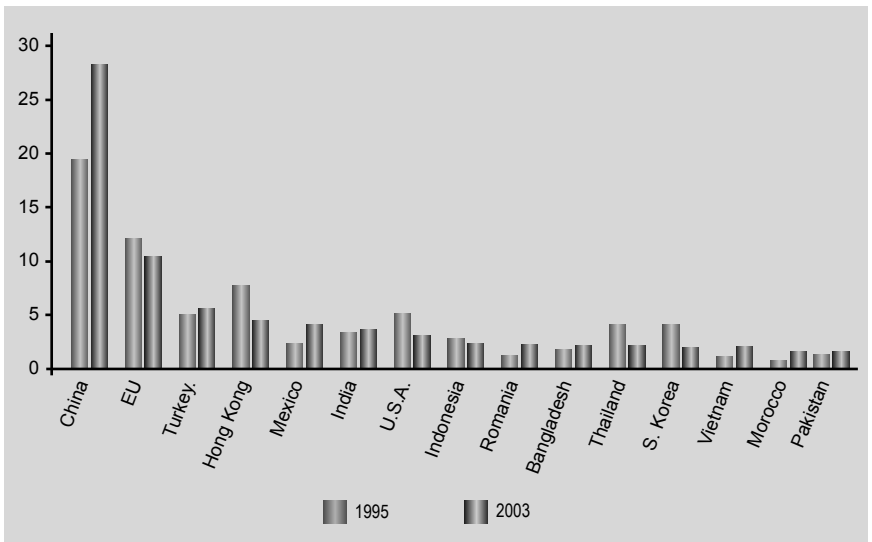


Source: World Trade Organization (2004).

*Pakistan's textile exports may have been constrained by the existence of quotas, creating a potential for some gains in the post-quota environment.*

Chart ss-14

## Market Shares of Leading World Clothing Exporters (%)



Source: World Trade Organization (2004).

share of about 4 percent, but at the expense of South Korea, Taiwan, Japan, Indonesia, Thailand and the European Union. Indeed, Pakistan's world market share of textile exports over this period went up from 3.8 to 4.2 percent. Similarly, Pakistan's market share in clothing in 1995 was 1.3 percent and improved marginally to 1.5 percent in 2003 (see chart ss-14).

It can be inferred that Pakistan faced binding quotas under the MFA but has been able to enlarge, though modestly, its market share in textile and apparel exports under the ATC. Clearly, there is potential for a further expansion of market share as far as exports are concerned. Pakistan is at an advantage here as the basic raw material - cotton - is domestically produced; which results in a relatively lower import content in inputs and enables the use of exchange rate policy. However, a potential threat lurks from competing textile and apparel exporting countries such as China, India, Turkey, Vietnam, and Romania that have also managed to increase their market shares since 1995.

## ISSUES IN SUPPLY OF EXPORTS

While the potential for exploiting foreign demand for Pakistan's exports exists, the supply dimension relating to competitiveness is a moot point. Competitiveness means that the goods a country places for export on the world market command an edge, in price and quality, over those produced by its competitors. Competitiveness can be enhanced with lower per unit costs, which can be attained with lower factor and non-factor input costs relative to the world export price and/or higher productivity, that is, producers have the ability to obtain higher output for a given amount of inputs. Policy instruments such as exchange rate and, import tariff, can also affect competitiveness in important ways.

*Pakistan's world market share of textile exports went up from 3.8 to 4.2 percent during 1995-2003.*

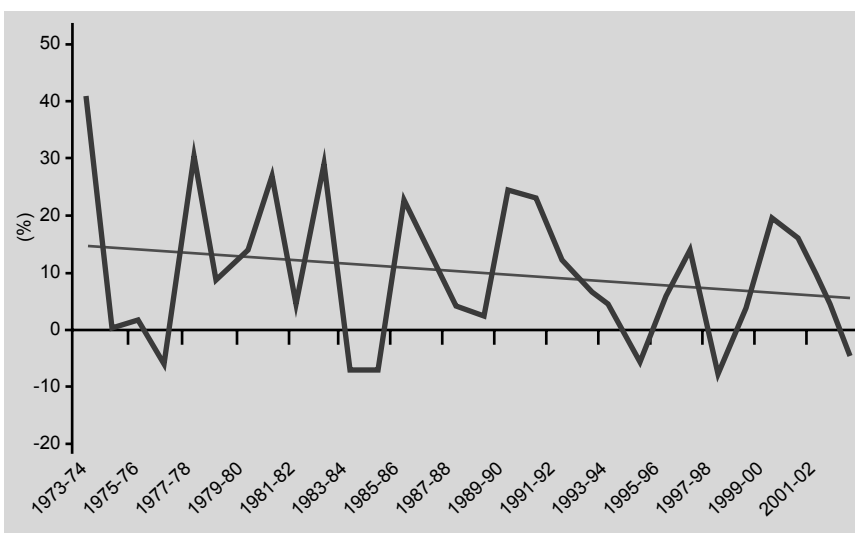
Chart ss-15

Growth of Manufacturing  
Real Value Added (%)

Source: GOP, Economic Survey (various issues).

Pakistan's record in these respects does not appear to be very encouraging. To begin with, the performance of the manufacturing sector has been somewhat average since the late 1980s. Growth has been volatile and the trend growth rate has been in decline (see chart ss-15). This volatility and declining growth trend is also reflected in the case of manufactured exports (see chart ss-16). The declining growth trend in manufacturing output appears to have reversed since 1999, but the same

Chart ss-16

Growth of Real  
Manufacturing Exports (%)

Source: GOP, Economic Survey (various issues).

*The declining growth trend in manufacturing output appears to have reversed since 1999, but the same has not occurred for manufactured exports.*

has not occurred for manufactured exports. An investigation into the reasons that has prevented manufactured exports from performing better is, therefore, necessary.

Two comparisons are pertinent in this respect. First, the comparison of trends in manufacturing input prices and the general price level; second, the comparison of trends in the composite factor and non-factor input price indices and the export price index. The factor and non-factor inputs are distinguished rather arbitrarily, with the former defined to include capital and labour and the rest of the input items defined as non-factor inputs. The methodology for computing composite factor and non-factor input price indices is shown in Box ss-2. The analysis of movements in input prices and productivity has been carried out over four periods with respect to trade liberalization. The first period, 1974-88, is the pre-liberalization phase and the following period from 1989 to 2003 is divided into three 5-year segments.

Conceptually, for a given level of productivity, the manufacturing sector is likely to suffer from diminished competitiveness if factor and non-factor input prices were to grow faster than (1) the general price level and (2) export prices. This appears to have been the case in Pakistan.

### Box ss-2

### Composite Input Price Index

The composite input price index for the manufacturing sector is the aggregate index of different input prices, where each input price is weighted by the share of that input in total cost. These shares are obtained from the Census of Manufacturing Industries (CMI), which provides data on large-scale manufacturing constituting over 72 percent of manufacturing value added. Prices of major factors of production like capital and labour factor inputs are considered separately from prices of other inputs "non-factor inputs". Details of the components of cost shares along with the input price that apply to them are given below:

Factor Cost Component	Relevant Factor Input Price
<i>Capital</i>	
Depreciation	Import unit value of machinery and transport
Rent paid on fixed assets	Import unit value of machinery and transport
Interest paid on loans	Weighted average rate on advances
<i>Labour</i>	
Employment cost	Wages in manufacturing sector
Non-Factor Cost Component	Relevant Non-Factor Input Price
Raw material local	Wholesale price index of raw material
Raw Material imported	Weighted average import unit value of crude material and chemicals
Fuel and electricity	Wholesale price index of fuel, lighting and electricity
Net non-industrial cost <sup>1</sup>	Implicit GDP deflator

A fixed share methodology is employed to construct the composite input price index for the period 1972-73 to 2002-03. Analysis using variable cost shares is not possible because the CMI has not been published after 1995-96. Cost shares for the year 1985-86 are used as weights because this year is the mid-point of the sample period and is representative in the sense that this year's values are close to the mean over the period for which CMI data are available.

After weighting input price series by the respective cost share, a composite input price index,  $CIP I_t$ , is computed separately for factor and non-factor inputs. That is:

$$CIP I_t = \sum_{i=1}^8 \omega_i P_{i,t}$$

where  $P_{i,t}$  is the price of the input  $i$  at time  $t$ ,  $\omega_i$  is the share of  $i$ th cost component in total cost and  $t = \text{time period } 1973, 1974, \dots, 2003$ . Note that there is one  $CIP I_t$  for factor input prices and one for non-factor input prices.

<sup>1</sup>This includes net of payments for transports; insurance payments; copyrights royalties; post, telegraph and telephone charges; printing and stationary cost; advertising expenses and others.

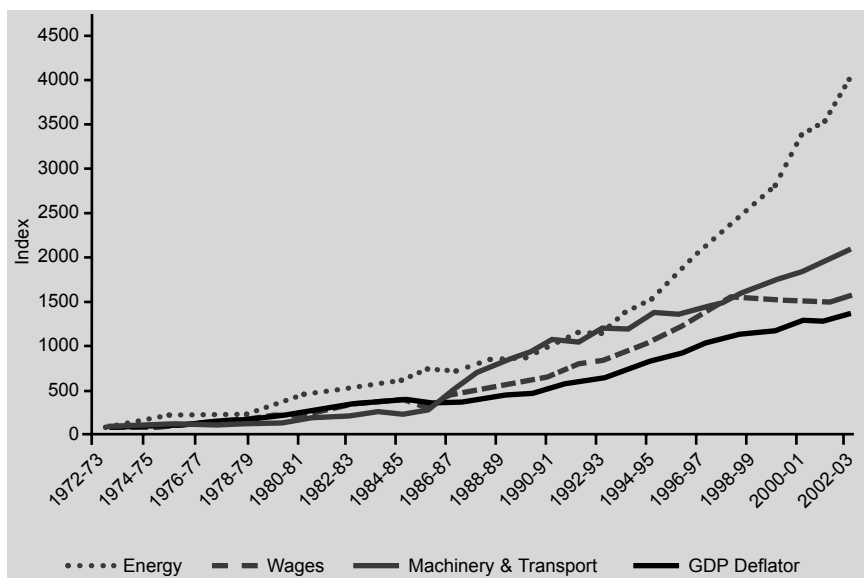


Export promotion needs greater efforts

Photo: Hassan Zaheer

The examination of manufacturing input price trends relative to the general price level over the period 1974-03 shows that the rate of growth of two out of three factor input prices - machinery and transport, and wages - was higher than the general price level, as measured by the GDP deflator (see chart ss-17). While the GDP deflator increased by 9.2 percent, machinery and transport prices and wages rose by about 11.6 and 10.2 percent, respectively; however, the rate on advances grew by

**Chart ss-17 Comparison of Input Prices and GDP Deflator**  
(Index 1972-73 = 100)



Source: GOP, Economic Survey (various issues).

*Energy prices showed the highest growth, rising about forty-fold between 1973 and 2003, compared to a fourteen-fold rise in general prices.*

Table ss-3

Major Input Prices and GDP Deflator  
(Average annual growth rates)

Year	Factor Inputs			Non-Factor Inputs				GDP Deflator
	Capital		Labour Wages	Raw Material Local	Raw Material Imported		Energy	
	Machineery & Transport	Rate on Advances			Chemicals	Crude Materials		
1974-03	11.64	1.10	10.18	9.36	8.16	7.04	13.57	9.21
1974-88	15.75	3.26	12.42	9.86	8.41	5.62	15.71	10.06
1989-93	10.98	2.18	10.69	8.71	7.78	10.37	8.03	9.37
1994-98	5.44	2.91	12.86	14.30	10.20	10.40	14.91	11.21
1999-03	6.17	-8.27	0.26	3.57	5.74	4.59	11.32	4.49
<i>Prices in 2003 as a Ratio of Prices in 1973</i>								
2003/1973	20.82	1.27	15.49	13.33	9.36	7.25	40.24	13.65
<b>Sources:</b> GOP, Economic Survey (various issues) SBP, Statistical Bulletin (various issues) FBS, Labour Force Survey (various issues)								

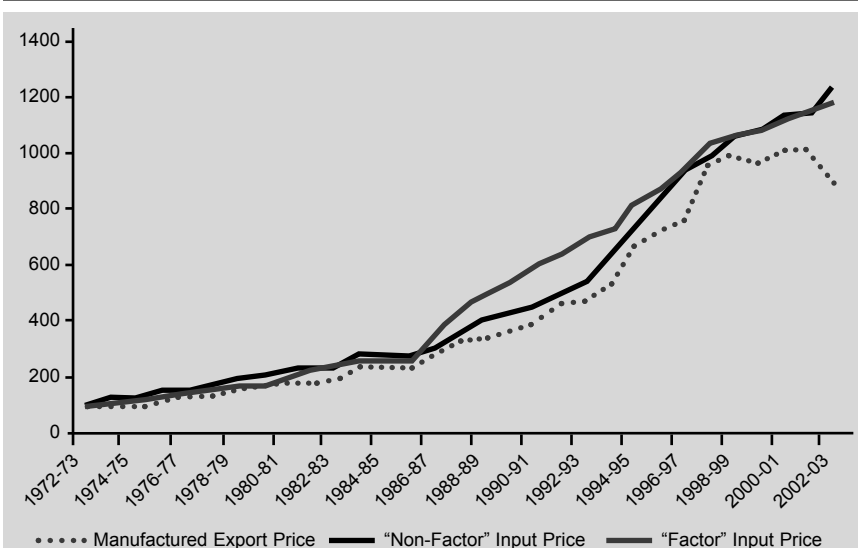
just over one percent (see table ss-3). With respect to non-factor inputs, local and imported raw material price increased slightly lower or at par with the general price level increase; however, energy prices rose by 13.6 percent (see chart ss-17 and table ss-3). On the whole, the growth in both the composite factor and non-factor input price indices was lower at 8.9 percent relative to the growth of GDP deflator at 9.2 percent (see table ss-4).

During the most recent period, 1999-2003, while growth in the prices of machinery and transport was significantly higher than that in the general price level, the growth in composite factor input price index was lower on account of virtually zero growth in the cost of labour, and the substantial 8 percent decline in the cost of advances. These two cost items account for nearly 40 percent of non-raw materials cost. The stagnancy in real wages since 1999 discriminates in favour of competitiveness, but does not reflect well from a poverty reduction perspective. During the same period, the composite non-factor price index showed a higher growth than the growth of overall prices, largely because of significantly higher growth in imported raw materials and energy prices.

Energy prices showed the highest growth, rising about forty-fold between 1973 and 2003, compared to a fourteen-fold rise in general prices. Except during the period 1989-93, energy prices posted a double-digit increase, growing 2.5 times faster than general prices during 1999-2003. Given that government levies - customs duties, sales taxes and development surcharges - constitute 30-50 percent of energy costs, there does exist scope for some reduction of the energy cost burden on the industry in order to enhance cost efficiency and improve competitiveness.

The assessment of manufacturing input price trends relative to that of export prices (in local currency units) shows that, over the period 1974-03, both the composite factor and non-factor manufacturing input prices increased faster at 8.9 percent than the manufactured export prices at 7.9 percent (see table ss-4 and chart ss-18). For the most recent period, 1999-03, competitiveness eroded even further with factor and non-factor

**Chart ss-18** Trends in Composite Input Price and Manufactured Export Price  
(Index 1972-73 = 100)



**Source:** SPDC estimates computed using data from GOP, Economic Survey (various issues); SBP, Statistical Bulletin (various issues); FBS, Labour Force Survey (various issues).

manufacturing input prices growing at 2.7 and 4.9 percent, respectively, and manufactured export prices declining by 1.3 percent.

The implication of the higher growth of input prices relative to the export prices is that, unless there are significant offsetting increases in productivity, profitability of Pakistan's exporters is being eroded. In this respect, total factor productivity (TFP) - measured as residual output after accounting for the contribution of factor (capital and labour) inputs to output - grew at an average of 2.4 percent over 1974-2003. However, the trend over the sub-periods is one of decline with TFP growth falling from an annual average of 3.2 percent over 1974-88 to 2 percent over 1989-93, and to one percent over 1994-98, recovering slightly over 1999-2003 to 1.5 percent (see table ss-4).

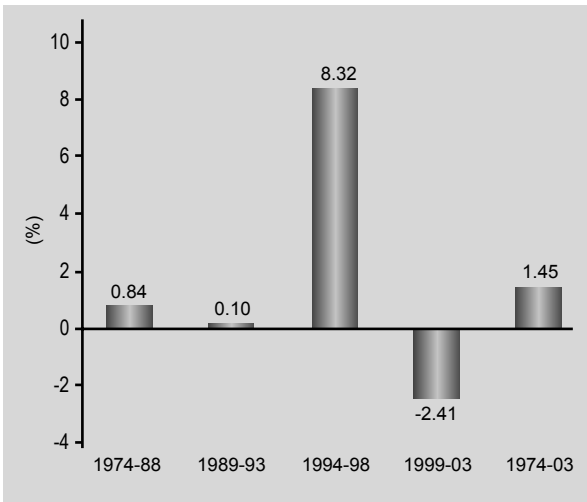
**Table ss-4** Comparison of Composite Input Price and Export Price  
(Average annual growth rates)

Year	Factor Price Index	Non-Factor Price Index	Total Factor Productivity (TFP) Index	Difference in Factor Price & ME Price Growth	Manufactured Export Price Index		Depreciation of Nominal Exchange Rate
					in Rs.	in US\$	
1974-03	8.88	8.88	2.41	0.96	7.93	2.02	7.95
1974-88	10.88	8.89	3.24	2.40	8.48	4.96	8.99*
1989-93	9.70	8.69	2.03	1.93	7.77	-0.32	7.44
1994-98	8.32	12.76	1.01	-7.31	15.63	4.78	9.58
1999-03	2.65	4.86	1.52	3.93	-1.28	-7.21	5.71

**Note:** 'Difference in Factor Price and Manufacturing Exports (ME) Price Growth' are in percentage points; the rest of the variables are reported as percentages.

**Source:** SPDC's Estimates based on data sources mentioned in Table ss-3.

**Chart ss-19** Net Productivity (%)  
(Average annual growth)



Source: SPDC estimates based on data from Table ss-4

While competitiveness can be measured directly by unit costs, data limitations do not permit this in the case of Pakistan. Alternatively, a measure of 'net productivity' is used to incorporate the effect of changes in input prices and productivity on competitiveness. Net productivity is defined as follows: If A is the difference between factor input price and export price growth, then net productivity growth is the difference between TFP growth and A. For the period 1974-03, the differential between factor input and export prices is 0.96 percentage points (see table ss-4). It follows that TFP is required to grow by at least 0.96 percent to offset the factor price disadvantage to enable producers to maintain their net productivity at existing levels. Given that TFP has grown by 2.4 percent over the period, net productivity can be assumed to have remained positive. Over the sub-periods, net productivity growth has been low - though positive - at less than one percent between 1974 and 1993, highly positive at 8.3 percent during the period 1994-98, and negative at 2.4 percent during 1999-03 (see chart ss-19).

The period 1994-98 appears to have been an unusual phase: the export price increase (15.6 percent) was 7.3 percentage points higher than factor input price increase (8.3 percent). The sharp increase in the local currency export price during this period was caused by a significant 4.8 percent rise in the US dollar-denominated world price of exports combined with a large 9.6 percent depreciation of the nominal exchange rate (see table ss-4). Even though TFP growth was just over one percent in this period, net productivity was highly positive at 8.3 percent.

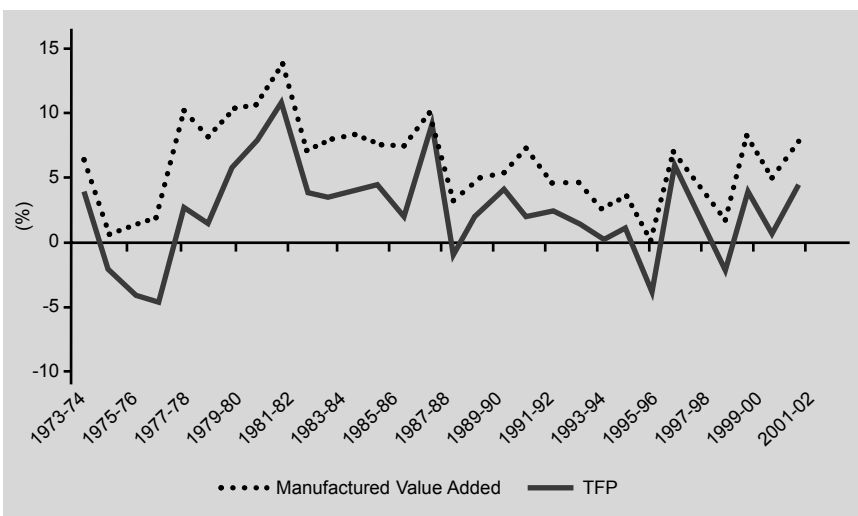
The most recent period, 1999-03, was unfavourable for the competitiveness of Pakistan's manufacturing sector, with net productivity having become negative. Given that the differential between factor input and export prices is 3.9 percentage points, it follows that TFP must grow by at least 3.9 percent to offset the factor price disadvantage for producers to maintain their net productivity. Instead, actual TFP growth increased by 1.5 percent only, leading to negative net productivity.



The Pakistan Industrial Development Corporation pioneered early industrialization

Photo: Hassan Zaheer

**Chart ss-20 Trends in Real Manufacturing Exports and TFP (%)**



Source: GOP, Economic Survey (various issues).

The significance of productivity can be seen from the fact that year-to-year movements in large-scale manufacturing value added correlate very closely with movements in TFP, with the correlation coefficient being as high as 0.89 (see chart ss-20). The relationship between the input and export price differential, on the one hand, and TFP, on the other, is important from the perspective of investment and growth as well. Where increments in productivity are converted to increased profitability, the necessary incentive for such investments appears to exist. However, where increments in productivity are consumed by increasing factor or non-factor input prices, the necessary incentive for investment in productivity enhancing measures can possibly weaken. Since productivity growth is an important factor in staying internationally competitive, it is useful to analyze the determinants of TFP growth in Pakistan in order to make policy prescriptions. The analysis identifies critical areas of policy intervention - human capital development, new investment in advanced machinery and productive capital, international competition, economic restructuring from less productive to more productive sectors, and availability of infrastructure - as significant determinants of TFP growth towards enhancing international competitiveness (see Box ss-3).

## DIRECTIONS FOR POLICY

The potential for expanding trade, particularly exports clearly exists, including for textile and apparel exports in the post-2004 environment. However, the challenge in fully realizing the inherent potential lies in enhancing the competitiveness of Pakistan's manufacturing sector through reduction of unit costs. Improvements in the domestic economy, in terms of enhancing productivity and reducing the high costs of production, are urgently called for.

*Enhancing productivity and reducing the high costs of production are urgently called for.*

### Box ss-3

### Determinants of TFP Growth

**G**rowth in any sector depends on two things. One is an increase in factor inputs (labour and capital), and the other is increase in Total Factor Productivity (TFP). Robert Solow's classic model<sup>1</sup> suggests that TFP is a major source of growth in value added of any sector of the economy. TFP primarily relates to the effective and efficient utilisation of inputs, technological innovation, work attitudes and management and organisational efficacy. Growth in TFP is also one of the essential factors that can contribute to boosting a country's competitive position. Therefore, it is important to empirically investigate the determinants of TFP growth. Specifically, in the empirical analysis the following determinants of TFP growth for the manufacturing sector are considered:

**Human capital index of manufacturing (HCIM)** is the labour force of the manufacturing sector adjusted for quality i.e. education and skills. Higher levels of education and skills allow workers to generate new ideas and adapt to the changing economic environment, and firms to effectively introduce new technology and organisational changes. It is expected that the higher the growth in this index, the higher the growth in TFP.

**Investment (INV)** in manufacturing reflects the productive capital investment in physical plants, buildings, advanced machinery and equipment. This helps in making workers more productive, and is a way of embodying new technology in the production process. Clearly, in the long-run this variable should enhance TFP growth. However, in the short-run its impact is ambiguous because of gestation lags. The empirical proxy for this variable is the share of new investment in the capital stock.

**Manufactured exports (ME)** indicate the foreign demand intensity including existence of a larger market size. It is expected that higher demand intensity and larger market size have a positive impact on TFP through efficiency gains from specialisation and global competition and through raising the scope for learning-by-doing.

**Economic restructuring (ER)** refers to the movement of resources from less productive sectors towards the more productive sectors of the economy. Theory posits a favourable impact of this variable on overall TFP growth as resources in the more productive sectors are utilised in a more efficient manner than resources in less productive sectors. This variable is proxied by taking the ratio of value added of manufacturing sector to the value added of the economy, as a whole.

**Availability of infrastructure (IFR)** leads to the improvement in the accessibility of transport and communication, electricity and gas, and so forth. This is assumed to enhance TFP growth. Infrastructure availability can be captured by taking the value added in transport and communication, and electricity and gas sectors.

Using these determinants, a regression equation for TFP growth for the manufacturing sector of Pakistan has been estimated. The results are as follows<sup>2</sup>:

$$TFP = -41.869 + 0.110 HCIM + 2.075 INV + 0.030 ME + 8.178 ER + 0.049 IFR - 6.902 D$$

$$(-3.093) \quad (2.017) \quad (1.714) \quad (2.772) \quad (7.307) \quad (5.635) \quad (-2.998)$$

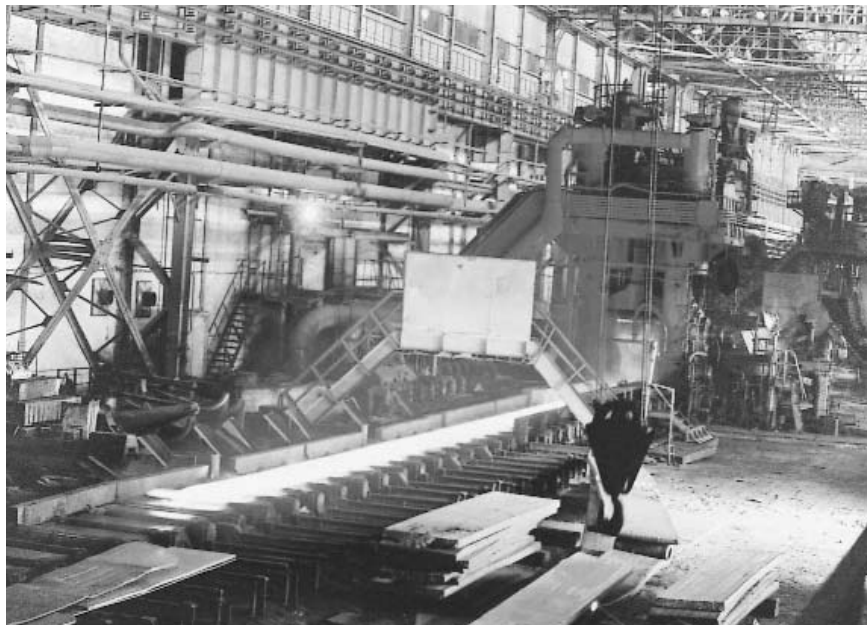
$$\text{Sample period: 1972-73 to 2002-03} \quad R^2 = 0.991 \quad \text{Durbin Watson (DW)} = 1.983$$

Where  $D$  is the dummy variable used to capture the shocks in energy consumption having value 1 in 1993 and 1997 and 0 otherwise, and the other variables are defined above.

These results give impressive explanatory power ( $R^2 = 0.991$ ) and no sign of misspecification as measured by auto-correlation ( $DW = 1.983$ ). The sign of all the coefficients, except the constant and dummy variable is positive, which is in accordance with *a priori* assumptions. The t-statistics (given in parenthesis) show that all the coefficients are significant at 5 percent level of significance. Thus human capital, investment, manufactured exports, economic restructuring and infrastructure all exert a significant positive effect on TFP growth of the manufacturing sector of Pakistan.

<sup>1</sup>See Solow R.M. (1957) "Technical Change and the Aggregate Production Function", *Review of Economics and Statistics*, Vol 39, No 3, pp 312-20.

<sup>2</sup>For estimation new private investment as a ratio of capital stock is taken for INV and value added in electricity and gas for IFR.



Heavy industry on the rise

Photo: Hassan Zaheer

Inputs that need particular attention are energy, machinery and transport, and wages. With respect to wages, a cost analysis of 47 of the 58 manufacturing companies among the top 100 companies listed on the Karachi Stock Exchange show that remuneration for executives, administrative staff and production workers account for 87, 10 and 3 percent, respectively, of salary expenditures. Average per month remuneration for the three categories amount to over Rs. 0.5 million, Rs. 60,000 and Rs. 14,000, respectively. Production workers include skilled and unskilled, permanent, temporary, contract, and daily wagers. The remuneration for unskilled daily wagers is as low as Rs. 2000 per month. Clearly, the scope for curtailment of wage costs exists only at upper ends of the staff hierarchy.

Boosting productivity and improving cost effectiveness are likely to raise Pakistan's textile sector to a level of efficiency at which the post-2004 WTO environment can be converted from a potential threat into an opportunity. Without a cost efficient manufacturing sector, Pakistan's textile industry and exports will continue to depend on transient fortuitous factors, such as a good cotton crop.



# APPENDICES

APPENDICES

Social Development in Pakistan, 2004

## A.1

## CHRONOLOGY OF KEY EVENTS IN THE SOCIAL SECTORS: 2003-04

### WOMEN AND CHILDREN

<b>July 7, 2003</b>	According to Agha Khan University, Karachi, over 30 percent of children in Pakistan suffer from malnutrition.
<b>July 8, 2003</b>	The UNDP reports that 1,949 child workers were injured during 2002 (see box A1.1).
<b>August 2, 2003</b>	Lawyers for Human Rights and Legal Aid, UNDP and Asian Women Human Rights Council at a seminar in Karachi report that <i>karo-kari</i> has claimed 1,500 lives in three years (see box A1.2).
<b>August 31, 2003</b>	A study carried out by Jinnah Postgraduate Medical Centre and Dr. Ziauddin Medical University in Karachi shows that over 43 percent women in Karachi face violence during pregnancy.
<b>September 20, 2003</b>	The Sindh Police Statistics record an alarming increase of 21.5 percent in rape cases.
<b>September 30, 2003</b>	The National Commission on Status for Women (NCSW) recommends reservation of 50 seats in the sanctioned posts of BPS -17 in the executive and secretariat groups under the Federal as well as Provincial Governments.
<b>October 8, 2003</b>	Due to the ambiguities in the Zina Ordinance, 88 per cent of female prisoners are still in different jails in the country, as reported by special committee on Hudood Ordinance.
<b>November 14, 2003</b>	The Society for Protection of the Rights of the Child (SPARC) states that in Pakistan 23 million children, between five and 15 years, are available for child labour with officially 3.3 million already in the workforce (see box A1.3).

#### Box A1.1

#### Child Labour and Child Health Issues

In 2002, as many as 1,949 children suffered from casualties at 200 work places because of the hazardous nature of their job and the unprotective environment, according to the Pakistan National Human Development Report, 2003.

The United Nations Development Programme's report on Poverty, Growth and Governance, highlighted that child workers experienced repeated injuries but returned to work after first aid or medical treatment.

In the construction business, 677 children were injured at 58 workplaces, while 752 suffered casualties at 48 steel manufacturing units. As many as 60 children were injured at 23 places with unsafe electrical fittings, 125 at 17 places of furnishing, 111 children at 11 tile producing plants, 64 at eight units of cement production and 160 children suffered casualties at 35 different places during whitewash.

The report advised the government to evolve an administrative mechanism for ending child labour in hazardous industries.

Out of every 1000 children who survive infancy, 123 die before reaching the age of five. A large proportion of those surviving suffer from malnutrition, leading to impaired immunity and higher vulnerability to infections.

Citing the National Health Survey, the report showed that 30 to 40 percent of children (6.2 to 8.3 million) suffer from stuntedness.

In the urban and semi-urban areas, most of the child labourers were working at small scale establishments in the informal sector, where the employers could easily evade the legislative protection granted to the working child.

## Box A1.2

Violence  
Against Women

Despite claims by both women's rights NGOs and the government, violence against women continue unabated. More than 14,000 such cases, including rape, gang-rape, murder, honour killing and kidnapping, were reported during the last three years.

According to statistics, various newspapers reported 3,098 cases of violence against women during 2001, but alarmingly the number doubled to 6,875 in 2002. Though the figure declined to 4,723 in 2003, it cannot be considered satisfactory.

During 2001-2003 as many as 973 women were raped, 1,065 were gang-raped, 2,866 women were murdered and *karo-kari* claimed the lives of 1,511 women; in addition, some 3,273 women were injured in different cases, 530 burnt to death, and 4,478 women were kidnapped.

## Box A1.3

Child Labour  
Statistics

Nearly 23 million children between 5 and 15 years are working as child labourers in Pakistan, as reported by the Society for the Protection of the Rights of the Child (SPARC). The situation is more alarming, given the fact, that over 80 percent of the domestic workers are girls, being prone to physical and sexual abuse by the employers.

Laws concerning child labour, such as the Employment of Children's Act, 1991, and the Road Transport Workers Ordinance, were some of the causes of the widespread use of child labour.

In NWFP, some 418 cases were lodged in 2003 under the Employment of Children's Act, 1991, of which only 53 cases were decided by the court, whereas 365 were pending.

<b>November 18, 2003</b>	The National Nutrition Survey reports that 38 percent of children in Pakistan are underweight.
<b>November 20, 2003</b>	Statistics of 'missing reports' compiled by the Edhi Foundation show that 1,171 boys and 105 girls were reported missing at different centres during the year (see box A1.4).
<b>January 3, 2004</b>	<i>Madadgaar</i> - a helpline for women and children in distress - reports a sharp increase in violence against children in 2003 with 1,000 physical and 826 cases of sexual abuse.
<b>February 7, 2004</b>	<i>Madadgaar</i> reports as many as 2,536 cases of kidnapping of women and children in the country during 2003.
<b>March 30, 2004</b>	Data collected by <i>Madadgaar</i> and Lawyers for Human Rights and Legal Aids (LHRLA) shows that from January to December 2003 as many as 930 women had been raped throughout the country.
<b>April 4, 2004</b>	According to the Annual Report released by SAHIL, an Islamabad based NGO, cases of child abuse in the country jumped to 1,788 last year from 679 in 2002, about five children being subjected to sexual assault everyday (see box A1.5).
<b>June 12, 2004</b>	The International Labour Organization reports that more than half the world's quarter billion child labourers work in Asia, often under appalling conditions, facing sexual abuse and even slavery.

## EDUCATION

<b>July 8, 2003</b>	The Punjab Government decides to spend Rs. 5 billion on Punjab Education Sector Reforms this year.
<b>July 13, 2003</b>	The Government announces it has prepared an incentive package for <i>madrassahs</i> to bring them into the mainstream and has allocated a sum of Rs 1 billion in 2003-04 budget for it.

**Box A1.4****Missing Children**

**A**round 1,276 children have been reported missing with the Edhi Foundation till October 30, 2003, in sharp contrast to the official figure of 65 cases of child lifting compiled by the Sindh Police.

From 1,276 missing children, 207 children were found and referred to the Foundation, which handed them over to their parents.

In the year 2002, the Edhi Foundation received 1,548 reports of missing children; by contrast, the police reported 54 cases during the same period.

The police statistics showed that only 388 cases of child lifting have been reported since 1992 with the breakdown being: 27 cases in 1992, 36 in 1993, 13 in 1994, 7 in 1995, 17 in 1996, 24 in 1997, 20 in 1998, 36 in 1999, 51 in 2000, 38 in 2001, 54 in 2002 and 65 in 2003.

**Box A1.5****Sahil Reports on Child Abuse**

**A**s many as 1,282 child abuse cases occurred in Punjab, 379 in Sindh, 92 in FATA, 26 in NWFP and 9 in Balochistan, according to research on child abuse reported by the NGO SAHIL. The findings showed that 526 (30 percent) of the victims were boys and 1,262 (70 percent) were girls. Some 65 percent of the cases took place in urban areas.

About 616 cases were of abduction, 213 molestation, 28 molestation-murder, 460 rape/sodomy, 79 rape/sodomy/murder, 359 gang-rape/sodomy and 33 gang-rape/sodomy murder.

According to the report, 76 percent of the abusers were acquaintances of the victims, 16 percent strangers, 4 percent women-abettors, 1.45 percent *maulvis*, 1 percent police, 0.45 percent teachers and 1.16 percent incest cases.

- August 6, 2003** The Higher Education Commission launches a Rs. 35 million scheme for monographs and textbook projects (see box A1.6).
- 
- August 19, 2003** The Higher Education Commission (HEC) earmarks an amount of Rs. 195 million for PhD scholarships in social sciences, arts and humanities.
- 
- September 7, 2003** To promote female education and establish a cadet college, the Frontier Elementary Education Foundation (FEEF) announces it will take over 50 abandoned schools in remote areas of the province, especially in Kohistan District.
- 
- October 3, 2003** US\$75 million ADB loan is granted for school schemes in Sindh (see box A1.7).
- 
- October 5, 2003** USAID will spend US\$60 million till 2006 on professional development of education managers, capacity building of teachers and upgrading of educational infrastructure at district level in Pakistan.
- 
- October 25, 2003** Federal Minister for Education, Zobaida Jalal, announced that the Government has allocated Rs.300 million for establishment of new technical educational institutes at district level in all the provinces of the country.
- 
- December 7, 2003** Federal Minister for Education, Zobaida Jalal, announces that over 270,000 literacy centres will be established in the country under the Education Sector Reforms.
- 
- February 6, 2004** The Sindh Government is in the process of finalizing a plan, costing Rs. 18.06 billion, to enhance the existing rate of Early Childhood Education (ECE) up to 60 percent by the year 2015.

**Box A1.6****HEC Scheme for Monograph and Text Book Writing**

**T**he main objective of the Higher Education Commission's scheme called 'monograph and text book writing' is to produce at least 60 (36 masters level and 24 bachelor level) monographs on selected topics of the curricula in emerging fields like information technology, robotics, bio-technology, social sciences, management sciences, behavioural sciences, arts and humanities.

Under the scheme, at least 78 curriculum based textbooks in selected areas of the disciplines authored by well-known

educationists, scholars and professors will be produced.

The project will facilitate the need for a better qualified manpower required for different programmes and projects for the socio-economic uplift of the country.

## Box A1.7

## Upgrading of Sindh Primary Schools

Under an agreement between the Government and the Asian Development Bank, about 3 percent of the existing primary schools in Sindh will be upgraded to elementary level within a period of six years. Currently, there are about 39,000 primary schools in the province, as against 2,000 middle schools and an equal number of secondary schools.

The Sindh province needs about 19,000 more schools with educational facilities for classes 6 to 7 to cater to age group 10 to 12 years.

The project to upgrade 1,200 selected primary schools and other development work would be carried out with a US\$75 million ADB loan, under the Decentralization Elementary Education Project (DEEP).

Ghulam Ali Pasha, Education Secretary, said that under the project about 1200 existing high potential primary schools would be upgraded, while one boys' and one girls' English-medium model school would be set up in each *tehsil*. One hundred thousand nursery classes would be added to primary schools and 100 shelterless elementary schools would be rehabilitated.

Under the programme, on average three classrooms, a science room and basic supporting amenities would be added to selected primary schools.

The total cost of DEEP is Rs. 5,880 million, including 23 per cent to be shared by the Sindh Government (Rs. 1,341 million).

- February 11, 2004** A twelve-year plan of action on 'Education for All' in the province, with an overall estimated cost of Rs. 78 billion, is approved by the Sindh EFA.
- February 12, 2004** The World Bank approves US\$100 million credit for Punjab to bring more children, particularly poor children and girls, to schools and provide them with quality education.
- March 9, 2004** Sindh Education Secretary states that at least 16,000 school buildings in Sindh are without rooves, 6,000 have one room, while 5,000 have no toilet facilities. Rs. 400 million has been allocated for this purpose.
- March 20, 2004** The District Government of Rawalpindi receives over 300,000 textbooks, taught in class 1-5, for free distribution among students.
- April 23, 2004** In Sindh, 1,834 schools including 1,615 primary girls' schools, have been closed for want of teachers and lack of infrastructure, according to information provided to the Sindh Assembly.
- June 15, 2004** The Budget document shows that an amount of Rs 327 million has been earmarked for 29 educational projects in Islamabad in the Public Sector Development Programme (PSDP) 2004-05.

## POVERTY

- July 18, 2003** The UNDP Human Development Report (HDR) 2003, indicates an ominous reversal in human development with its finding that some 54 countries, Pakistan being one of them, are poorer now than in 1990.
- September 4, 2003** The World Bank Annual Report, 2003, shows that social growth in Pakistan remains poor (see box A1.8).
- October 6, 2003** The PRSP reports that Pakistan's poverty related expenditure in seven out of 12 sectors has remained significantly short of target during 2002-2003, while in three sectors it was even lower than the last fiscal year 2001-02 (see box A1.9).
- October 23, 2003** According to a UNICEF sponsored report over one billion children in developing are countries affected by poverty in poor states (see box A1.10).
- November 4, 2003** The State Bank reports that Pakistan's economy grew by 5.1 per cent in fiscal year 2002-03, but admits that the incidence of poverty has risen from almost 20 to 33 percent.

## Box A1.8

## World Bank Annual Report 2003

**P**akistan's economy has grown much more than other low income countries, but the country's social progress lagged behind its economic growth, as specified in the report.

The educated and well-off urban population in Pakistan lives not so differently from those with similar incomes in other countries. However, the poor and rural people are being left behind. For example, access to sanitation in Pakistan is 23 percent lower than in other countries with similar income.

Despite the recent economic improvements, Pakistan's external and public debt are both quite large. There are concerns over the fragility of its external position and future growth prospects.

Poverty, according to the report, remains a serious concern in Pakistan. With a per capita income of US\$420, poverty rates which had fallen substantially in the 1980s and early 1990s started to rise again towards the end of the decade.

According to the latest figures for 1998-1999 as measured by Pakistan's poverty line, 33 percent of the population is poor. More importantly, differences in per capita income across regions have persisted or widened.

The health and education sectors have expanded, and life expectancy has increased from 59 years in 1990 to 63 in 2001, and infant and maternal mortality rates have dropped, as have illiteracy rates.

The World Bank warns that despite these favourable developments, Pakistan still lags behind countries with comparable per capita income in most social indicators. Only 44 percent of its population is literate, compared to an average of 64 percent in countries with similar income per capita.

The Government's economic reforms programme has renewed hope that these developments can be tackled seriously.

<b>December 5, 2003</b>	Pakistan's Human Condition Report, 2003, shows a further increase in the proportion of people living under the official national poverty line to stand at 38.1 percent.
<b>December 6, 2003</b>	The World Bank approves a US\$238 million loan to Pakistan to support its poverty reduction programme.
<b>January 30, 2004</b>	The UNDP launches a five-year programme aimed at improving local conditions for <i>kutchi abadis</i> as well as supporting income generation activities for people living in those areas.
<b>March 12, 2004</b>	Finance Minister, Shaukat Aziz, informs the National Assembly that a sum of Rs. 98 billion had been spent on poverty alleviation projects launched in the first half of the current fiscal year.
<b>June 12, 2004</b>	According to Economic Survey of Pakistan, the unemployment rate has increased from 7.82 percent in 2000-01 to 8.27 percent in 2003-04, with a total of 3.72 million of the labour force unemployed in the country.
<b>June 22, 2004</b>	Action Research on Trafficking and HIV/AIDS reports that poverty has reached an alarming proportion in the country, forcing women to take to prostitution.

## Box A1.9

## PRSP Expenditure

**T**he review of the Poverty Reduction Strategy Paper (PRSP) shows that PRSP expenditure by June 2003 was about Rs.158 billion or 98 percent of the target of Rs.161 billion. As such, the overall anti-poverty expenditure in 2003 rose by 18.3 percent in comparison to 2002.

A further breakdown of anti-poverty budgetary expenditures during fiscal year 2003 indicates an increase for the Federation by 34.2 per cent, Punjab 27.5 percent and Balochistan 66.3 percent against the fiscal 2002. However, Sindh and NWFP have shown a decrease in budgetary expenditures during 2003 of 0.8 percent and 27.1 percent, respectively, against 2002.

In three vital areas: water supply and sanitation, social security and welfare, and land reclamation, the budgetary expenditures during 2003 have dropped by 30 percent, 64 percent and one percent, respectively, over the year 2002.

Seven core areas where the anti-poverty expenditure remained short of target during 2003 included food subsidies, land

reclamation, irrigation, social security, social welfare, education, population planning and health.

The social security and social welfare sector expenditure was short of target by 60 percent, followed by 28 percent in food subsidies, 16 percent in land reclamation, 13 percent in health, 12 percent in population planning, 11 percent in irrigation and 1 percent in education.

Despite continuous water related problems over the last few years, expenditure during 2003 on water supply and sanitation was Rs 3.263 billion, lower by 30 percent than the Rs. 4.644 billion spent in 2002. The short fall was broad based in all provinces except Balochistan.

Micro credit disbursement and employees old-age benefit disbursement were short of target, while *Zakat* distribution was higher than the target. However, PRSP expenditure in nine out of 12 sectors during 2003 was higher than in fiscal year 2002, mostly because of higher allocations.

Fourteen percent of the respondents are in favour of legalising prostitution, saying it will enable them to cope with poverty, while 86 percent are against it. Among these, 32.3 percent of women said that their husbands forced them into prostitution.

## HEALTH

<b>September 16, 2003</b>	WHO reports that commitment is needed to eradicate polio from the country as Pakistan still holds a registered number of 58 cases of polio, 26 of them in Sindh.
<b>October 16, 2003</b>	According to UNICEF, 10 to 20 percent children under five years suffer from vitamin-A deficiency (VAD) in Pakistan.
<b>November 1, 2003</b>	The Asian Development Bank mission, which reviewed the Women Health Project (WHP), expresses reservations about the utilization of only four percent of the Rs. 1.26 billion project during the last four years.
<b>December 3, 2003</b>	A World Bank Report estimates that 70,000-80,000 persons or 0.1 percent of the adult population of Pakistan are infected with HIV.
<b>January 3, 2004</b>	A recent study by the National Institute of Health and the Korea International Cooperation Agency shows that as many as three million people in Pakistan acquire infections annually due to contaminated water, of whom 40 percent die.
<b>February 15, 2004</b>	There are an estimated 4.9 million carriers of Hepatitis-B virus (HBV) in Pakistan because of inadequate medical practices, as highlighted at the Kidney Foundation's Symposium.
<b>April 19, 2004</b>	According to UNFPA President and the Director General of Health, about 60 women die of pregnancy-related complications in the country every day with unskilled birth attendants being one of the major factors responsible for the high maternal mortality rate.
<b>June 6, 2004</b>	As many as 219,709 patients in different parts of the country are suffering from tuberculosis (TB). To control the disease, the government has spent Rs. 460 million during the last three years, states an official source.

### Box A1.10

### Affect of Poverty on Children

**A** UNICEF sponsored report disclosed that one billion children in developing countries suffer from severe effects of poverty with more than 90 million children in South Asia alone going hungry every day.

The survey measured the extent of child poverty, not only in terms of income, but also in terms of deprivation of basic human rights such as shelter, food, water, health, education and information.

The survey data, collected mainly during the late 90s, on nearly 1.2 million children from 46 countries showed that one child

out of every three lives in a dwelling with more than five people per room; nearly 20 percent of the world's children do not have safe water sources or have to walk more than 15 minutes for water; over 15 percent of children under five are severely malnourished in the developing world; and 134 children between seven and 18 years had never been to school, with girls more likely to go without schooling than boys.

Addressing poverty means ensuring that children have access to safe water, adequate sanitation and a clean and healthy environment.

## OTHER ITEMS

<b>July 11, 2003</b>	The United Nations Fund for Population (UNFPA) reports that the population growth rate in Pakistan has declined to 2 percent and the total fertility rate to 4.5 births per woman. However, the maternal mortality rate is still very high because of the number of pregnancies per women and an inadequate gap between births (see box A1.11).
<b>July 15, 2003</b>	The Asian Development Bank (ADB) is providing technical assistance worth US\$ 350 million for judicial reforms in Pakistan, it is announced.
<b>September 28, 2003</b>	The Chairman of the Jobless Doctors Action Committee announces that more than 1,200 doctors in Balochistan province are unemployed, of whom 200 have passed the age limit for government service.
<b>November 1, 2003</b>	The Ministry of Environment has prepared an incentive package worth Rs. 1.15 billion to encourage tree planting among farmers and to increase forest cover to 25 percent.
<b>January 2, 2004</b>	A study based on the 1998 census shows that more than 40 percent of the population of Pakistan suffers from general environmental stress (GES), mainly due to demographic growth, and lack of appropriate housing structure and sanitary facilities.
<b>April 14, 2004</b>	The Federal Ministry of Environment and the Ministry of Education have jointly implemented a Rs. 26 million project for environment and education promotion at school and college level, it is announced.
<b>June 2, 2004</b>	Seawater has inundated two million acres of the Indus Delta in Thatta and Badin districts and 60 percent of mangroves have been destroyed due to non-release of water downstream Kotri, it is announced.
<b>June 16, 2004</b>	The Asian Development Bank offers US\$ 500 million aid for the development of rural areas of Sindh, particularly providing loans to farmers and peasants.
<b>June 25, 2004</b>	The Sindh Government allocates Rs.1.5 million for public awareness and environmental education in urban and rural areas of the province, in its 2004-2005 budget.
<b>June 30, 2004</b>	About 240 million gallons (mg) - 43 percent of the total 550 mg potable water supplied daily to Karachi - is unfiltered, as reported by the KWSB.

## Box A1.11

## Pakistan Population Assessment Report

The Pakistan Population Assessment Report, 2003, prepared by the United Nations Fund for Population, states that the growth rate in Pakistan has declined to 2 percent and total fertility rate to 4.5 births per woman. However, the maternal mortality rate is 350 to 700 deaths per 100,000 births, which is very high and may be attributed to the number of pregnancies per woman and an inadequate gap between births. 30 to 35 women die each day due to pregnancy related complications. A comprehensive national maternal health policy should be pursued to reduce maternal mortality and morbidity.

The report says that service delivery in Pakistan needs a major improvement, and as people under 25 years constitute 63 percent of the population, a comprehensive youth and adolescent health/reproductive health policy is urgently required where co-

operation between the public and NGO sectors is ensured. Appropriate infrastructure and facilities should be available at *tehsil* and district level and staffing at primary health centres should comply with minimum standards.

Pakistan's population is growing at a rate which absorbs every additional expenditure made in sectors like health, education, housing, water, sanitation, infrastructure and population planning. While the number of employed people doubled between 1970 and 2002, the number of unemployed increased eight-fold during the same period. The report called for integrating population issues into economic and development strategies to achieve mutually reinforcing gains both for development and an improved quality of life in Pakistan.

## SELECTED BOOK REVIEWS

Zafar Altaf, *Poverty: Practical Solutions to Pakistan's Economic Problem*. Karachi: Ushba Publishing International, 2004. 323 pp. No price listed.

Disenchantment with the economic and social policies of the government is frequently encountered in various books written on poverty. What is infinitely more challenging than offering a critique of the programs and policies which impact poverty is to present a set of meaningful interventions which can improve the lives of the poor and deprived people. This is the implicit promise in the title of the book, as the author weaves through his own experiences in key bureaucratic positions in agriculture.

The book's stance on poverty is rooted in a political economy approach which is deeply mistrustful of centralized authority and doubts its very sincerity to the extent that Islamabad is characterized as "the topmost fork-tongued capital of this world" (p. xiii). The continuing deprivation of a large segment of the country's population can be traced to the self serving indifference of the elite who use the poor to subsidize the rich. The development proposals originating from international agencies are perceived to be conceptually flawed, as they ignore local capacity and cultural values, thus nullifying efforts at meeting program targets. The only solution is for the country to develop the institutional apparatus to change itself from within.

Indeed "the more the focus on poverty, the greater the confusion" (p. 1) arising from its analysis by local bureaucracies and international organizations. While it might be worthwhile to explore such a contention, any serious analysis of poverty must first offer as a starting point, a definition of poverty that either uses or refers to the established methods of research in economics and other social sciences. The lack of systematic enquiry in a book of this nature hampers the reader's ability to appreciate the arguments put forth by the

author, which are largely based on his own experiences.

Ultimately, the book should be judged more by its policy prescriptions than by its several specific references to policy failures (mainly in agriculture and social safety nets). The rural poor are stated to be capable of generating higher incomes provided that the right organizational structure is in place in rural areas. The author speaks of the need to eliminate middlemen from the supply of produce, as this squeezes small farmers in particular. He also cites the benefits of venture capital being introduced in the Northern Areas to produce high value products and the usefulness of instituting crops in desert areas which can thrive in saline conditions. The benefits of domestically produced milk (co-operatives run by NGOs) are contrasted with the operations of MNCs. He finds MNCs generate few or even no social externalities, hence, sending a clear message to the reader - indigenization must be supported where it can help the poor farmer and create social assets for him. Demand side management, fair pricing of agricultural products, institutional change and a conscious effort to develop low cost technologies will improve the well-being of small farmers. Otherwise, the country, misguidedly following free market prescriptions, will be unable to shake itself of poverty.

*Dr. Altaf is a leading agricultural economist. He has been involved with several international organizations in the fields of agriculture including FAO, where he worked closely in the execution of projects on sustainable agriculture, fishery development and drought mitigation.*

Gokulesh Sharma, *Human Rights and Social Justice*. New Delhi: Deep and Deep Publications, 2004. 506 pp. Indian Rs. 750.

Focusing on the relationship between law and social justice, Sharma examines the provisions

in the Indian constitution which safeguard the civil, political, economic and social rights of the population. The book reviews the interpretation of the law by the Indian courts in light of the Fundamental Rights and the Directive Principles of State Policy, which are enshrined in the Constitution.

The Fundamental Rights in the Indian Constitution concern themselves with guaranteeing the basic human rights of the individual. On the other hand, the Directive Principles of State Policy enjoin upon the State the duty to strive to promote the welfare of the people by securing and protecting, as effectively as it may, a social order in which justice, social, economic and political, inform all the institutions of national life. In order to achieve a welfare state, certain sections of these two laws need to be reviewed and changed in order to cater to the social and economic rights of the people in an ever changing world. While the two laws have been formulated to protect the weak and vulnerable, they are open to the interpretation of the Supreme Court. This implies that the Supreme Court has been placed in a unique position since "in a democracy governed by the rule of law, any change can be brought about only through the process of law" (p. x). Therefore the 'socio-economic' revolution is dependent on the democratic process.

The author tries to explain how the two laws have been interpreted in a number of areas: the rights to freedom, religion, culture and education are included alongside an analysis of the right to property and freedom from exploitation. He indulges in tracing the historical origin of ideas which underpin the laws contained in the Indian Constitution. Quoting not only French and American law, but also looking at India's historical past, Sharma writes about the manner in which laws were interpreted, particularly focusing on the impact they made on the material and social well-being of the population. He is much inspired by the ancient Hindu concept of *Dharma* (a code of duties for the harmonious functioning of society), which he feels is essential for India to follow in contemporary times.

Therefore, in the context of its detailed analysis of case law, the book is more likely to appeal to lawmakers than to laymen.

*Dr. Gokulesh Sharma is a serving Indian judge in the judicial service of the Indian state of Uttar Pradesh.*

Salamon L.M., Sokolowski S.W. and List R. *Global Civil Society: An Overview*. Baltimore: The Johns Hopkins University, 2003. 64 pp. No price listed.

Civil society is a powerful force in many developed and under-developed countries. However, this sector is insufficiently understood or documented. The book under review is a product of the Johns Hopkins Comparative Non-profit Sector Project, and is an attempt to study the scope, structure, financing and the role of the private nonprofit sector in a cross-section of countries around the world. In all, 16 advanced economies, 14 developing economies and five transitional economies are covered in the study.

Beginning with the economic and legal definitions, the book highlights the fact that if the civil society sectors of all the economies covered in this study are summed up, they would form the seventh largest national economy in the world; such is the size of this sector. Furthermore, the size of the workforce in this sector can be gauged from the fact that it employs ten times more people than the textile and utilities sectors in these economies combined.

What makes the non-profit sector of vital importance to developing countries is the role it plays in the provision of social services and community development, often in the absence of adequate provision by the state. The study tries to bring out some of the differences across countries: in Pakistan and Morocco, authoritarian politics led to the lack of a truly autonomous and buoyant civil society sector. Additionally, Pakistan's civil society organizations are mainly involved in service provision and not in expressive functions. On the other hand, in transitional economies, a fairly large civil society has emerged as social services provided by state enterprises made the successful transition to private non-profit organization status, supported by extensive philanthropic efforts.

The study also unravels the financing of the non-profit sector, where fees are the dominant source of revenues in most countries of the sample. Private philanthropy only assumes an important role if volunteer time is counted as revenue, and even then lags behind fees in most countries. Government is still an important source of revenue for countries like the United Kingdom, Belgium and The Netherlands. The

source of funding is an important issue, which needs to be explored further in the context of the interest that philanthropy has aroused in countries like Pakistan, as an untapped source of social development.

Above all, civil society organizations provide valuable services to the poor and deprived as well as being instruments for advocacy and awareness in society. The strength of this study lies in its ability to provide facts about the non-profit sector in a simple, easily comprehensible and systematic format. This book is an excellent reference point to start if one wishes to obtain an understanding of the non-profit sector.

*Dr. Lester M. Salamon, is a Professor at The John Hopkins University and Director of the Johns Hopkins Centre for Civil Society Studies. The Centre is one of the foremost academic research centres in the world concentrating on the non-profit sector and civil society issues.*

Singh N.S., Shrivastava M.P. and Prasad N. (eds), ***Economic Reforms in India***. New Delhi: Aph Publishing Corporation, 2003. 438 pp. Indian Rs. 955.

Globalization and liberalization are words which have long provoked contempt and enthusiasm among policymakers, economists and the general public alike. The process of economic reforms has been well underway in South Asia for over a decade (in some cases more), and it would be wise to reflect on the changes and challenges it has brought about in its wake for the largest economy in the region. This collection of essays by Indian academics focuses on specific areas of the Indian economy which have been affected by first and second generation reforms. While the views expressed are distinctly those of the authors, a broad theme does emerge from the mosaic presented before us.

India, with its rapid GDP growth rate averaging over 6 percent per annum in the 1990s, might well be viewed by some as a model for the region: economic reforms have coincided with the fastest growth rates ever experienced by the Indian economy. Nevertheless, the nature of structural change, and the concerns it generates are not dissimilar to those being experienced here in Pakistan.

While exports are on the rise, imports are growing faster, and the need for new export markets in developing countries is keenly felt. India, with one quarter of her exports consisting of textiles, faces the task of streamlining her textile sector in anticipation of the phasing in of quotas in 2005.

Privatization is a contentious issue, and there are familiar echoes in the criticism that state enterprises have been undersold with proceeds from the sale being used for current consumption needs rather than for more productive uses. At the same time, benefits from growth have not been distributed evenly. The government is urged to focus less on poverty alleviation programs, and instead, spend those resources on developing infrastructure in the rural areas. Another important concern for India is to raise the productivity of her agricultural sector, which has not performed as well as it could have in the reform period, despite an improvement in the terms of trade. This is of especial concern as poverty has risen in rural areas while decreasing in urban areas.

This collection of essays is relevant to all students of economic policy who wish to know more about India's economic reforms. Most essays are simply written and comprehensible to all. While the collection is somewhat lacking in terms of poverty and social sector analysis, it manages to cover a wide range of topics from employment to the environment.

*Dr. Singh and Dr. Shrivastava are Professors of Economics and Dr. Prasad is an economist. All three have written extensively on various economic issues.*

Mahbub ul Haq Human Development Centre, ***Human Development in South Asia 2003: The Employment Challenge***. Karachi: Oxford University Press, 2004. 200 pp. Pak Rs. 450.

South Asia is home to the world's largest number of poor people: keeping this in mind, the 'employment challenge' becomes a topic of considerable significance. The economic reforms which the countries of the region have undertaken have resulted in either growing unemployment or a reduction in the growth rate of employment as workers in the traditional and manufacturing sector have lost jobs. The pattern of growth in these economies has become

increasingly capital intensive and urban oriented, further worsening the plight of the poor. This report tries to address some of the key issues associated with employment in the subcontinent, as the market and not the state increasingly dominates labour markets.

The idea that the state has a vital contribution to make to development in the form of a 'helping hand' is a pervasive notion throughout this report. Firstly, the state needs to enforce labour laws and regulations to protect the rights of the weak and vulnerable members of the society who increasingly seek employment in the informal sector. This issue is complicated by the fact that besides national and international laws, rights of the workers will be affected by WTO regulations.

Secondly, the state must adopt a number of measures to broaden employment opportunities and to protect existing ones. These include an increase in labour intensive public investment programmes, subsidies and price support programs for agricultural output, protective measures for small scale manufacturers vulnerable to the pressures of economic liberalization, human development and equitable trade policies (to be implemented by developing countries). Labour intensive public work programmes are easy to build into national budgets - provided enough funds are earmarked for public fixed investment. By contrast, human development is more difficult to achieve, due to the daunting nature of combining a successful quantitative expansion of services with improved quality. Despite that, it still merits consideration by donor agencies as a policy imperative. However, the notion of the state subsidizing agriculture and industry finds no favour with the proponents of the Washington Consensus. In this sense, the report places too much emphasis on the role of the state, and ignores the difficulty of these measures being taken up by South Asian governments in their current neo-liberal policy framework. Equally, a 'level playing field' in terms of the international trading system is not in sight; while it is a worthwhile goal to strive for, regional governments might be better off in the short-term pushing for increased intra-regional trade.

Importantly, the *Human Development in South Asia 2003* provides an overview of the employment sectors of South Asian countries. It raises some new issues: the potential for

exporting manpower as the developed world experiences a demographic decline, and the impact of the WTO regime on local employment conditions. Nonetheless, one is left with the impression that in the era of globalization, easy solutions for reducing unemployment in the region remain as elusive as ever.

*Mahbub ul Haq Development Centre is a policy research institute and think tank. The Centre organises professional research, policy studies and seminars on issues of economic and social development.*

**United Nations Development Programme. *Human Development Report 2003: Millennium Development Goals: A Compact Among Nations to End Human Poverty.* New York and Oxford: Oxford University Press, 2003. 367 pp. No price listed.**

In its latest Human Development Report (HDR), the UNDP attempts to lay out a framework for the achievement of the Millennium Development Goals by suggesting interventions that should be undertaken both by developing as well as developed countries. The UNDP has set a target for 2015 for countries to reach the Millennium Development Goals. Ambitious as it may seem, the report points out that countries like China and Sri Lanka have achieved similar targets in poverty reduction and life expectancy respectively. Therefore, the period of one generation might not be unreasonable if the right policies were followed.

The HDR examines a broad range of issues, which include structural barriers to growth, the role of private and public provision of health services, decentralization and the responsibilities of rich countries in facilitating the development of poorer countries. The report is off to a sound start as it tries to single out developing countries which face the greatest challenge in achieving the *Goals*, and hence are in need of the most support.

Globalisation has brought in its wake a competitive and challenging environment, where an approach to advancement has become imperative. Of particular concern are those countries which are characterized by poor access to world markets and weak internal demand due to the small size of their economies: almost "420 million people live in

small inland economies that are not growing" (p. 73). The countries that fall into these categories are: ones which are heavily indebted, face HIV/AIDS problems, whose exports are affected by falling commodity prices, and those countries whose low human development status robs them of the benefits of skill-based export opportunities. The report also points out that in the two regions affected most by poverty, the number of hungry people in the world needs to be reduced drastically by improving food distribution in South Asia and by increasing agricultural productivity in Africa.

However, the HDR is cautious in recommending decentralization as a panacea for the ills of the malfunctioning social sectors of the Third World. Decentralization has failed those countries where local elites have taken over the process: Bangladesh is just one such example, while Kerala in India continues to symbolize the power of effective synergies between fiscal decentralization and public participation. At the same time, the HDR has a distinctly different approach from the World Bank on the private provision of health, education and water. The HDR acknowledges both the lack of resources, and the lack of efficiency in public social sector delivery systems, but cautions that "the supposed benefits of privatizing social services are elusive, with inconclusive evidence on efficiency

and quality standards in the private sector relative to the public sector" (p. 113). The HDR clearly sees the government as the only long term and viable hope for the social sectors of developing countries. This last point is important; developing countries, which have been successful in the quest of expanding healthcare and education services to the vast majority of their fellow citizens such as Botswana, Costa Rica and Sri Lanka, have primarily used their public sector to achieve this task (pp. 85-131).

This report also tackles the role of developed countries in improving living standards in the Third World. In keeping with the UNDP's penchant for catchy new indices, the report now informs us that academics have come up with a commitment to development index (CDI) to measure whether rich countries honour their commitments to poorer nations or not.

On the whole, *Millenium Development Goals* is an engaging and thought provoking discourse on the path currently being pursued by developing countries in terms of human development.

*The Human Development Report is an independent report, commissioned by the United Nations Development Programme (UNDP). Each Report focuses on a highly topical theme in the current development debate, providing path-breaking analysis and policy recommendations.*

## A.3

## AN INTEGRATED SOCIAL POLICY AND MACROECONOMIC MODEL

### THE NEED FOR AN INTEGRATED MODEL

Pakistan's development planning models have not explicitly recognized the interdependence between the macro economy and social sector development. Recognizing this reality, the Social Policy and Development Centre (SPDC) has developed a macro-economic model that explicitly incorporates the above relationships.

### STRUCTURE AND LINKAGES OF THE MODEL

SPDC has developed one of the pioneer models which can be used as an effective planning tool for social sector development to address both poverty and income distribution as well as social service delivery. The ISPM (Integrated Social Policy and Macroeconomic) model integrates the social, fiscal and macroeconomic dimensions of the economy under one interrelated system. It provides the basic framework for analyzing the implications of numerous economic measures on the long-term development of Pakistan's social sectors. Recent development of the SPDC model reflects the changes in Pakistan's economy, and endogenizes both interest rate and exchange rate variables.

The model is highly disaggregated and covers all three levels of government. It is capable of predicting outcomes in considerable detail, even at the level of individual social service provision. The ability to disaggregate the model at the provincial level in terms of revenues and expenditures on social services (e.g., schools, hospitals, doctors, teachers, enrolments, etc.) is helpful in analyzing the impact of related initiatives on the macro economy and social development.

The ISPM model is based on consistent national level data from 1973 onwards and is estimated by single equation regression techniques. It consists of 409 equations, of which 172 are behavioural and the rest are identities. These equations are subsumed into 18 interrelated blocks. The blocks, along with their size in terms of equations and identities, are listed in table A3.1.

Although the model is broadly Keynesian in spirit, the specification of individual blocks and equations is based on a pragmatic approach and also captures the non-market clearing aspects of Pakistan's economy. Thus, the macroeconomic block is essentially supply driven. In addition, the social sector indicators are also resource determined.

The model has dynamic specifications which vary across the blocks. In some cases, the linkage is simultaneous and in some cases it is recursive. Examples include the linkages between the macro-production and input blocks; the production and expenditure blocks; the fiscal revenues and expenditure blocks; and the macro production, poverty and inequality blocks. The broad links (see chart A3.1) of the model can be traced as follows.

#### Macro → Public Finance

The key link here traces the impact of developments in the macroeconomy on the growth of the tax bases (including divisible pool taxes) and thus affects the fiscal status of different governments.

#### Public Finance → Social Sector Development

The availability of resources, both external and internal, determines the level of development and recurring outlays to social sectors by different levels of government, particularly provincial and local.

### Social Sector Development → Macroeconomy

Higher output of educated workers and their entry into the labour force raises the human capital stock and could contribute to improvements in productivity and a higher growth rate of output in the economy. Similarly, an improvement in public health standards may also have a favorable impact on production.

### Public Finance → Macroeconomy

The level of government expenditure could exert a demand side effect on national income, while the size of the overall budget deficit of the federal and provincial governments influences the rate of monetary expansion and consequently the rate of inflation in the economy.

### Social Sector Development → Public Finance

A vital link in the model is between the rate of social sector development and the state of public finances. Higher social sector development implies higher recurring

expenditures of provincial governments, which are consequently reflected in the budget deficit, level of debt stock and debt servicing of provincial governments.

### Macro Economy → Social Sector Development

Macro and other socio-economic changes affect the demand for social sector facilities such as schools and hospitals, and thus influence the level of social sector outputs.

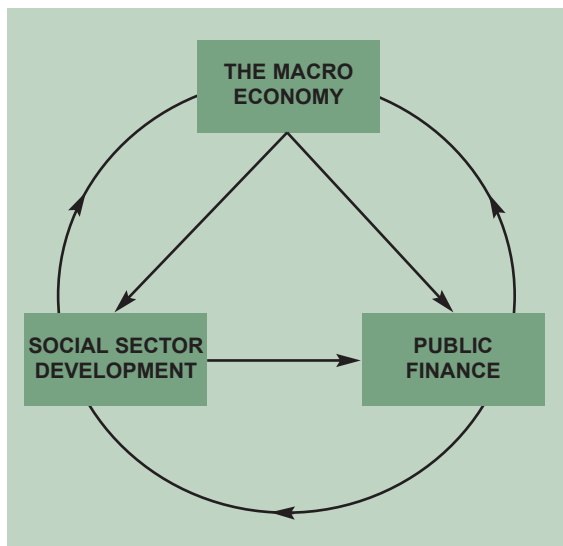
Apart from these broad linkages among different modules, there are also links between different blocks within each module (see chart A3.2). An example of a major linkage within the macro module is the two-way linkage to and from the macro-production block and macro-input blocks. This link is due to the dependence of sectoral value added to the factors of production and input demand functions on the value of production. Macro production determines macro expenditure, just as private consumption is influenced by income.

The two-way link between the macro-production block and the trade block is due to the fact that the value of imports and exports

**Table A3.1** Integrated Social Policy and Macro Model (ISPM)

		Total	Equations	Identities
Block A	Production Block	27	11	16
Block B	Input Block	37	16	21
Block C	Aggregate Demand Block	34	20	14
Block D	Trade and Balance of Payments Block	19	11	8
Block E	Monetary and Prices Block	10	7	3
Block F	Federal Revenue Block	12	4	8
Block G	Federal Expenditure Block	16	9	7
Block H	Sub-National Revenue Block	26	11	15
Block I	Sub-National Expenditure Block	32	22	10
Block J	Debt and Budget Deficit Block	12	2	10
Block K	Education Block	47	24	23
Block L	Human Capital Index Block	16	5	11
Block M	Health Block	27	18	9
Block N	Public Health Index Block	4	3	1
Block O	Human Development Index Block	7	0	7
Block P	Poverty and Income Inequality Block	12	3	9
Block Q	Goals Block	63	6	57
Block R	Costing and Financing Block	8	0	8
	<b>Total</b>	<b>409</b>	<b>172</b>	<b>237</b>

**Chart A3.1** Basic Structure of the ISPM Model



determines and is determined by economic production activity. The trade gap affects the level of money supply.

Important linkages in the fiscal module consist of the simultaneous dependence of revenues and expenditures of various levels of government. Non-tax receipts of governments have been made a function of the recurring expenditure on particular services via cost recovery ratios. Similarly, the level of government expenditure is affected by the government's level of resource generation.

Important vertical links between levels of government include fiscal transfers in the form of divisible pool transfers and non-development grants (in line with the feasible level of decentralization) from provincial to local governments. The link between the budget deficits of the federal and provincial governments and their revenues and expenditures is obvious.

## FORECASTING AND POLICY ANALYSIS TOOL

**G**iven the richness of its structure and the complex web of interrelationships and interactions it embodies, the ISPM model can be used both as a forecasting tool for the

medium and long term, and for undertaking policy simulations to analyze the consequences of particular policy actions by the government.

For example, if the federal government decides to pursue a policy of higher tax mobilization and opts for a rigorous fiscal effort, the model can forecast the impact, not only on federal finances, but also on the fiscal status of the provincial governments. In this scenario, it could also forecast key macroeconomic magnitudes such as growth in the gross domestic product, social development, budget deficit, changes in income inequality and the inflation rate.

The model can also perform simulations to find the relative strength of different policy options for a specific objective. In the case of the macro economy, it can provide the impact of different policy options on:

- short and medium-term projections of the growth of important sectors (agriculture, manufacturing, construction, electricity and gas distribution);
- short and medium-term projections of the growth of GDP, GNP, per capita income;
- factor input (e.g., capital and labor) demand; and
- short and medium-term projections of the public and private investment in various sectors of the economy.

In the case of public finance, it can:

- provide short and medium-term projections of the quantum of revenue transfers to the provincial governments by the federal government under different scenarios;
- determine the impact of different rates and patterns of economic growth on provincial tax bases and revenues; and
- determine the impact of changes in provincial expenditure priorities on fiscal status, levels of service provision and the overall macro economy.

In the case of social development, it can determine the impact on:

- poverty reduction strategy related expenditures;

- social sector expenditures by provincial governments on income inequality that further changes the poverty rate;
- education expenditures by provincial governments on sectoral inputs (schools, teachers), enrolments, outputs, entry into the labour force and literacy rates;
- health expenditures by provincial governments on sectoral inputs (beds, rural health centres, doctors, nurses, paramedics) and on the health status of the population; and
- higher levels of resource mobilization by provincial governments on federal transfers, sectoral levels of expenditure and fiscal status.

## INCOME INEQUALITY AND POVERTY BLOCK

An important aspect of the SPDC's macro model is the incorporation of the poverty and inequality block. In this block, the linkage of macro, public finance and human development variables with the measure of income inequality (Gini Coefficient) is developed, which also helps in determining poverty. This is one of the pioneer works in the economic literature of developing countries that explores the impact of economic growth and government expenditures on income inequality and poverty. The complete linkages between growth, income distribution and poverty are shown in chart A3.3.

**Chart A3.2** Structure of SPDC ISPM Model

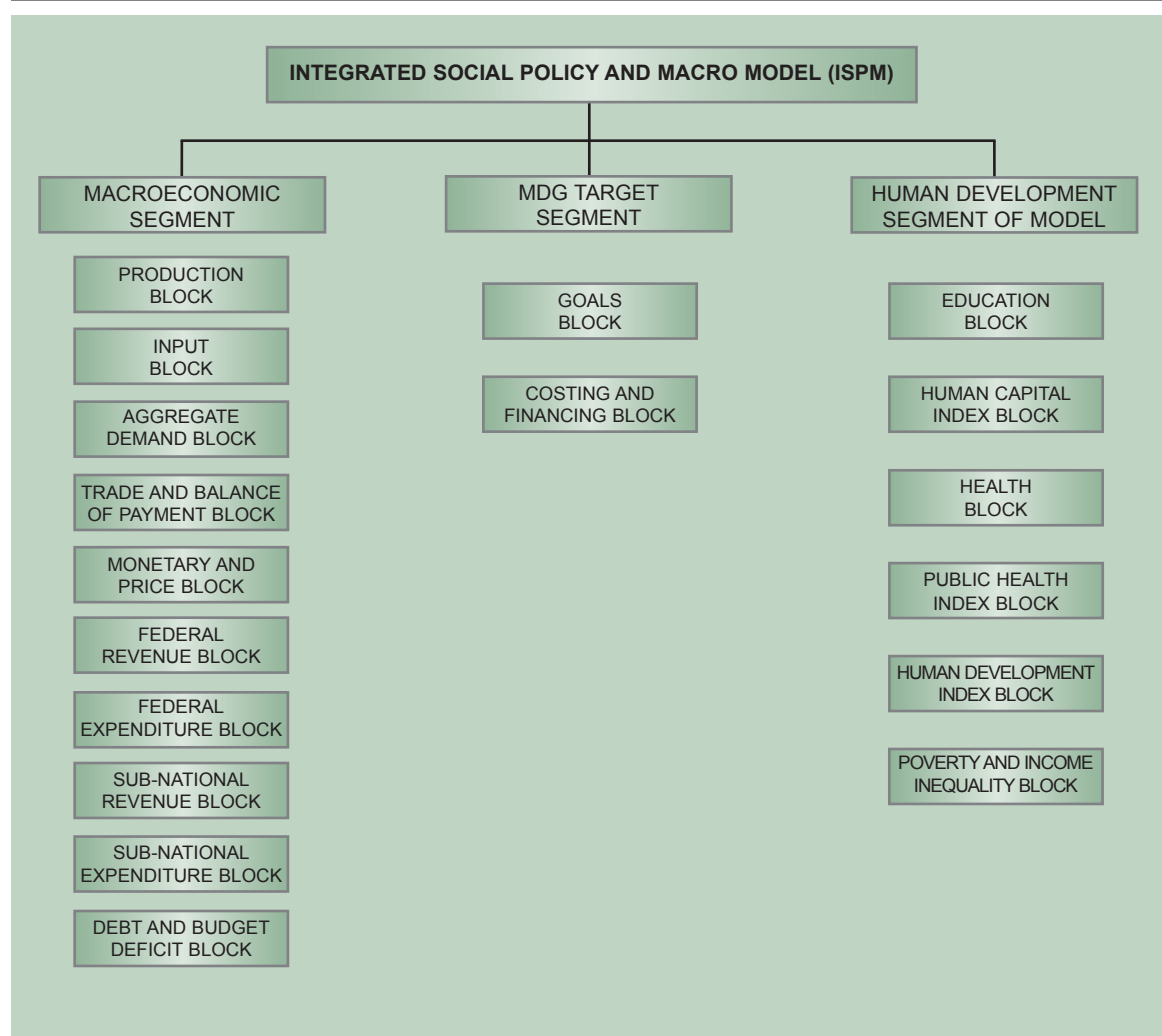
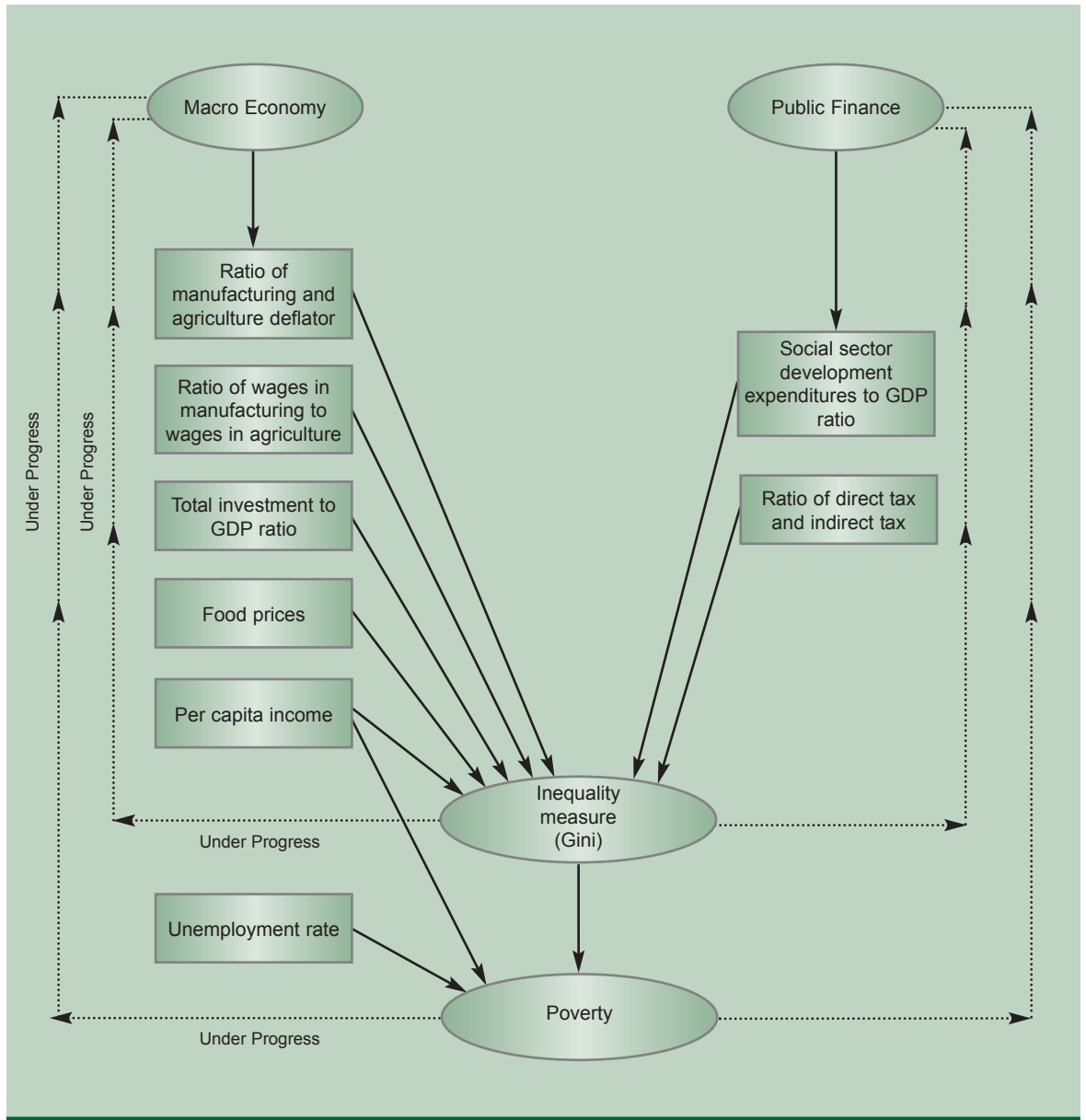


Chart A3.3

Links of ISPM Model With Special Reference to Poverty and Inequality



## SPDC PUBLICATIONS

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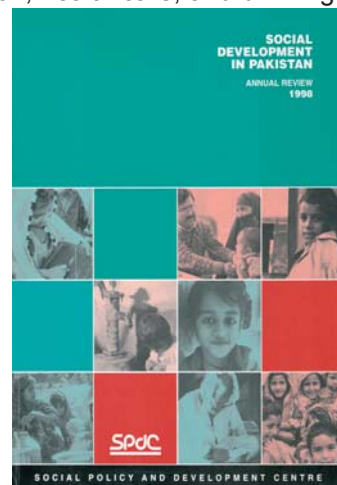
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## A.5

## SPDC'S ANNUAL REVIEW OF SOCIAL DEVELOPMENT IN PAKISTAN: BRIEF INTRODUCTIONS

### *Annual Review of Social Development in Pakistan* 1998

First of the annual series, the Review of Social Development in Pakistan was launched in the wake of a growing realization that the country was lagging behind in social development. It was felt that access to basic social services such as primary education, health care, and drinking water was limited, and that social underdevelopment had, perhaps, begun to slow down the pace of economic development as well. As such, the Review addressed the relationship between economic and social development, and the central role of human development in the growth process. It then traced in detail the evolution of the social sectors in Pakistan over the 50 years since independence, and compared Pakistan's social development between the provinces and with other countries in the region. Based on the custom-developed 242-equation Integrated Macroeconomic & Social Policy Model, a detailed quantitative analysis and assessment was made of the government's programmes and policies in the social sectors, including the Social Action Programme - the largest single social development programme in Pakistan's history - focusing on issues such as sources of financing, user-charges, and issues relating to cost-effectiveness of social service provision.



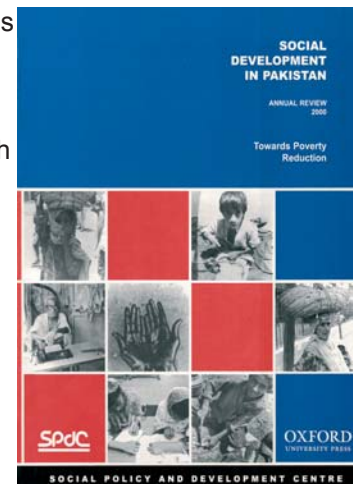
### *Social Development in Economic Crisis* Annual Review of Social Development in Pakistan 1999

The second Review dealt with social development in an environment of severe economic crisis caused by international sanctions imposed on Pakistan following the country's decision to conduct the nuclear tests. The Review began by tracing the short and long term causes of the crisis, leading to Pakistan's return to the IMF/World Bank program. Further, based on SPDC's 246-equation Integrated Macroeconomic & Social Policy Model, it quantified the cost of the economic sanctions following the adoption of the nuclear path. It delineated the various options available to deal with the crisis, including the path of self-reliance, to achieve sustained development. It then explored the impact of each option on some of the key social dimensions: poverty, unemployment and the status of women and children. It also appraised the Social Action Programme, and forewarned that it was in jeopardy due to growing fiscal and institutional constraints. Given the prospect of rising poverty, it examined the types, nature and adequacy of different social safety nets - governmental as well as non-governmental - and highlighted the underlying problems of coverage and targeting.



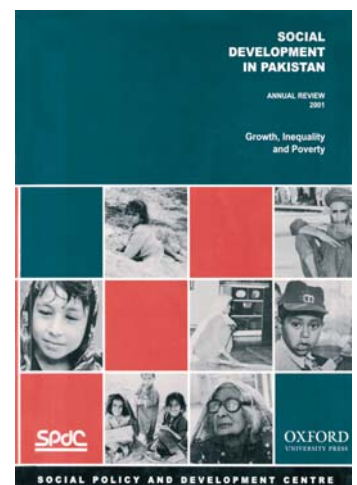
## ***Towards Poverty Reduction*** **Annual Review of Social Development in Pakistan** **2000**

The Review focuses on the subject of poverty, identifying its nature, extent and profile, and highlighting the structural dimensions of poverty. Based on the conclusions that a poverty reduction strategy will have to be comprehensive and multidimensional in character, it covers a wide agenda. It comprises an appraisal of the role of the informal economy, not only as a residual employer but also as a household or community based welfare and support system, in mitigating poverty. Based on the results of SPDC's 250-equation Integrated Macroeconomic & Social Policy Model, it underlines the need for appropriate macroeconomic and fiscal policies to achieve faster growth in income and employment. In this respect, macro and micro of a revival strategy, including options such as reducing the tax burden on the poor and orienting public expenditure towards the poor have been outlined. It also covers structural issues such as land reforms and development of human resources through access to social services, particularly pro-poor services. It discusses different elements of a strategy consisting of increased economic opportunities for the poor, their empowerment, and access to welfare and support through appropriate social safety nets, namely, public works, microfinance, food support and zakat. It also deals with issues of governance and poverty, devolution, economic governance, institutional capacity, and corruption.



## ***Growth, Inequality and Poverty*** **Annual Review of Social Development in Pakistan** **2001**

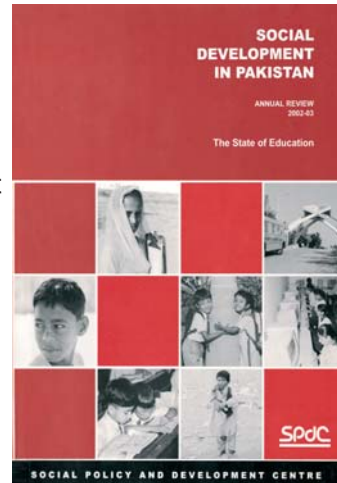
The Review is a detailed analysis and documents the pervasive inequalities across class and regional lines and in access of social services. Spread over six chapters, it begins with the profile of achievements in the realm of economic and social development since 1947; acknowledging as well that the gains have not been equitably distributed. Based on SPDC's 255-equation Integrated Macroeconomic & Social Policy Model, it presents the macroeconomic analysis of the state of the economy, along with the factors behind the aggregates with respect to unemployment, inequality and poverty. It questions the balance between stabilization and growth objectives and discusses policy options that can help or hurt the poor. There follows a comprehensive analysis of inequality from different perspectives: income inequality, consumption inequality, inequality between income groups - nationally and province-wise - inequality in public services and land inequality. The next chapter is devoted to inequality between and within provinces, including a district analysis and ranking of deprivation levels. Social policy finds specific attention, with a review of housing and evaluation of the ambitious Five Point Programme and the Social Action Programme. The last chapter attempts to provide an overview of the factors that determine inequality and poverty, and more generally, social development.



## *The State of Education*

### Annual Review of Social Development in Pakistan 2002-03

The Review is an in-depth analysis of the state of education in Pakistan. It breaks new ground, given that the traditional discussion relating to education has generally been limited to the issue of enrolment, particularly primary and girls' enrolment, and resource allocation. The Review is spread over seven chapters and begins with a broad profile of education in the country: Pakistan's standing regionally; literacy, enrolment and dropout trends; and availability of schools and teachers. It then documents the regional and class inequalities in education indicators, issues relating to the role of education in development - particularly in the context of the emergence of the knowledge based economy - and fiscal and sociopolitical factors that have inhibited the growth of education. The discussion ranges from the federal-level macroeconomic policy imperatives that have constrained provincial-level resource allocation to social sectors to the role of land inequality on education. There follows specific chapters devoted to critical issues in primary education and science education - matters relating to curriculum, textbooks and examinations- and a final chapter that discusses the sociopolitical impact of the creation of multiple and mutually exclusive streams of education in the country.





# SELECTED SOCIAL DEVELOPMENT INDICATORS

SELECTED SOCIAL DEVELOPMENT INDICATORS

Social Development in Pakistan, 2004

DEMOGRAPHIC PROFILE													
Year	Crude death rate			Crude birth rate			Infant mortality rate			Natural growth rate			Life expectancy (years)
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	
<b>PUNJAB</b>													
1976-79	9.5	11.7	11.1	41.4	42.5	42.2	80	107	100	3.2	3.1	3.1	n.a
1984-86	8.6	12.5	11.0	39.8	44.6	42.7	88	131	120	3.1	3.2	3.2	57.6
1987-89	8.3	11.5	10.6	37.6	43.0	41.4	93	119	105	2.9	3.2	3.1	57.8
1990-92	7.9	11.2	10.2	33.5	41.2	38.9	83	129	110	2.6	3.0	2.9	58.0
1993-97	7.6	10.3	9.5	31.7	38.3	36.3	71	110	99	2.5	2.8	2.7	60.5
1999-01	7.0	8.6	7.9	26.1	31.7	29.2	71	86	80	1.9	2.3	2.1	n.a
<b>SINDH</b>													
1976-79	6.1	11.5	9.2	33.7	43.9	39.5	57	83	74	2.8	3.2	3.0	n.a
1984-86	8.5	13.0	10.6	40.2	45.3	42.5	86	138	114	3.2	3.2	3.2	55.1
1987-89	7.8	13.7	10.8	35.4	43.3	39.4	76	145	113	2.8	3.0	2.9	54.4
1990-92	7.1	13.2	10.1	34.7	44.0	39.3	68	138	98	2.8	3.1	2.9	55.4
1993-97	7.5	12.3	9.9	31.9	41.3	36.6	65	140	105	2.5	2.9	2.7	57.3
1999-01	5.9	9.0	7.4	27.0	33.7	30.2	61	82	73	2.1	2.5	2.3	n.a
<b>NWFP</b>													
1976-79	9.0	11.1	10.7	41.0	43.6	43.2	100	111	109	3.2	3.3	3.2	n.a
1984-86	10.1	9.8	9.7	38.8	46.3	44.2	146	83	93	2.9	3.7	3.4	58.7
1987-89	7.3	9.7	9.3	38.1	46.9	45.5	67	80	76	3.1	3.7	3.6	59.3
1990-92	7.5	10.1	9.7	34.0	44.7	43.1	74	94	90	2.6	3.5	3.3	59.6
1993-97	6.6	9.1	8.7	31.3	38.3	37.1	53	75	72	2.5	2.9	2.8	57.1
1999-01	6.8	8.4	7.8	28.8	29.9	29.5	70	82	78	2.2	2.1	2.1	n.a
<b>BALUCHISTAN</b>													
1976-79	6.4	7.2	7.1	33.1	36.9	36.3	44	69	66	2.7	3.0	2.9	n.a
1984-86	8.4	13.8	12.1	45.4	45.6	45.9	101	166	155	3.7	3.2	3.4	50.4
1987-89	8.7	11.4	11.0	44.4	44.3	44.4	104	117	114	3.6	3.3	3.3	51.0
1990-92	7.9	12.0	11.5	35.5	45.6	44.1	88	128	117	2.8	3.4	3.3	51.5
1993-97	5.9	9.2	8.6	29.5	37.1	35.7	79	119	114	2.4	2.8	2.7	60.3
1999-01	7.3	8.4	8.0	28.4	28.8	28.6	85	91	88	2.1	2.0	2.1	n.a
<b>PAKISTAN</b>													
1976-79	8.2	11.4	10.5	38.4	42.7	41.5	74	101	94	3.0	3.1	3.1	n.a
1984-86	8.7	12.2	10.8	40.1	45.1	43.0	92	126	116	3.1	3.3	3.2	56.9
1987-89	8.1	11.6	10.5	37.0	43.7	41.6	85	117	106	2.9	3.2	3.1	57.1
1990-92	7.6	11.4	10.2	34.0	42.5	39.8	77	125	105	2.6	3.1	3.0	57.3
1993-97	7.4	10.4	9.4	31.7	38.6	36.4	67	103	93	2.5	2.8	2.7	61.8
1999-01	6.7	8.5	7.8	26.2	31.1	29.0	70	85	80	2.0	2.3	2.1	63.1

n.a: Not available

**Definitions:**

- **Crude birth rate:** The number of live births per thousand population in a year
- **Crude death rate:** The number of deaths per thousand population in a year
- **Infant mortality rate:** The number of deaths of children under 1 year per thousand live births in a year
- **Natural growth rate:**  $([\text{Crude birth rate}] - [\text{Crude death rate}]) / 10$
- **Life expectancy:** The number of years a newborn infant would live if prevailing patterns of mortality at the time of birth were to stay the same throughout the child's life

**Source:**

GOP, Pakistan Demographic Surveys, Federal Bureau of Statistics (various issues)

DEMOGRAPHIC PROFILE													
Year	Percentage of live births <sup>a</sup> in medical institutions			Fertility rate (per woman)			Sex ratio (%)			Dependency ratio			Contraceptive prevalence rate (%)
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	
<b>PUNJAB</b>													
1976	4.9	0.7	1.8	7.3	7.1	7.1	111	107	108	96	98	98	n.a.
1979	4.6	0.6	1.6	7.4	7.3	7.3	110	107	108	96	100	99	9.3
1985	-	-	8.2	6.3	8.0	7.2	107	104	105	94	101	98	n.a.
1990	18.2	4.7	8.2	5.2	6.6	6.1	106	103	104	89	98	95	13.0
1996	28.9	9.4	14.3	4.6	5.9	5.4	106	105	105	91	97	95	14.0
2001	38.8	13.1	19.7	n.a.	n.a.	4.0	106	104	105	72	88	82	22.0
<b>SINDH</b>													
1976	33.6	0.6	12.4	5.4	7.3	6.4	112	116	114	87	97	93	n.a.
1979	32.4	0.2	11.2	5.1	7.3	6.3	112	117	115	84	98	92	9.6
1985	-	-	19.1	5.9	7.5	6.6	107	114	110	91	103	96	n.a.
1990	41.4	4.1	20.7	5.2	6.9	6.0	109	109	109	87	103	95	12.0
1996	48.0	8.8	26.7	4.9	6.2	5.5	108	113	111	87	99	93	16.0
2001	55.2	14.8	28.7	n.a.	n.a.	4.3	109	112	110	77	98	88	15.0
<b>NWFP</b>													
1976	4.6	0.2	0.9	6.6	6.9	6.8	108	101	102	94	108	106	n.a.
1979	4.5	0.6	1.3	7.3	6.7	6.7	109	100	101	100	115	112	9.4
1985	-	-	3.8	7.0	8.4	7.8	107	102	104	99	110	105	n.a.
1990	19.5	3.7	5.6	5.0	6.9	6.6	107	102	103	90	113	109	9.0
1996	25.1	12.3	13.6	4.4	5.8	5.5	107	102	103	91	114	110	15.0
2001	30.1	14.1	16.2	n.a.	n.a.	4.3	106	100	101	79	96	93	14.0
<b>BALUCHISTAN</b>													
1976	19.8	0.8	2.9	5.9	7.3	7.1	106	108	108	86	91	90	n.a.
1979	17.9	0.6	4.1	7.6	4.9	5.2	101	115	113	92	95	94	4.3
1985	-	-	2.6	6.6	6.5	6.6	114	109	111	105	109	107	n.a.
1990	26.2	6.7	9.0	5.2	7.6	7.3	110	105	106	103	115	113	2.0
1996	17.6	6.4	7.7	4.0	6.1	5.6	109	115	113	109	108	108	6.0
2001	22.4	2.8	6.1	n.a.	n.a.	4.2	112	112	112	92	100	98	12.0
<b>PAKISTAN</b>													
1976	13.7	0.6	4.1	6.6	7.1	6.9	111	108	109	93	99	97	5.2
1979	13.0	0.5	3.8	6.6	7.1	6.9	110	108	109	92	101	98	n.a.
1985	19.8	2.5	10.1	6.2	7.8	7.1	108	106	107	94	103	100	9.1
1990	26.8	4.6	10.6	5.2	6.7	6.2	107	104	105	89	102	98	12.0
1996	35.1	9.7	16.4	4.7	5.9	5.5	107	106	106	90	101	97	14.0
2001	43.5	13.2	21.0	n.a.	n.a.	4.1	107	105	106	75	92	86	19.0

<sup>a</sup> Data for 2001 is estimated from PIHS 2000-2001

n.a.: Not available

**Definitions:**

- **Percentage of births in medical institutions:** The number of births in medical institutions as a percentage of total births
- **Fertility rate:** The average number of children that would be born to a woman if she were to live to the end of her childbearing age and bear children at each age in accordance with prevailing age-specific fertility rates
- **Sex ratio:** The number of males per hundred females
- **Dependency ratio:** Dependent population (those under 15 and over 64) as percent of the working-age population (aged 15 to 64)
- **Contraceptive prevalence rate:** The percentage of currently married women aged 15-49 years who are currently using a family planning method

**Sources:**

1. GOP, Pakistan Demographic Surveys, Federal Bureau of Statistics (various issues)
2. Pakistan Contraceptive Prevalence Surveys, Population Welfare Division, Ministry of Planning and Development, Islamabad
3. Pakistan Integrated Household Survey (various issues)

EDUCATION												
Year	Literacy rate			Mean years of schooling			Combined enrolment rate			Enrolment rate (Primary)		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
<b>PUNJAB</b>												
1975	31.5	12.3	22.7	2.1	0.4	1.3	29.7	14.8	22.8	57.8	32.9	46.0
1980	35.6	15.7	26.3	2.7	0.6	1.7	26.9	14.9	21.2	54.5	34.1	44.8
1985	40.0	19.5	30.3	3.2	0.9	2.1	30.6	17.3	24.3	63.3	39.9	52.1
1990	45.5	24.2	35.4	3.3	1.0	2.2	36.4	23.6	30.3	74.1	53.8	64.3
1995	52.9	30.3	42.1	3.9	1.4	2.7	36.0	27.0	31.6	80.7	63.1	72.2
2002	63.5	41.7	52.8	9.0	4.7	3.5	38.2	30.7	34.5	84.2	71.8	78.2
<b>SINDH</b>												
1975	39.1	19.8	30.4	3.1	0.9	2.1	26.9	13.5	20.7	52.2	23.2	38.3
1980	39.3	21.2	31.0	3.1	0.9	2.2	29.1	14.9	22.5	58.2	25.5	42.3
1985	41.6	23.5	33.3	3.9	1.4	2.7	32.3	16.2	24.7	63.6	28.7	46.5
1990	45.6	26.9	36.9	4.4	1.5	3.0	32.5	13.1	23.3	63.7	20.8	42.9
1995	51.7	31.5	42.3	4.7	2.0	3.4	31.6	17.3	24.8	87.2	49.4	69.0
2002	58.7	38.9	49.3	10.4	5.9	4.3	34.5	24.0	29.4	74.5	51.5	63.6
<b>NWFP</b>												
1975	23.9	5.2	15.1	1.9	0.2	1.1	33.4	9.9	22.3	68.6	22.3	46.3
1980	25.3	6.2	16.3	2.5	0.4	1.5	32.1	8.9	21.3	69.9	20.5	46.1
1985	29.5	8.5	19.5	2.5	0.3	1.3	33.2	9.0	21.8	73.0	21.4	48.2
1990	36.1	12.0	24.5	2.6	0.3	1.5	43.5	12.1	28.5	93.9	27.9	62.1
1995	45.3	17.0	31.5	3.1	0.4	1.7	46.3	17.7	32.5	90.9	47.3	69.8
2002	60.4	24.1	42.2	8.0	1.7	2.5	41.1	32.9	37.2	98.0	59.8	79.7
<b>BALUCHISTAN</b>												
1975	13.2	3.7	9.0	1.2	0.1	0.7	13.4	4.4	9.4	29.7	9.0	19.6
1980	14.6	4.0	9.8	1.9	0.4	1.2	13.4	4.2	9.3	30.7	8.0	19.6
1985	18.1	5.6	12.5	1.5	0.3	1.5	18.9	6.8	13.5	44.0	13.8	29.6
1990	23.1	8.2	16.3	1.9	0.3	1.1	26.0	9.1	18.4	59.9	19.9	41.2
1995	30.4	11.9	21.9	1.8	0.2	1.1	30.1	13.1	22.4	67.0	28.6	49.6
2002	41.1	18.6	30.5	5.3	1.0	1.7	31.0	19.7	25.8	64.9	47.8	57.3
<b>PAKISTAN</b>												
1975	31.4	12.6	22.8	2.2	0.5	1.4	28.7	13.4	21.6	56.6	27.8	42.8
1980	34.0	15.1	25.2	2.7	0.6	1.8	27.3	13.5	20.8	56.2	28.5	42.8
1985	37.9	18.3	28.7	3.2	0.9	2.1	30.7	15.4	23.4	63.7	32.9	48.9
1990	43.2	22.4	33.3	3.4	1.0	2.3	35.9	18.8	27.7	73.7	40.0	57.5
1995	50.5	27.9	39.7	3.9	1.4	2.7	36.1	22.7	29.6	82.9	55.6	69.8
2002	60.9	37.7	49.6	8.2	3.4	3.0	37.3	28.9	33.2	82.8	64.0	73.8

**Notes:**

- Figures for Pakistan represent the four provinces combined
- Literacy rate is estimated using 1998 population census
- Primary and secondary school enrolment represents enrolment in the government sector only (except for 2001)
- Tertiary enrolment is the sum of intermediate college, degree college, and university enrolment
- Degree college enrolment is the sum of general degree college, post graduate college and professional degree college enrolment
- Combined enrolment figure for 2002 corresponds to 2001

**Definitions:**

- **Literacy rate:** The number of literate persons as a percentage of population aged 10 and above
- **Mean year of schooling:** Average number of years of schooling received per person aged 25 and above
- **Combined enrolment rate:** The number of students enrolled in all levels as a percentage of the population aged 5 to 24
- **Enrolment rate (primary):** The number of students enrolled in primary level classes (I to V) as a percentage of the population aged 5 to 9

**Sources:**

- Development Statistics of Provincial Governments (various issues)
- Education Statistics of Provincial Governments (various issues)
- GOP, Pakistan School Statistics, Central Bureau of Education (various issues)
- GOP, Pakistan Education Statistics, Central Bureau of Education (various issues)
- National and Provincial Education Management Information Systems (various issues)
- GOP, Labour Force Survey, Federal Bureau of Statistics (various issues)
- GOP, Census Report of Pakistan, Population Census Organization (various issues)
- Facts & Figures Pakistan 2002, Ministry of Education, EFA Wing

EDUCATION											
Year	Pupil-teacher ratio <sup>a</sup> (Primary)			Percentage of cohort reaching Class V			Availability of primary schools <sup>a</sup>			Ratio of boys to girls (Primary)	% of female teachers (Primary)
	Male	Female	Total	Male	Female	Total	Male	Female	Total		
<b>PUNJAB</b>											
1975	43.4	39.6	42.0	52.1	31.2	43.8	176	258	207	1.9	36.0
1980	41.5	41.1	41.3	50.6	29.1	41.3	177	251	206	1.7	36.6
1985	36.1	43.3	38.4	44.1	28.0	37.2	129	256	169	1.7	32.6
1990	38.6	46.7	41.5	46.2	26.9	37.0	136	199	160	1.5	35.7
1995	35.9	49.9	40.9	50.0	32.8	41.3	149	221	176	1.3	35.9
2002	58.1	40.6	48.8	60.0	54.9	57.8	160	252	194	1.3	53.2
<b>SINDH</b>											
1975	27.9	20.6	25.3	36.8	43.5	38.6	136	661	220	2.5	35.6
1980	35.3	25.8	31.9	37.7	46.0	40.0	154	802	255	2.4	36.3
1985	40.2	30.1	36.5	36.2	41.9	37.9	129	633	210	2.3	36.6
1990	40.4	20.1	32.6	40.6	51.6	42.9	81	519	138	3.3	38.1
1995	22.0	27.1	23.4	38.5	35.4	37.5	82	416	134	2.0	28.5
2002	27.5	29.2	28.2	43.8	47.6	45.1	75	376	121	1.6	37.1
<b>NWFP</b>											
1975	52.5	52.2	52.4	40.4	37.5	39.7	196	510	279	3.3	23.4
1980	68.8	54.8	65.2	27.9	30.9	28.5	209	547	297	3.7	25.5
1985	50.9	48.9	50.5	23.5	20.3	22.8	207	541	294	3.7	22.1
1990	44.7	36.5	42.6	22.0	17.5	21.0	116	357	172	3.6	25.3
1995	36.8	41.8	38.1	21.2	20.9	21.1	83	287	126	2.5	26.0
2002	34.5	37.8	35.6	71.9	60.0	67.4	100	202	132	1.8	33.9
<b>BALUCHISTAN</b>											
1975	35.2	40.2	36.2	20.1	23.5	20.8	165	686	262	3.5	20.1
1980	38.3	53.9	40.7	22.9	21.8	22.7	197	857	315	4.0	15.1
1985	40.4	84.0	45.7	15.9	25.2	17.8	121	895	207	3.5	12.2
1990	23.6	41.0	26.1	14.2	26.8	16.5	93	869	159	3.4	14.4
1995	20.7	38.3	23.8	17.5	11.3	15.6	85	426	133	2.5	17.8
2002	66.8	55.2	62.0	39.7	40.8	40.1	91	206	121	1.7	41.5
<b>PAKISTAN</b>											
1975	39.6	34.4	37.8	45.2	33.7	41.3	167	343	221	2.2	34.1
1980	42.6	37.4	40.8	41.3	32.2	38.1	176	352	232	2.1	34.9
1985	39.1	40.4	39.5	36.1	29.5	33.8	136	348	192	2.1	31.7
1990	38.7	38.9	38.8	36.5	27.9	33.4	112	268	156	2.0	33.4
1995	30.7	42.5	34.4	37.3	30.4	34.5	110	267	153	1.6	31.1
2002	43.0	37.8	40.7	56.4	53.4	55.2	114	259	156	1.4	44.6

<sup>a</sup> Data for 2002 include private sector schools

**Definitions:**

- **Pupil-teacher ratio (primary):** The ratio of pupils enrolled in primary level classes (I to V) to the number of teachers in primary schools
- **Percentage of cohort reaching Class V:** The percentage of children starting primary school who reach Class V
- **Availability of primary schools:** The ratio of population aged 5 to 9 to the number of primary schools
- **Ratio of boys to girls (primary):** The ratio of male students to female students enrolled in primary level classes (I to V)
- **Percentage of female teachers (primary):** The number of female teachers as a percentage of total teachers in primary schools

**Sources:**

1. Development Statistics of Provincial Governments (various issues)
2. Education Statistics of Provincial Governments (various issues)
3. GOP, Pakistan School Statistics, Central Bureau of Education (various issues)
4. GOP, Pakistan Education Statistics, Central Bureau of Education (various issues)
5. National and Provincial Education Management Information Systems (various issues)

EDUCATION											
Year	Availability of primary school teachers			Enrolment rate (Secondary)			Pupil-teacher ratio (Secondary)			Ratio of boys to girls (Secondary)	% of female teachers (Secondary)
	Male	Female	Total	Male	Female	Total	Male	Female	Total		
<b>PUNJAB</b>											
1975	75	120	91	29.6	10.0	20.8	28.5	8.5	18.9	3.6	48.0
1980	76	120	92	26.2	9.9	18.7	24.9	8.2	18.7	3.1	49.5
1985	57	108	74	28.4	12.0	20.8	26.7	8.6	18.1	2.7	53.5
1990	52	87	65	35.6	18.4	27.4	15.4	14.2	15.0	2.2	33.3
1995	50	84	62	39.5	24.2	32.2	14.6	16.6	15.3	1.8	33.2
2002	69	57	62	31.9	26.3	29.2	14.2	7.7	10.4	1.3	58.8
<b>SINDH</b>											
1975	53	89	66	22.1	14.3	18.7	21.2	14.3	18.2	1.9	43.3
1980	61	101	75	24.4	15.5	20.3	24.2	17.2	21.2	1.9	42.7
1985	63	105	78	29.1	16.8	23.5	30.3	19.4	25.6	2.0	43.5
1990	63	97	76	30.3	17.3	24.3	27.1	17.7	23.1	2.0	42.8
1995	34	80	47	26.8	16.5	22.0	24.8	19.5	22.6	1.9	40.4
2002	37	57	44	28.7	24.0	26.5	20.5	10.6	14.8	1.4	58.1
<b>NWFP</b>											
1975	76	234	113	24.3	3.9	15.1	17.7	16.7	17.6	7.6	12.2
1980	98	267	141	20.9	3.4	13.0	14.6	9.1	13.6	7.5	17.6
1985	70	228	105	21.9	3.7	13.5	14.0	10.3	13.4	7.0	16.2
1990	48	131	69	32.4	6.2	20.2	15.8	13.2	15.4	5.9	16.8
1995	38	101	55	41.7	11.4	27.4	18.8	17.9	18.6	4.1	20.7
2002	35	63	45	43.5	17.7	31.1	16.4	11.9	14.9	2.7	34.1
<b>BALUCHISTAN</b>											
1975	119	446	184	7.8	2.2	5.4	7.0	6.7	6.9	4.8	17.6
1980	125	672	207	7.3	2.6	5.3	6.7	5.8	6.5	3.7	23.5
1985	92	607	155	9.3	3.9	7.1	5.9	6.7	6.1	3.2	21.5
1990	40	206	64	13.2	4.7	9.6	5.7	6.8	5.9	3.9	17.8
1995	33	127	50	22.2	7.2	15.9	8.5	9.3	8.6	4.3	16.4
2002	103	115	108	19.7	12.5	16.7	4.5	5.8	4.8	2.2	25.8
<b>PAKISTAN</b>											
1975	70	124	88	26.1	9.7	18.8	24.0	10.0	18.1	3.3	41.7
1980	76	131	95	23.9	9.8	17.5	21.7	10.0	16.7	2.9	42.8
1985	61	123	81	26.5	11.5	19.6	23.1	10.6	17.5	2.7	45.0
1990	53	97	68	32.6	15.7	24.7	16.3	14.7	15.8	2.4	31.9
1995	42	87	56	35.9	19.8	28.3	16.0	16.9	16.3	2.0	31.6
2002	52	59	55	32.2	23.9	28.3	14.5	8.5	11.3	1.5	53.4

**Note:**

1. Data for 2002 include private sector schools

**Definitions:**

- **Availability of primary school teachers:** The ratio of population aged 5 to 9 to the number of primary school teachers
- **Enrolment rate (secondary):** The number of students enrolled in secondary level classes (VI to X) as a percentage of the population aged 10 to 14
- **Pupil-teacher ratio (secondary):** The ratio of pupils enrolled in secondary level classes (VI to X) to the number of teachers in secondary schools
- **Ratio of boys to girls (secondary):** The ratio of male students to female students enrolled in secondary level classes (VI to X)
- **Percentage of female teachers (secondary):** The number of female teachers as a percentage of total teachers in secondary schools

**Sources:**

1. Development Statistics of Provincial Governments (various issues)
2. Education Statistics of Provincial Governments (various issues)
3. GOP, Pakistan School Statistics, Central Bureau of Education (various issues)
4. GOP, Pakistan Education Statistics, Central Bureau of Education (various issues)
5. National and Provincial Education Management Information Systems (various issues)

EDUCATION												
Year	Percentage of cohort reaching						Availability of secondary schools <sup>a</sup>			Availability of secondary school teachers <sup>a</sup>		
	Class VI			Class X			Male	Female	Total	Male	Female	Total
	Male	Female	Total	Male	Female	Total						
<b>PUNJAB</b>												
1975	87.0	62.0	79.8	41.6	36.6	40.5	906	1705	1147	96	85	91
1980	91.8	66.9	84.1	32.8	35.6	33.5	947	1749	1200	95	83	89
1985	88.6	71.3	83.1	34.5	33.6	34.2	857	1569	1088	94	72	82
1990	88.2	81.2	85.8	34.7	33.2	34.2	706	998	819	43	78	55
1995	87.9	78.1	84.0	44.2	41.0	43.0	647	946	762	37	69	47
2002	91.3	89.7	90.6	36.0	50.3	41.3	274	894	413	45	29	36
<b>SINDH</b>												
1975	70.5	88.3	75.8	52.5	46.5	50.4	942	2066	1241	96	100	97
1980	70.6	88.0	76.1	56.0	47.0	52.7	1059	2472	1431	99	111	104
1985	81.8	89.2	84.2	52.7	48.3	51.3	1023	2687	1431	104	116	109
1990	83.5	94.5	86.9	46.9	45.2	46.4	938	1876	1220	90	103	95
1995	67.2	78.2	70.7	55.6	54.8	55.3	988	1890	1268	93	118	103
2002	57.9	67.1	61.2	52.6	58.6	54.8	359	1622	560	72	44	56
<b>NWFP</b>												
1975	60.1	27.1	52.5	50.3	47.3	50.0	987	3457	1455	73	431	117
1980	65.0	32.6	57.8	45.3	44.6	45.2	1092	3602	1597	69	271	105
1985	74.3	49.5	69.5	34.4	29.9	33.7	1041	3533	1541	64	281	99
1990	77.8	67.9	76.0	40.8	28.9	38.9	869	2811	1284	49	212	76
1995	96.0	72.8	89.8	46.6	36.0	44.3	802	1903	1105	45	157	68
2002	72.5	60.5	68.5	47.0	44.6	46.4	321	1236	498	38	67	48
<b>BALUCHISTAN</b>												
1975	72.7	49.5	67.4	42.1	40.9	41.9	905	2906	1277	90	308	128
1980	65.3	73.8	66.8	32.0	47.6	35.0	867	3183	1253	92	221	123
1985	72.2	54.6	67.1	37.4	29.2	35.5	769	2635	1097	63	169	86
1990	80.7	43.8	69.5	26.7	32.8	27.9	546	2086	791	43	146	62
1995	81.3	76.7	80.3	46.5	29.8	42.9	559	2117	808	38	129	54
2002	82.8	65.7	76.4	39.5	44.3	40.8	449	1318	619	23	47	29
<b>PAKISTAN</b>												
1975	79.4	63.2	74.9	44.5	40.1	43.5	924	1954	1208	92	103	97
1980	82.3	69.0	78.4	38.9	39.9	39.1	983	2084	1295	91	102	96
1985	84.6	73.7	81.3	38.6	37.7	38.4	907	1947	1205	87	92	89
1990	85.0	85.8	85.3	37.9	35.7	37.2	757	1288	937	50	94	64
1995	84.6	77.6	82.1	46.6	42.7	45.3	719	1201	886	44	86	57
2002	79.3	78.8	79.1	41.4	51.1	44.8	304	1056	459	45	36	40

<sup>a</sup> Data for 2002 include private sector schools

**Definitions:**

- **Percentage of cohort reaching Class VI:** The percentage of children finishing primary school who reach Class VI
- **Percentage of cohort reaching Class X:** The percentage of children enrolled in Class VI who reach Class X
- **Availability of secondary schools:** The ratio of population aged 10 to 14 to the number of secondary schools
- **Availability of secondary school teachers:** The ratio of population aged 10 to 14 to the number of secondary school teachers

**Sources:**

1. Development Statistics of Provincial Governments (various issues)
2. Education Statistics of Provincial Governments (various issues)
3. GOP, Pakistan School Statistics, Central Bureau of Education (various issues)
4. GOP, Pakistan Education Statistics, Central Bureau of Education (various issues)
5. National and Provincial Education Management Information Systems (various issues)

HEALTH					
Year	Hospital bed	Population (in thousands) per			
		Doctor (Total)	Nurse	Paramedic	Rural health facility
<b>PUNJAB</b>					
1975	2.6	6.8	12.1	10.6	414
1980	2.3	6.0	9.3	9.4	218
1985	2.1	4.0	5.6	9.6	92
1990	2.1	2.7	3.8	11.3	61
1995	2.2	2.2	3.3	12.5	62
2000	2.3	1.9	2.6	n.a.	62
2002	2.3	1.8	2.5	7.9	69
<b>SINDH</b>					
1975	3.1	20.6	59.3	19.7	340
1980	2.9	19.2	32.9	17.8	200
1985	2.9	12.2	35.7	15.9	180
1990	2.7	3.4	29.8	9.4	95
1995	2.8	3.7	22.1	6.8	71
2000	2.9	4.0	19.6	6.3	72
2002	3.0	4.1	20.2	4.7	68
<b>NWFP</b>					
1975	1.6	19.2	29	5.5	437
1980	1.7	14.2	40.2	5.0	255
1985	1.5	10.3	11.5	2.5	76
1990	1.5	11.1	15.8	2.7	65
1995	1.6	8.2	9.1	2.9	63
2000	1.6	4.9	12.4	n.a.	65
2002	1.5	5.4	14.4	2.7	66
<b>BALOCHISTAN</b>					
1975	2.9	22.5	24.9	4.3	253
1980	2.2	27.9	41.1	3.8	255
1985	1.9	10.8	30.9	3.0	122
1990	1.8	6.7	23.9	2.2	38
1995	1.7	6.8	24.4	1.8	35
2000	1.6	7.4	16.6	n.a.	35
2002	1.5	5.1	17.0	4.0	32
<b>PAKISTAN</b>					
1975	2.5	9.3	16.9	9.7	388
1980	2.3	8.3	13.5	8.6	221
1985	2.1	5.5	8.2	6.8	99
1990	2.1	3.3	5.9	6.7	64
1995	2.1	2.9	5.0	6.4	61
2000	2.2	2.6	3.8	n.a.	62
2002	2.2	2.5	3.9	5.4	66

**Notes:**

1. Number of nurses and paramedics of provincial governments only
2. Data representing institutions run by armed forces and private sector are not included

**Definitions:**

- **Hospital Bed:** Total population in thousands divided by total number of beds in hospitals and dispensaries
- **Doctor (total):** Total population in thousands divided by total number of registered medical doctors
- **Nurse:** Total population in thousands divided by the total number of nurses
- **Paramedic:** Total population in thousands divided by the total number of paramedic personnel
- **Rural Health Facilities:** Rural population in thousands divided by [No. of RHCs] + [No. of BHUs/5]

**Sources:**

1. Pakistan Statistical Yearbook (various issues)
2. Pakistan Medical and Dental Council, Islamabad
3. Development Statistics of Provincial Government (various issues)
4. Pakistan Nursing Council, Islamabad
5. Important District Wise Socio-Economic Indicators, Bureau of Statistics Government of NWFP
6. Unpublished Data, Bureau of Statistics (Government of Punjab and Government of Balochistan)

LABOUR FORCE AND EMPLOYMENT												
Year	Labour force participation rate									Percentage of literates in labour force		
	Male	Urban Female	Total	Male	Rural Female	Total	Male	Female	Total	Urban	Rural	Total
<b>PUNJAB</b>												
1975	71.6	4.0	39.8	78.8	9.0	46.1	77.0	7.6	44.6	48.5	19.6	25.9
1979	71.6	5.6	40.0	79.0	14.4	47.9	77.2	12.2	46.0	53.3	26.2	31.9
1985	72.1	4.6	40.0	78.2	11.3	45.7	76.5	9.4	44.1	54.0	28.9	35.2
1991	67.3	10.8	40.1	73.6	17.6	46.1	71.7	15.6	44.3	57.9	31.5	38.3
1995	65.7	8.6	38.1	72.3	16.1	44.9	70.4	14.0	42.9	65.7	34.3	44.7
2000	68.2	11.8	40.9	74.8	19.0	47.1	72.7	16.8	45.2	66.3	38.5	47.2
2002	69.1	13.4	42.4	72.9	22.9	48.2	71.6	19.9	46.3	67.1	44.0	50.8
<b>SINDH</b>												
1975	67.1	3.7	37.6	85.2	6.0	49.1	75.6	4.8	43.1	56.9	23.5	38.4
1979	69.7	5.1	39.4	89.1	24.6	58.9	79.5	15.5	49.9	52.7	19.9	31.5
1985	69.7	3.5	38.2	85.0	13.2	52.1	77.4	8.2	45.1	57.6	22.3	37.1
1991	65.7	5.9	37.9	76.6	9.5	45.7	70.9	7.6	41.6	65.0	34.9	49.1
1995	62.8	5.2	35.9	73.8	6.0	43.1	68.7	5.6	39.7	68.4	30.1	48.2
2000	60.4	3.9	33.9	73.9	10.2	44.5	67.0	6.9	39.1	72.1	32.8	53.0
2002	65.1	5.5	37.2	76.6	6.8	44.3	70.4	6.1	40.5	72.9	43.2	58.0
<b>NWFP</b>												
1975	70.8	3.3	38.4	75.9	3.8	39.9	74.9	3.8	38.6	43.7	18.1	22.8
1979	65.3	5.2	37.3	73.8	4.3	38.8	72.2	4.4	38.5	48.1	25.6	26.0
1985	71.5	4.4	39.7	80.4	6.8	43.9	79.0	4.4	43.3	49.5	20.3	24.5
1991	66.1	5.1	36.2	70.1	10.2	41.0	69.5	9.3	40.2	51.2	28.6	32.0
1995	61.1	4.3	33.7	64.7	11.0	37.2	64.1	10.0	36.7	52.8	30.3	33.8
2000	62.8	7.4	36.0	66.0	13.1	39.3	65.4	12.1	38.7	56.4	33.5	37.4
2002	62.4	7.0	36.1	65.8	7.2	36.5	65.2	7.2	36.4	61.8	44.3	47.2
<b>BALUCHISTAN</b>												
1975	68.2	2.1	37.9	79.4	1.0	45.7	82.5	1.1	44.6	40.5	14.2	17.5
1979	63.3	2.9	36.8	84.1	3.1	47.5	80.3	3.1	45.9	41.6	14.0	18.0
1985	69.3	1.8	37.8	81.4	7.0	45.9	79.4	6.2	44.5	55.5	17.3	22.6
1991	63.1	4.7	36.8	74.3	6.2	43.7	72.7	5.9	42.6	54.8	18.2	22.9
1995	59.8	4.2	34.7	70.0	7.3	41.1	68.3	6.6	40.0	49.1	20.0	25.0
2000	59.1	5.0	34.0	71.1	5.1	40.3	69.0	5.1	39.2	58.5	23.6	29.7
2002	59.8	6.2	35.2	70.1	6.0	41.5	68.0	6.0	40.2	63.7	27.9	34.3
<b>PAKISTAN</b>												
1975	69.6	3.5	38.8	79.8	7.6	45.9	76.7	6.4	43.8	51.2	19.8	28.1
1979	70.3	5.3	39.6	80.1	14.3	48.7	77.3	11.8	46.1	47.2	24.3	31.1
1985	71.1	4.1	39.3	79.8	10.7	46.5	77.1	8.7	44.2	45.0	26.0	33.9
1991	66.6	8.6	39.0	73.6	14.8	45.2	71.3	12.8	43.2	60.2	31.2	39.6
1995	64.3	7.0	37.0	71.3	13.3	43.1	69.1	11.4	41.3	64.3	34.1	43.3
2000	65.0	8.8	38.1	73.1	16.1	45.1	70.4	13.7	42.8	67.4	36.1	46.5
2002	66.9	10.0	39.9	72.2	16.8	45.2	70.3	14.4	43.3	68.7	43.1	51.3

**Note:**

1. Unemployed persons classified as persons of age 10 and above, looking for work

**Definition:**

 ● **Labour force participation:** The number of persons in the labour force as a percentage of the population of 10 years and above

**Source:**

Pakistan Labour Force Survey, Federal Bureau of Statistics, Government of Pakistan (various issues)

LABOUR FORCE AND EMPLOYMENT									
Year	Percentage of labour force in			Percentage of labour force in			Percentage of labour force in		
	Agriculture	Industry (Urban)	Services	Agriculture	Industry (Rural)	Services	Agriculture	Industry (Total)	Services
<b>PUNJAB</b>									
1975	7.4	35.2	57.4	69.1	15.7	15.2	55.6	20.0	24.4
1979	6.4	35.6	58.0	63.5	19.0	17.5	51.6	22.5	25.9
1985	8.6	34.5	56.9	62.5	18.2	19.3	49.1	22.2	28.7
1991	9.4	29.1	61.5	62.6	17.4	20.0	48.9	20.4	30.7
1995	5.7	29.8	64.5	60.7	16.7	22.6	47.2	19.9	32.9
2000	6.5	32.1	61.4	66.4	13.2	20.4	50.2	18.3	31.5
2002	5.7	34.0	60.2	57.9	17.5	24.7	42.8	22.2	34.9
<b>SINDH</b>									
1975	7.4	35.2	57.4	69.1	15.7	15.2	55.6	20	24.4
1979	4.3	35.7	60.0	84.0	6.4	9.6	55.8	16.8	27.4
1985	5.2	33.5	61.3	82.9	6.6	10.5	50.3	17.9	31.8
1991	4.9	34.2	60.9	71.7	10.2	18.1	40.2	21.6	38.3
1995	5.2	27.8	67.0	69.8	11.3	18.9	42.4	18.3	39.4
2000	3.6	33.3	63.0	73.6	7.4	18.9	42.6	18.9	38.5
2002	3.9	31.1	65.0	69.5	8.6	21.9	37.6	20.0	42.9
<b>NWFP</b>									
1975	14.0	23.8	62.2	73.0	10.7	16.3	62.1	13.1	24.8
1979	7.3	24.2	68.4	56.1	17.1	26.8	48.0	18.3	33.8
1985	8.7	25.3	66.1	64.8	14.2	21.0	56.7	15.8	27.4
1991	7.9	25.7	66.4	58.0	14.6	27.4	50.5	16.3	33.3
1995	8.1	20.4	71.5	57.5	12.6	29.9	50.5	13.7	35.8
2000	8.1	20.2	71.7	54.1	16.5	29.5	46.8	17.1	36.2
2002	6.8	24.0	69.2	51.4	16.3	32.3	44.2	17.6	38.3
<b>BALUCHISTAN</b>									
1975	22.4	12.8	64.7	75.4	5.1	19.5	68.8	6.1	25.1
1979	6.0	17.7	76.3	69.9	10.7	19.5	60.6	11.7	27.7
1985	8.9	23.2	67.9	64.4	11.9	23.7	56.7	13.4	29.8
1991	11.4	17.7	70.8	68.1	7.9	24.0	60.9	9.2	29.9
1995	11.6	15.9	72.4	63.1	9.3	27.6	55.5	10.3	34.3
2000	5.7	17.4	76.9	63.2	10.3	26.5	54.6	11.4	34.0
2002	8.8	20.7	70.5	58.7	12.0	29.3	50.2	13.5	36.3
<b>PAKISTAN</b>									
1975	6.2	33.6	60.2	72.1	13.1	14.8	54.8	18.5	26.7
1979	5.7	34.5	59.8	67.4	15.9	16.8	52.7	20.3	27.0
1985	7.4	33.3	59.3	66.7	15.2	18.1	50.6	20.1	29.3
1991	7.6	30.7	61.7	63.8	15.4	20.8	47.5	19.8	32.7
1995	5.8	28.3	66.0	61.9	14.9	23.2	46.8	18.5	34.7
2000	5.7	31.5	62.8	65.8	12.5	21.6	48.4	18	33.6
2002	5.2	32.2	62.7	59.0	15.5	25.4	42.1	20.8	37.1

Source:  
Pakistan Labour Force Survey, Federal Bureau of Statistics, Government of Pakistan (various issues)

LABOUR FORCE AND EMPLOYMENT									
Year	Labour force			unemployment rate			Total		
	Male	Urban Female	Total	Male	Rural Female	Total	Male	Female	Total
<b>PUNJAB</b>									
1975	3.5	1.8	3.5	1.7	0.7	2.0	2.1	0.9	2.1
1979	5.5	16.4	6.2	3.0	8.8	4.3	3.5	9.7	3.5
1985	6.8	6.5	6.7	3.7	1.5	4.3	4.5	2.0	4.5
1991	7.3	31.8	10.4	4.6	14.6	7.5	5.4	18.0	5.4
1995	7.0	24.6	8.9	4.3	8.3	6.0	5.0	11.2	5.0
2000	9.6	31.1	12.6	5.9	10.9	6.9	7.0	15.3	8.5
2002	8.6	23.0	10.8	6.2	12.0	7.6	7.0	14.4	8.5
<b>SINDH</b>									
1975	1.8	0.6	1.8	0.4	0.0	1.0	1.0	0.5	1.0
1979	3.5	13.8	4.0	0.6	0.2	1.8	1.8	2.2	1.8
1985	4.3	0.6	4.2	1.5	0.0	2.5	2.7	0.3	2.7
1991	4.0	16.7	4.9	1.3	10.7	3.5	2.6	13.1	2.6
1995	2.6	14.2	3.3	1.2	18.3	2.7	1.8	16.7	1.8
2000	3.1	20.1	4.0	1.5	11.0	2.5	2.2	13.7	3.2
2002	5.9	22.8	7.1	2.2	17.0	3.2	4.0	19.8	5.2
<b>NWFP</b>									
1975	2.4	2.5	2.5	2.0	0.0	2.0	2.0	0.5	2.0
1979	4.4	7.0	4.6	3.0	7.5	3.5	3.3	7.3	3.3
1985	6.2	4.3	6.1	3.8	0.0	3.9	4.2	0.3	4.2
1991	6.0	28.6	7.5	5.1	12.1	6.2	5.2	13.4	5.2
1995	6.1	39.1	8.1	4.3	23.0	7.3	4.6	24.1	4.6
2000	9.6	32.9	11.9	8.1	31.2	12.0	8.4	31.4	12.0
2002	12.2	39.0	14.6	10.8	30.8	12.8	11.0	32.1	13.1
<b>BALOCHISTAN</b>									
1975	0.4	0.0	0.4	0.1	0.0	0.1	0.2	0.0	0.2
1979	2.3	0.8	2.2	1.4	28.3	2.2	1.5	23.5	1.5
1985	4.2	0.0	4.1	1.1	0.0	1.5	1.6	0.0	1.6
1991	2.7	17.4	3.6	1.1	4.7	1.6	1.3	6.0	1.3
1995	1.4	27.2	2.9	2.2	25.7	3.9	2.1	25.8	2.1
2000	5.4	32.3	7.2	4.8	44.2	7.1	4.9	42.2	7.1
2002	8.8	58.0	12.7	4.9	31.8	6.7	5.6	37.4	7.8
<b>PAKISTAN</b>									
1975	2.8	1.8	2.7	1.4	0.6	1.7	1.8	0.7	1.8
1979	4.6	14.6	5.2	2.4	6.4	3.6	3.0	7.6	3.0
1985	5.8	4.1	5.7	3.2	0.8	3.7	4.0	1.4	4.0
1991	5.9	27.7	8.2	3.9	13.7	6.3	4.5	16.8	4.5
1995	5.3	22.6	6.9	3.6	11.7	5.4	4.1	13.7	4.1
2000	7.5	29.6	9.9	5.4	14.0	6.9	6.1	17.3	7.8
2002	7.9	24.2	9.8	6.1	14.1	7.6	6.7	16.5	8.3

Source:  
Pakistan Labour Force Survey, Federal Bureau of Statistics, Government of Pakistan (various issues)

PUBLIC FINANCE											
Year	Public expenditure on social sector as % of total expenditure					Govt. expenditure (per capita) <sup>a</sup>					
	Total social sector	Education	Health	Physical planning & housing	Other social sectors	Total expenditure	Total social sector	Education	Health	Physical planning & housing	Other social sectors
<b>PUNJAB</b>											
1975	36	21	6	8	1	870	311	185	52	68	5
1980	38	19	7	11	1	944	361	181	70	99	11
1985	37	22	8	6	1	1,272	472	280	97	80	14
1990	40	24	9	6	2	1,538	619	371	138	85	25
1995	42	28	7	5	2	1,671	699	475	114	84	26
2000	39	25	7	5	2	1,659	647	418	113	90	26
2001	37	25	7	4	1	1,596	585	405	112	57	11
2002	32	23	7	2	1	1,634	531	375	115	30	11
<b>SINDH</b>											
1975	38	22	5	8	2	1,025	385	227	54	84	20
1980	34	22	5	6	1	1,088	366	237	51	68	10
1985	35	22	6	7	1	1,386	480	298	78	91	12
1990	35	22	8	5	1	1,939	682	417	147	90	28
1995	31	22	5	3	1	2,605	813	570	136	86	21
2000	31	22	7	2	1	2,407	754	521	160	49	25
2001	28	20	5	2	1	2,529	708	496	135	45	31
2002	29	20	6	2	1	2,781	795	562	167	46	20
<b>NWFP</b>											
1975	29	18	7	4	0	1,030	302	183	75	43	2
1980	35	19	8	6	1	1,266	440	242	107	75	17
1985	36	23	8	4	1	1,862	664	420	151	82	11
1990	35	23	8	4	0	2,497	877	573	194	98	12
1995	45	29	8	5	3	2,739	1,238	789	227	142	80
2000	41	28	7	2	3	2,712	1,119	768	192	66	94
2001	36	24	7	3	2	2,337	833	570	165	73	25
2002	35	23	7	3	2	2,347	817	546	163	60	48
<b>BALUCHISTAN</b>											
1975	16	10	3	2	1	1,850	295	178	64	44	10
1980	17	9	3	2	3	1,845	320	173	61	39	46
1985	28	14	6	6	2	2,637	742	378	151	150	63
1990	32	15	7	7	2	3,552	1,128	546	250	264	68
1995	37	19	8	7	3	3,961	1,485	748	330	282	125
2000	43	23	6	10	4	3,777	1,643	866	226	384	166
2001	38	18	6	11	3	4,163	1,564	740	247	464	113
2002	39	19	7	11	2	4,079	1,602	782	278	455	87
<b>PAKISTAN</b>											
1975	34	20	6	7	1	969	326	194	56	67	8
1980	35	19	7	8	1	1,067	371	202	70	86	13
1985	35	21	7	6	1	1,451	514	309	103	87	16
1990	37	22	8	5	1	1,869	696	419	154	97	26
1995	39	26	7	5	2	2,157	841	555	146	103	37
2000	38	25	7	4	2	2,091	789	514	141	92	42
2001	34	23	6	4	1	2,052	699	467	132	77	23
2002	32	22	7	3	1	2,131	688	464	142	59	22

<sup>a</sup> at constant prices of 2002-03

**Note:**

- Per capita expenditure is based on the 1998 head count
- Most of the Social Sector Expenditures have been devolved from Provincial to District Governments, which are not reported by Provincial Annual Budget Statement. The indicators of this section have not been updated due to unavailability of District Government expenditures.

**Definitions:**

- **Expenditures:** Represents both current and development, combined
- **Physical planning & housing expenditure:** Consists of expenditure on public health services, urban town planning and regulatory services, housing and physical planning

**Source:**

Annual Budget Statements of Provincial Governments (various issues)

<b>SHELTER</b>				
Indicators	Unit	1980	Years 1989	1998
<b>RURAL</b>				
Growth rate of housing units	%		2.0	2.2
Persons per housing unit	No.	6.6	6.7	6.5
Rooms per housing unit	No.	1.8	2.0	2.1
Persons per room	No.	3.6	3.4	n/a
Nature of tenure				
Owned	%	83	91	87
Rented	%	2	2	2
Rent-free	%	15	7	11
Quality of construction				
<i>Pucca</i> (baked bricks/blocks/stone)	%	30	49	45
<i>Semi-pucca</i> (unbaked bricks/earthbound)	%	59	46	45
<i>Kutchra</i> (wood/bamboo and others)	%	11	5	9
Housing unit with:				
Electricity	%	15	51	61
Inside piped water	%	3	9	13
Gas piped	%	0	1	2
<b>URBAN</b>				
Growth rate of housing units	%		3.3	3.1
Persons per housing unit	No.	7.0	6.9	6.6
Rooms per housing unit	No.	2.2	2.3	2.4
Persons per room	No.	3.2	3.0	n/a
Nature of tenure				
Owned	%	68	79	68
Rented	%	22	18	23
Rent-free	%	10	3	9
Quality of construction				
<i>Pucca</i> (baked bricks/blocks/stone)	%	79	89	85
<i>Semi-pucca</i> (unbaked bricks/earthbound)	%	18	10	13
<i>Kutchra</i> (wood/bamboo and others)	%	3	1	2
Housing unit with:				
Electricity	%	71	92	93
Inside piped water	%	38	60	58
Gas piped	%	20	42	56
<b>OVERALL</b>				
Growth rate of housing units	%		2.4	2.5
Persons per housing unit	No.	6.7	6.7	6.5
Rooms per housing unit	No.	1.9	2.0	2.2
Persons per room	No.	3.5	3.3	n/a
Nature of tenure				
Owned	%	78	89	81
Rented	%	8	5	9
Rent-free	%	14	7	10
Quality of construction				
<i>Pucca</i> (baked bricks/blocks/stone)	%	44	61	58
<i>Semi-pucca</i> (unbaked bricks/earthbound)	%	48	35	35
<i>Kutchra</i> (wood/bamboo and others)	%	9	4	7
Housing unit with:				
Electricity	%	31	64	71
Inside piped water	%	13	25	27
Gas piped	%	6	14	19

**Note:**

1. Gas piped and Gas cylinder are combined for the year 1980, while for 1989 and 1998 only the term 'gas' is mentioned

**Sources:**

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**P**akistan has averaged an over 5 percent growth rate of GDP and recorded impressive gains in a number of areas. Yet, unemployment, poverty, illiteracy and a general level of social underdevelopment is endemic. The dichotomy raises a range of questions. How important is growth for poverty reduction? If it is, then how did poverty increase during the high growth period of the 1960s and decline during the low growth period of the 1970s? What is the current strategy for poverty reduction? How critical is asset and income distribution as a factor in poverty reduction? How equitable is land distribution? Are the tax and expenditure regimes redistributing incomes equitably? To what extent can fiscal and monetary adjustments aid in poverty reduction? What is the importance of development expenditure? Should such expenditure be financed through deficit financing or expenditure switching? How well are the vulnerable sections of the population covered by social protection? What is the potential for expanding the country's exports? What is the state of cost competitiveness of Pakistan's industry? And, finally, how can poverty be reduced rapidly?

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