

Pakistan: Poverty Reduction Strategy Paper

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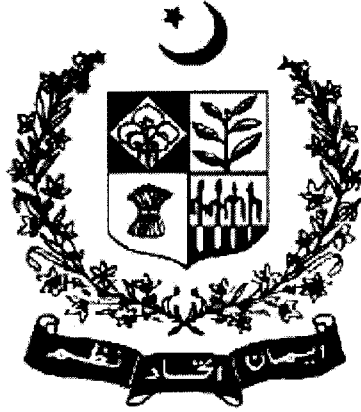
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Accelerating Economic Growth and Reducing Poverty: The Road Ahead

**Poverty Reduction Strategy Paper
Government of Pakistan**



**Accelerating Economic Growth and Reducing Poverty:
The Road Ahead
(Poverty Reduction Strategy Paper)**

**Poverty Reduction Strategy Paper Secretariat
Ministry of Finance
Government of Pakistan
December 2003**

FOREWORD

The development challenges for Pakistan include achieving accelerated and sustained broad-based economic growth particularly in rural areas; reducing poverty; providing essential social and economic services and infrastructure to the poor; creating job opportunities, and improving governance. Noticeable progress has been achieved over the last three and half years and poverty reduction is still a major challenge. Recognizing that poverty is a complex and multidimensional phenomenon that extends beyond the notion of income and encompasses social, economic and political exclusion, the full Poverty Reduction Strategy Paper attempts to provide an integrated approach to diverse set of factors that influence poverty in Pakistan. The Paper provides focused strategy for poverty reduction based on four pillars---accelerated and broad-based economic growth while maintaining macroeconomic stability, improving governance and consolidating devolution, investing in human capital, and targeted programs with emphasis on social inclusion.

The full PRSP is an outcome of nation-wide consultations from all walks of life including the key stakeholders. Building upon the IPRSP and summarized version of the draft PRSP, this Paper identifies the challenges ahead and carries forward the major policy objectives and initiatives undertaken by the Government, providing a strategic framework for development efforts and poverty reduction based on strong political commitment. The indicative macroeconomic framework sets the broad direction and provides a mechanism to link the strategy with the resources. The Paper also addresses major gaps identified in the IPRSP and is aligned with the Millennium Development Goals. The Paper emphasizes capacity building, effective implementation, and monitoring mechanisms. The impact of full PRSP outputs is expected to strengthen macroeconomic stability, increase per capita income, and improve quality of life and promoting economic and social inclusion of the poor people. We will seek support of the Parliament for increased budgetary allocations to attain poverty reduction targets. Full PRSP is not a one-time document; it is dynamic process admitting institutional and policy adjustments at all levels as the time rolls on and new experience is gained.

We fully recognize that the primary responsibility for providing a better life for our people rests with the Government and we must endeavour to increase domestic resources for this, the magnitude of resources needed to achieve Millennium Development Goals and infrastructure development, however, is such that the support of our development partners is essential. We also understand that it is trade, which will ensure sustainable reduction in poverty.

I wish to express my gratitude to parliamentarians, partner ministries especially the Planning Division, provincial and district governments, members of the civil society donors, Center for Research on Poverty Reduction and Income Distribution, Pakistan Institute of Development Economics and communities at the grass root level, who have been directly or indirectly involved in the process of formulating the full Poverty Reduction Strategy Paper. I would like to commend the PRSP Secretariat for their untiring efforts and dedication in preparing this Paper.

Shaukat Aziz
Minister for Finance
& Economic Affairs

Islamabad, December 31, 2003

FULL POVERTY REDUCTION STRATEGY PAPER

The full Poverty Reduction Strategy Paper of Pakistan, prepared after a long consultative process involving the line ministries, provincial and district governments, civil society, various interest groups, donors, and grass-root communities across the provinces has been placed on the Web site of the Ministry of Finance (www.finance.gov.pk). It outlines the broad framework and the strategy for poverty reduction based on four pillars: (a) accelerating economic growth while maintaining the macroeconomic stability; (b) improving the governance; (c) investing in human capital; and (d) targeting the poor and the vulnerable. The PRSP also highlights the programs and policies of the Government under each of these pillars and proposed indicators to monitor the outcome of these policies as well as intermediate indicators for social sectors.

The PRSP is a living document and will be updated periodically to reflect adjustments in the public policy and changes in the statistical data. In this regard, your valuable comments and suggestions, if any, will certainly facilitate in bringing qualitative improvement in the next update. We will appreciate if these comments/views/suggestions are communicated to us at the following address or e-mail:

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HEAD OF PRSP SECRETARIAT

Islamabad, December 31, 2003

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List of Abbreviations

ADB	Asian Development Bank
CBOs	Community Based Organizations
CBR	Central Board of Revenue
CCBs	Citizen Community Boards
CIDA	Canadian International Development Agency
CRPRID	Center for Research on Poverty Reduction and Income Distribution
CWIQ	Core Welfare Indicators Questionnaire
DFID	Department for International Development
DISCO	Distribution Company
EU	European Union
FBS	Federal Bureau of Statistics
FDI	Foreign Direct Investment
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GENCO	Generation Company
GER	Gross Enrolment Ratio
GoP	Government of Pakistan
GST	General Sales Tax
HIES	Household Income and Expenditure Survey
HMIS	Health Management Information System
HPI	Human Poverty Index
IDA	International Development Association
ILO	International Labour Organization
IMF	International Monetary Fund
IMR	Infant Mortality Rate
INGAD	Inter-Agency Gender and Development Group
IPRSP	Interim Poverty Reduction Strategy Paper
JICA	Japan International Cooperation Agency
MDGs	Millennium Development Goals
KESC	Karachi Electric Supply Corporation
MICS	Multiple Indicators for Cluster Survey
MOF	Ministry of Finance
MNA	Member of National Assembly
MPA	Member of Provincial Assembly
NEMIS	National Education Management Information System
NFC	National Finance Commission
NHA	National Highway Authority
NORAD	Norwegian Agency for Development
NSS	National Savings Schemes
PER	Public Expenditure Review
PFC	Provincial Finance Commission
PHC	Primary Health Care
PIHS	Pakistan Integrated Household Survey
PPA	Participatory Poverty Assessment

PRGF	Poverty Reduction Growth Facility
RSPN	Rural Support Program Network
SBP	State Bank of Pakistan
SDDS	Standard Data Dissemination System
SMEDA	Small and Medium Enterprises Development Authority
SRO	Statutory Regulatory Order
TMA	Tehsil (sub-district) Municipal Administration
UNDP	United Nations Development Program
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations International Children Emergency Fund
USAID	United States Aid for International Development
WAPDA	Water and Power Development Authority
WEHAB	Water, Energy, Health, Agriculture and Biodiversity
WFP	World Food Program
WHO	World Health Organization
WTO	World Trade Organization

NON ENGLISH TERMS

Bait-ul-Maal	National Welfare Agency
Jirga/Panchayat	Tribal Court or Committee for Alternate Dispute Resolution
Katchi-Abadi	Squatter settlement
KPP	Khushal (Prosperous) Pakistan Program
Khushali Bank	Prosperity Bank
Nala	Sewage drain
Tameer-e-Watan	Build the country
Tawana	Strong
Ushr	Religiously mandated levy on agricultural output
Zakat	Religiously mandated levy on income for distribution amongst poor

INTRODUCTION

1.1 The decade of the 1990's ended on a worrying note for Pakistan's economy. The incidence of poverty increased from 26.1 percent in 1990-91 to 32.1 percent in 2000-01, reversing the declining poverty trend in the 1970's and the 1980's. The reversal in poverty decline happened in the setting of a decade long slowdown in economic growth, decline in private and public investment, increase in fiscal and current account deficits and rapid debt accumulation. These adverse economic outcomes pointed towards deep structural flaws in the economy that needed urgent attention.

1.2 In late 1999, the Government began to implement measures to address the structural flaws and arrest the deterioration in economic trends. In November 2000, the government adopted a strategy to reduce poverty and restore economic stability. The strategy was articulated in the Interim Poverty Reduction Strategy Paper (IPRSP) that provided an integrated focus on a diverse set of factors that impact on poverty and other development outcomes. The core elements of the IPRSP were to engender growth, improve human development and governance and reduce the vulnerability of the poor to shocks.

1.3 Under the IPRSP, the economy has made significant progress towards macroeconomic stabilization and revival of economic growth. The economy is now more stable and growth has picked up. Policies are more transparent and predictable. Confidence of the private sector is restored and expatriate Pakistanis are remitting their savings. The stock market is buoyant and the Balance of Payments is in a comfortable position. Foreign exchange reserves have crossed the \$ 12 billion mark (sufficient to finance 12 months of imports) and the exchange rate is stable. Inflation and interest rate are at their lowest levels in many years. Domestic and external debt has declined, the fiscal deficit has been reduced and the current account balance is in surplus. Tax revenue is growing, exports have picked up and the country's credit rating in the international market has improved. These achievements are all the more remarkable, given that Pakistan had to contend with a series of domestic and external shocks in the period of the IPRSP, such as an unprecedented drought, the events of 9/11, regional tensions, and rising uncertainties in the run up to the war in Iraq.

1.4 The I-PRSP discussed a number of measures the Government had taken to achieve the objectives and goals of the strategy. A lot more has been accomplished since then. Political devolution has progressed rapidly, banking sector reforms are at an advanced stage and progress has been made in strengthening poverty monitoring. The stage is now set for the revival of investment and acceleration of economic growth. Continued broadening and deepening of reform on several fronts will ensure that growth translates into improved poverty and human development outcomes.

PRSP Challenges and Strategy

1.5 The development challenges for Pakistan include achieving high and sustained broad-based economic growth particularly in rural areas; reducing poverty; providing essential social and economic services and infrastructure to the poor; creating job opportunities, and improving governance. Noticeable progress has been achieved over the last three and half years. However, poverty reduction is still a major challenge. The core elements of the strategy in the PRSP are:

- a) Accelerating economic growth while maintaining macroeconomic stability.
- b) Improving governance.
- c) Investing in human capital.
- d) Targeting the poor and the vulnerable.

1.6 The strategy recognizes that:

- For growth to reduce poverty, it must emanate from sectors that have greater potential to generate employment.
- Since various forms of poverty in Pakistan are acute, these require targeted policy interventions to provide quick relief through short-term employment opportunities, social safety nets and financial assistance.
- Additional income alone would not eliminate poverty unless the causes of poverty are addressed. Hence the need to improve access to basic needs such as primary education, primary health care, drinking water, access to justice, in order to win the fight against poverty.
- Improvement in public service delivery and governance and increase in resources is needed.
- Involvement of the poor in the formulation of these policies and management of their affairs is critical in attaining the objectives of the strategy, and there is need to forge a broad-based alliance with civil society and the private sector in this regard.
- There is need for a strong program for monitoring and capacity development, as well as impact assessment.
- Availability of adequate resources for poverty reduction programs is important in determining the effectiveness of the strategy. Detailed costing of proposed initiatives is expected to take some time as it involves comprehensive exercise at the district, provincial and federal levels.

1.7 The growth strategy proposed in the PRSP has a strong labour bias focusing on rapid growth in agriculture, small and medium enterprises, housing and construction, information technology (IT) and telecommunication sectors and exports, all of which have strong potential to create jobs and associated self employment opportunities. The

strategy emphasizes continuity in opening up of the economy through stable set of macroeconomic policies in the areas of privatization, trade liberalization, banking and financial sector, labour markets, regulatory environment to take advantage of opportunities unleashed by evolving global trade regime while pursuing technological transformation in agricultural and industrial sectors to face the challenges of competitive international environment. It reinforces the need for improved access to social services, broad-based governance reforms, access to assets through micro-credit, gender equality, targeted interventions, private sector development and its participation in all sectors of the economy, and efficient judicial system.

1.8 The impact of full PRSP outputs will provide increased security against macroeconomic instability, increased per capita income, improved coordination and financing of investment programs within the social sectors so as to provide adequate coverage of the basic social service needs of the people. Further, improved access to social amenities and sources of economic empowerment will be pursued through improvements in public sector enterprises' management, expansion of infrastructure, and provision of social safety nets. The economic activity envisaged will provide an opportunity for increased revenue mobilization and release of more resources for investment. The strengthening of monitoring and evaluation capacity at all levels of the government will facilitate tracking of budgetary and non-budgetary expenditures as well as progress and impact monitoring.

1.9 The proposed strategy also focuses on attainment of Millennium Development Goals (MDGs) for sustainable development and poverty reduction. For this purpose, the strategy aims at forging an alliance with civil society and private sector to reduce poverty and accelerate growth. The PRSP includes strategy to address issues of gender, employment, and the nexus of environment with poverty. Vital elements of the PRSP include devolution program, human development and rural development strategy. Pakistan intends to initiate second-generation reforms in some of the key areas such as financial sector, capital markets, etc. The deepening of reforms in the power sector will continue over the medium term.

1.10 The Government believes that it carries the primary responsibility for improving the standard of living of its people. The Government also recognizes that the external assistance is a supplement to domestic resources, not a substitute, and that it must endeavour to increase the latter. The Government has made substantial progress in mobilizing its own resources but the magnitude of the resources needed to achieve Millennium Development Goals (MDGs) is such that the support of development partners is essential. The PRSP recognizes that economic growth has to be the center of our attention as the most effective and sustainable means of reducing poverty. However, sustainable growth itself is largely a function of investing in programs that are truly home grown, based on the country's own capacity and priorities. Ownership is the key and can be assured in several ways. Firstly, it is critical that donors' support is built around genuinely home grown PRSPs and development strategies. Secondly, it is essential that the quality of aid is scaled up and micro management and transaction costs be reduced. In this context, we do realize that monitoring is a crucial aspect of results based development and welcome the focus on this critical issue. Nonetheless, monitoring should not become an end in itself. The real issue is effective follow-up and

implementing remedial measures and the reinforcement of accountability for results. The design of the monitoring framework should be country specific, consistent with the capacity, and fully harmonized amongst donors.

1.11 Pakistan seeks to draw the focus of the development partners on the unsustainable debt burden of the non-HIPC countries that have credible macroeconomic and structural reform programs but are unable, because of their debt overhang, to raise resources to finance human development and badly needed infrastructure. Debt relief, write-offs or swaps will give Pakistan the required fiscal space. Pakistan also seeks a level playing field with open access to markets, as it firmly believes that it will be trade and not aid, which will ensure sustainable reduction in poverty. In particular, there is need to address the issue of agricultural subsidies in the developed world to facilitate developing countries to achieve agricultural growth and higher market share.

1.12 The full PRSP addresses important gaps in the poverty reduction strategy identified in the IPRSP. The PRSP now articulates a more comprehensive strategy including policies for rural development, gender issues, employment and the environment. In addition, the full PRSP now includes a more focused human development strategy. The PRSP utilizes a fiscal framework which takes into account mechanisms for transfer of resources and responsibilities from the federal to the provincial and then to the district governments, as well as preliminary costing of programs to achieve targets especially in the education and a credible monitoring framework in particular for tracking intermediate indicators in the social sectors and anti-poverty programs.

1.13 Pakistan now has three tiers of fully functional governments, national, provincial, and district and their respective roles are defined in the 1973 Constitution and Local Government Ordinance 2001. All the three tiers have given primary importance to reducing poverty. In order to pool poverty reduction efforts at all three levels of government, national, provincial and districts, have contributed towards the formulation of the PRSP, which in turn have provided the basis of the full PRSP. There is an ensuing debate over devising the most effective mechanism to transmit policy priorities from higher-level governments to the lower level. In the meantime, harmonization in priorities is being resolved through the evolving relationship between three tiers of government.

1.14 The provincial governments are in full agreement to adopt a structured framework to plan and implement reforms in consultation with the local governments, provincial line departments, civil society, and other stakeholders. They have already completed the consultative process and their draft PRSPs are ready for approval by their respective governments except Punjab, which has already approved by the Chief Minister. Baluchistan has also finalized its PRSP. Clearly, this will facilitate a broad linkage between national priorities and provincial policies as well as implementation at district level.

1.15 The full PRSP is a comprehensive policy document that translates the government's vision and strategy into concrete programs with a well-defined road map to achieve both economic growth and poverty reduction objectives. It develops linkages between the macroeconomic framework, structural adjustment, and sectoral

development policies, and measures to support targeted segments of the poor to ensure sustainable development. In short, the full PRSP is a living document based on six principles with in-built mechanism for adjustment overtime: (i) It is home grown, involving broad based participation by key stakeholders; (ii) it is result oriented, focusing on monitorable outcomes that benefit the poor; (iii) it is comprehensive, recognizing the multidimensional nature of poverty; (iv) it is prioritized, so implementation is feasible in both fiscal and institutional terms; (v) it is oriented to build public-private partnership; and (vi) it is aligned with the Millennium Development Goals (MDGs).

1.16 Both the process and content of the PRSP are viewed as dynamic in nature. The Ministry of Finance took the lead in the formulation of PRSP in collaboration with the line ministries, provincial and local governments. This process included wide ranging consultations with stakeholders, Parliamentarians, civil society, non-governmental organizations, and donors at various workshops and community dialogues. This brought about greater awareness of the PRSP, which will facilitate its implementation. Looking ahead, PRSP will need strengthening the mechanism and corresponding capacity building for periodical updating to reconcile it with emerging socio-economic realities, impact analysis of policy choices, evaluation of poverty reduction strategies, macro-economic targets, linkages between policies and poverty outcomes, and improvements in the service delivery, as new data from various surveys and sources become available.

1.17 Towards these goals, the PRSP is being supported with a strong participatory monitoring program as well as capacity building at each level of government. The Core Welfare Indicators Questionnaire (CWIQ) survey will provide data for intermediate indicators in social sectors at the district level to determine the baselines. Subsequently, annual updates will be used for evaluation and impact assessment of poverty reduction expenditures. The surveys will also evaluate the efficiency of public service delivery systems, which will contribute towards the adjustment of policy interventions to achieve target outcomes. The CWIQ or any other survey except PIHS/HIES will not be used or recognized for poverty measurement in the country. Social sector targets have been explicitly indicated in the PRSP. Investment programs will be more specifically formulated as soon as the costing of education, health and population programs becomes available.

1.18 The Government clearly recognizes that there are some risks and challenges in implementing the PRSP. First, the effective implementation of the reform agenda will require political commitment and pro-active collaboration among many ministries and departments. To monitor and evaluate the performance when there are gaps in available information, will require developing a reliable and comprehensive database that is periodically updated, for monitoring and evaluation of PRSP process is a multi year undertaking. Second, capacity building will need to be addressed quickly at the provincial and local government levels since both levels of government are new to the PRSP approach and suffer from capacity constraints in certain areas. Third, there is need to ensure consistency between the priorities of three tiers of governments: Federal, provincial, and district. The mechanism needs to be strengthened to transmit the priorities of the higher level of governments to district governments. Fourth, the risk of waning interest of Pakistan's international development partners in the country's

development process could jeopardize the significant progress made over the last three and half years. The daunting challenge is to translate structural reforms and stable macroeconomic framework into broad based economic growth. On the whole, the success of the PRSP will depend critically on the effective implementation, continuous evaluation of the impact and regular feedback to policy makers for appropriate adjustment in the policies and institutional regime, enhanced market access in the global markets, debt relief, and concessional lending to achieve the output objectives of the program.

1.19 The Paper begins with an elaboration of the participatory process undertaken to formulate the PRSP and highlights its key elements (Chapter Two). Chapter Three underscores Pakistan's poverty diagnostics, its manifestations and determinants, and the debate on poverty measurement. Chapter Four reviews the progress since IPRSP—the development effort undertaken in the recent past and the key lessons learned from this experience. Chapter Five outlines the poverty reduction strategy, its key sectoral programs, and complimentary policies and reforms that are deemed essential to achieve them. It also highlights the macroeconomic framework with base case and low case scenarios within which the poverty reduction strategy, programs and activities will have to be implemented, and these programs will be adjusted. It also includes brief discussion on the path towards attaining MDGs. The gaps identified in the IPRSP—gender, employment, and environment—are discussed in Chapter Six. The costing, monitoring and evaluation modalities those are necessary to ensure effective implementation of the poverty reduction strategy, and key tools and instruments, which will be used in this regard, are discussed in Chapter Seven. The PRSP tracking/monitoring targets and expenditure reporting formats are annexed.

TWO**PARTICIPATORY PROCESS IN PRSP FORMULATION**

2.1 Pakistan is a vibrant and federal democratic set-up. The decision making process necessitates consensus building with extensive consultations between three levels of government and numerous governmental and non-governmental organizations. The IPRSP recognized the participation of the poor as critical element in the formulation of the poverty reduction strategy. The objective of the participatory process was to engage stakeholders, civil society, parliamentarians, and development partners in policy formulation and to build ownership for the reform program. The aim of the government was to elicit views; share experiences and understand expectations of the stakeholders. For this purpose, it had initiated a process of consultations at the district, provincial and national levels. Consultations do not necessarily create consensus, hence, while the process strives for understanding and broad acceptance, attaining general acceptance of the PRSP will remain a continuing effort and challenge.

2.2 The participatory process was broadened in the transition towards full PRSP. Following the announcement of the IPRSP, a comprehensive process of consultations was started including symposia, seminars and workshops to discuss various elements of the evolving PRSP issues like poverty measurement, education, health and population sector intermediate indicators, gender mainstreaming, environment, employment and pro-poor growth policies. In addition, the World Bank and other key donor partners including Asian Development Bank, Department for International Development (DFID), INGAD, UNDP, UNFPA, ILO, UNICEF, WHO, JICA, CIDA, USAID, EU, GTZ, NORAD actively supported the full PRSP process and contributed towards policy design, implementation, and evaluation. The federal government conducted dialogue with the provincial governments after elections in October 2002. The provincial governments also conducted extensive dialogue with the local governments and their representatives and civil society since December 2002. The provinces are also in the process of finalizing their own PRSPs (Punjab and Baluchistan's PRSPs have been approved), which reflect the variety of issues and the diversity of responses across the provinces and the districts within the provinces. These are briefly reflected under the provincial perspective.

2.3 The PRSP participatory process has been further enriched by social mobilization at the grassroots level through the Rural Support Programs Network (RSPN) in setting priorities and improving implementation. The results of consultations with community organizations have contributed to providing answers to issues of service delivery and governance raised by stakeholders. The RSPN undertook 121 community consultation dialogues in 49 districts of the country spreading over the four provinces, Northern Areas (NAs) and Azad Jammu and Kashmir (AJK). Key reasons for poverty identified were

discriminatory education system, high incidence of health problems, widespread unemployment, inaccessibility to capital from traditional sources to start productive enterprise, few opportunities for women to earn a livelihood, lack of availability of vocational skills, inadequacy of agriculture and livestock extension services, environmental degradation, inconsistent water supply, lack of access to justice, and a rapid rise in population, and at times variance between local priorities and needs and projects implemented through national or provincial planning agencies.

2.4 The message emerged from these dialogues was that successful implementation of development projects need community participation in planning, implementation, and monitoring. The community consultative dialogues clearly endorsed that social mobilization is the centerpiece of poverty alleviation efforts. The communities' participation is a pre-requisite for situation analysis, needs assessment, project design, implementation oversight, and in operation and maintenance. To foster social mobilization and to nurture organized forums, Community Organizations (COs) or Citizens Community Boards (CCBs), intermediary support organizations are needed. The government will seek to encourage such non-government and non-sector support organizations to act as catalysts and social mobilizers.

2.5 To supplement the dialogues with communities, the Participatory Poverty Assessment (PPA) was conducted at 54 field sites in very poor areas across all four provinces, FATA, NA and AJK. Key findings include need for greater access to land and water and protection of natural resource base for the poor; vulnerability of poor households to various shocks and weak safety nets; basic services health care in particular fail the poor; need for job creation in rural areas; protection of rights for poor women; and lack of access to political power and justice. Improvement in two key areas emerged as major priorities for the poor; the provision of electricity and rural roads for accessing markets. The community dialogues and the PPA are mechanisms for directly consulting the poor, which are expected to contribute towards policy ownership as envisaged in the poverty reduction strategy. Through these mechanisms, the communities have been able to identify their needs and ensure inclusion in the programs. Full PRSP attempts to reflect the preferences of the poor identified in RSPN's dialogues and PPA dialogues.

2.6 However, it is recognized that sampling of the PPA fieldwork was statistically not representative and care must be taken in drawing general conclusions from it. The PPA can point to the existence of common concerns or problems that the poor may be facing across communities but the statistical distribution of these problems can only be verified through a proper survey.

2.7 To ensure that every government department relevant to the PRSP is fully engaged in the formulation and implementation of the strategy to reduce poverty, the process of formulating the full PRSP is steered by a high-level National PRSP Steering Committee headed by the Federal Secretary of Finance. The members of the Committee include Secretaries of relevant ministries and Planning Commission, heads of institutions and Additional Chief Secretaries of the provinces. The Committee is mandated to oversee implementation of IPRSP policy reforms, to evaluate its impact and suggest changes in the policy regime if required and to build national consensus in formulation of

full PRSP. The Committee also monitors poverty-related expenditures, intermediate indicators and final outcomes. The Steering Committee also cleared the draft of the full PRSP.

2.8 Elected representatives of the people of Pakistan in the Parliament have an important role to play in the development and implementation of the PRSP. To consult the elected members, summarized version of the draft PRSP was placed in the Senate and the National Assembly. In addition, a one-day workshop was organized for the Parliamentarians to inform them about the PRSP process and to involve in its formulation, implementation, monitoring and evaluation. The workshop was attended by a wide spectrum of members from various political parties and provided a fruitful and constructive feedback, which was incorporated to the extent possible in the current process. Subsequently, the approval of the national budget in June 2003 affirms an endorsement of the substantive reforms underpinning the PRSP.

2.9 The Government believes that fostering an open and inclusive national dialogue among stakeholders around the PRSP will ensure participation and ownership of the strategy. Relative to the starting point in June 2001, the PRSP process has made significant progress in promoting participation of the government and people of Pakistan. The consultative process adopted in formulating the full PRSP reflects the government's belief in strengthening participatory and democratic governance at all levels, especially at the grass roots. During the full PRSP process, there was significant participation by the Government Sectoral Ministries, Provincial and Local Governments, donors, NGOs, communities of the poor, the private sector, and various civil society forums especially the trade unions.

Communicating the PRSP

2.10 The PRSP Secretariat in collaboration with DFID has developed a comprehensive communication strategy to ensure the process of inclusion through sharing and dissemination of information and knowledge at key levels of the society. This would ensure accountability, participation and transparency in the implementation of PRSP. The core element of the communication interventions is to employ diverse channels in accordance with audience needs including the electronic and print media, workshops and seminars, translation of PRSP into national language, and special supplements in national dailies. The communication strategy is intended to ensure that the PRSP becomes a living document that adapts to the changing needs of stakeholders. It also aims to encourage transparency amongst the various levels of society and government. The communication flow includes briefings, information packs, media coverage, workshops, implementing feedback and policy adjustments. The feedback will be incorporated into the future versions of PRSP.

2.11 The PRSP Secretariat headed by the Joint Secretary (Policy) in the Ministry of Finance will continue to serve as the principal coordinator to ensure that line ministries, private sector, civil society, and the donors are aware of the progress in the PRSP and are timely informed of opportunities to assist and support the PRSP programs. The PRSP Secretariat will also be the lead agency that, in collaboration with the Planning Commission, Federal Bureau of Statistics, Pakistan Institute of Development Economics

and Center for Research on Poverty Reduction and Income Distribution, will report outcomes and impact analysis apart from tracking budgetary and non-budgetary expenditures and progress on MDGs and resolution of various technical issues relating to PRSP.

THREE

POVERTY IN PAKISTAN

3.1 The PRSP recognizes that poverty has many dimensions in Pakistan. The poor in Pakistan have not only low incomes but they also lack access to basic needs such as education, health, clean drinking water and proper sanitation. The latter undermines their capabilities, limits their opportunities to secure employment, results in their social exclusion and exposes them to exogenous shocks. The vicious cycle of poverty is accentuated when the governance structures exclude the most vulnerable from the decision making process.

3.2 The most widely used macro-indicator of resource deprivation is that of income or consumption poverty. The data on which the analysis is based is derived from the Household Income and Expenditure Survey (HIES). The last round was conducted in 2001, which suggest a rise in poverty head-count ratio since 1998-99 and wide variations across provinces, rural and urban regions, and gender.

Poverty Line and Trends in Poverty

3.3 The IPRSP noted that Pakistan did not have an official and well-accepted poverty line at the time, which contributed to the debate. The IPRSP also noted that there was considerable agreement over the trends in poverty over recent years. There was broad consensus that the momentum gained in the fight against poverty during the 1980's was lost during the early 1990s when poverty leveled off. Subsequently poverty rose by the end of the decade when per capita GDP growth became negligible, and also as a consequence of successive years of drought. Yet there was considerable debate on the consistency, measurement and methodology of poverty indicators.

3.4 Poverty is a multi-dimensional concept and is defined alternatively by focusing narrowly on income poverty or broadly by including lack of access to opportunities for raising standards of living. The extent and depth of poverty measured through different approaches varies depending upon the indices used and definitions adopted. Certainly, divergent methods in poverty measurement neither helps in understanding changes in the standard of living of a common man nor does it facilitate in assessing how to reduce poverty through various policy changes. Therefore, it is essential to declare an official poverty line with the associated methodology to measure poverty and benchmark the future impact of policy.

3.5 In preparation for the PRSP, the Government has deliberated on the analytic of poverty. The Planning Commission has adopted an official poverty line based on a caloric norm of 2350 calories per adult equivalent per day and minimum non-food requirements. This poverty line approximates Rs. 673.54 per month per equivalent adult in 1998-99, rising to RS. 748.56 in 2000-01. To facilitate comparisons with existing

measures, the Planning Commission has estimated series from 1986-87 to 2000-01 based on the Household Income-Expenditure Survey (HIES) databases, and the series displays similar trends as noted above. The Planning Commission is working on the old HIES series data and the issue of adjusting the poverty line for price changes over time to make the trends in poverty comparable. Nevertheless, recognizing that the 1998-99 survey marked a significant restructuring of the Pakistan Households Integrated Survey (PIHS)—wherein HIES and PIHS were combined for the first time—this year would serve as a perfect benchmark, as surveys in foreseeable future would be closely comparable with 1998-99 survey. Various approaches and the methodology used to measure official poverty are at Annexure-I.

Table 3.1
Poverty under Basic Needs Approach (Based On Expenditure Data)

	1986-87	1987-88	1990-91	1992-93	1993-94	1996-97	1998-99	2000-01c
Pakistan	29.1	29.2	26.1	26.8	28.7	29.8	30.6 ^a	32.1 ^b
Urban	29.8	30.3	26.6	28.3	26.9	22.6	20.9	-
Rural	28.2	29.3	25.2	24.6	25.4	33.1	34.7	-
Poverty gap	*	*	*	4.2	5.1	4.1	6.4	6.8
Severity of poverty	*	*	*	1.1	1.4	1.1	2.0	2.0

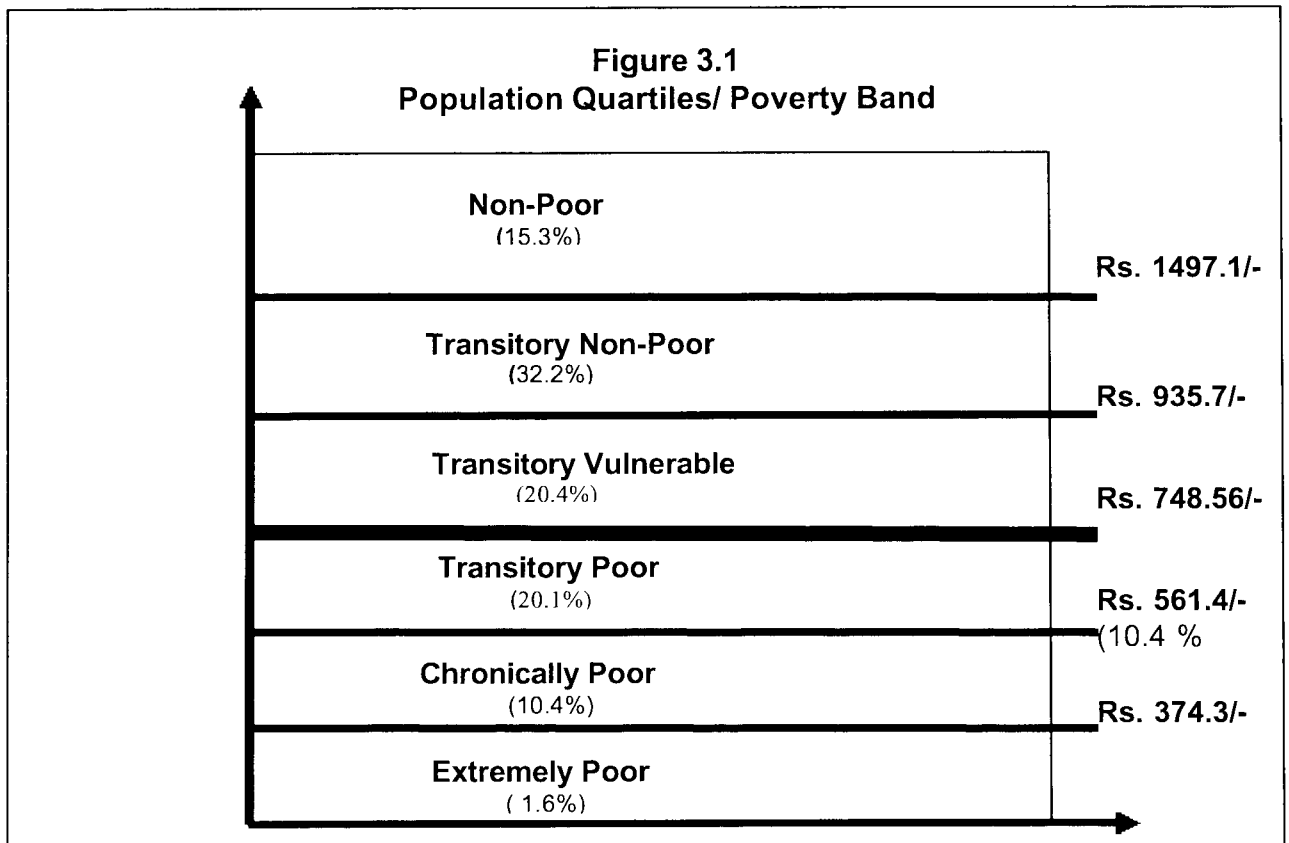
Source: Planning Commission, Government of Pakistan.

- The Head count Index is based upon the officially notified national poverty line of Rs. 673.54 per adult equivalent per month at the prices of 1998-99 PIHS Survey.
- The Head count Index is based upon the officially notified national poverty line of Rs. 748.56 per adult equivalent per month at the prices of 2000-01 PIHS Survey. Since the methodology of measuring poverty is still evolving, we expect to arrive at rural and urban estimates as the methodology is finalized. It may be noted that the estimates for previous years may also be revised to ensure consistent application of the finalized methodology.
- The PIHS/HIES survey was carried out in 2001 and for the purpose of uniformity to correspond to the financial year, it is labeled as 2000-01

3.6 While the official poverty line has been set in terms of calorie norms (as above), a number of methodological issues related to the measurement of poverty are still being debated. These issues include the choice of price indices to adjust the poverty line in nominal terms over time, the choice of adult equivalence weights to adjust for different calorie requirements for individuals by gender and age, and the method for computing spatial price indices to adjust consumption expenditure for regional price differences. Depending on the methodology used, poverty estimates conducted by different organizations show varying results. Using the official poverty line, headcount rate fell from 29.1 percent to 26.1 percent between 1986-87 to 1990-91, and then increased by 4.5 percent till 1998-99. World Bank estimates using a “basic-needs” poverty line, on the other hand, show poverty remained almost unchanged between 1990-91 and 1998-99, and FBS/DFID estimates show an increase in poverty of about 6 percentage points during this period. Notwithstanding these differences in historic trends, all these estimates are close to the government’s estimate for the recent benchmark year of 1998-99 (see Table 3.1), ranging between 29 and 32 percent for headcount poverty rate. However, more work needs to be done in reconciling different estimation methods, to

achieve consensus on the methodological issues referred to above. The Government recognizes that on the basis of the official poverty line, poverty continued to increase. The estimates for 1998-99 also provide a reference base line for impact assessment of the PRSP in the period ahead. At the same time, while interpreting the numbers, it is important to recognize that the 2000-01-survey year was preceded by a series of severe droughts that had significant impact on rural poverty.

3.7 Another important feature of poverty in Pakistan is a high concentration of the population within a small range around the poverty line. According to the Planning Commission, as much as 63 percent of the poor population in fact fall between the poverty line and a level of consumption that is equivalent to 75 percent of the poverty line. Recognizing that the headcount rate provides a mere snapshot of poverty, it is also informative to take a closer look at the poor population. This will make the target identification for a specific policy more efficient and hence optimal allocation of already scarce resources leading to successful implementation of different socio-economic pro-poor policies. Based on this argument, the whole population is divided into the consumption-expenditure based quartiles or 'poverty band' around the poverty line of Rs 748.56 that helps in understanding the 'transitory vulnerable (Fig. 3.1).



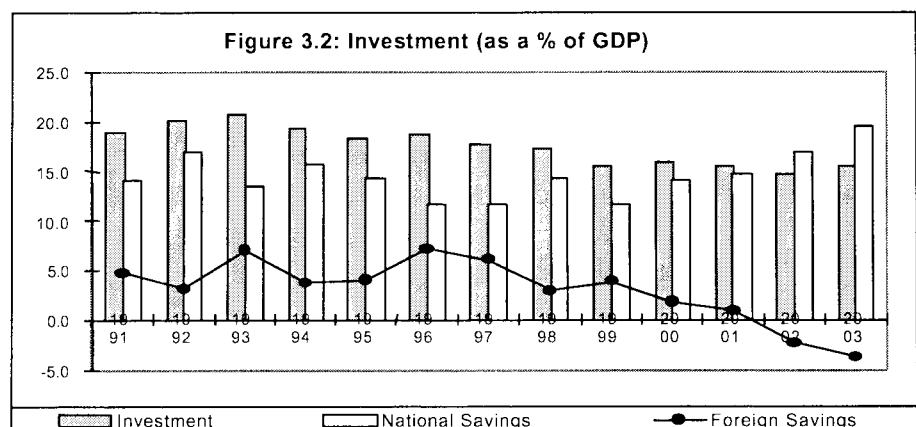
Source: Center for Research on Poverty Reduction & Income Distribution (CRPRID)

3.8 This necessarily implies that the static head counts reported above can change dramatically if poverty lines were to be shifted even marginally, which explains the range of estimates depending on measurement methods adopted. Such concentration also suggests that a large section of the population can be categorized as vulnerable – i.e. likely to fall into poverty as a result of a shock or move above the poverty line through targeted interventions of the government. A series of droughts, as it happened in the late 1990s, are thus likely to result in rapid deterioration of poverty, especially in rural areas. It will be important for government policies to take into account the high incidence of vulnerability to shocks – particularly those that affect entire communities, like droughts – and design interventions accordingly to minimize the impact of such events. These can take the form of policy measures that promote asset creation and expand the reach and impact of safety net programs.

Macroeconomic Links with Poverty

3.9 Economic growth and poverty reduction seems to be linked through employment and the real wage rates. A rising trend in wages is likely to result in better income distribution. Econometric studies carried out in Pakistan suggest that changes in poverty over time are associated with changes in per capita income, unemployment situation, and remittances. Unemployment increased in the 1990s partly because of frequent droughts that resulted in negative growth in agriculture. Overall investment also fell from 20 percent of GDP in 1992-93 to an all time low of 14 percent in 2000-01, which contributed to slowdown in industrial growth. Public investment in this period nearly halved and private investment fell by one-fourth. This shrank employment opportunities particularly for the new entrants into the labour force. The last three years have seen a recovery in investment, which if sustained could have a positive impact on employment.

3.10 Recent macroeconomic trends give room for optimism on prospects for sustained growth: national savings, an important determinant of investment, have picked up in recent years, from 11.5 percent in the mid 1990s to as much as 19.9 percent of GDP in 2002-03 (Figure 3.2). Sharp increases in private and official transfers have helped to strengthen the foreign exchange reserves, which in December 2003 reached a record \$ 11.9 billion, nearly 11 months of imports. A principal source of macroeconomic vulnerability that affects growth and poverty outcomes thus has been ameliorated.



Source: Economic Survey, 2002-03.

3.11 The impact of growth on poverty reduction will depend on whether growth has an impact on employment in those sectors where the poor are concentrated. Table 3.2 highlights the distribution of employed persons by enterprise in each band (HIES data).

Table 3.2

Sector	Extremely Poor	Chronically Poor	Transitory Poor	Transitory Vulnerable	Transitory Non-Poor	Non-Poor	Total
Agriculture, Livestock, Forestry, Fishing	46.63	58.20	53.80	51.45	44.41	28.99	47.48
Mining & Quarrying	13.87	11.26	10.79	10.86	11.78	12.63	11.46
Manufacturing	0.39	0.23	0.34	0.73	0.76	1.23	0.66
Electricity, Gas, Water	11.42	8.64	9.38	6.09	4.84	2.99	6.39
Construction	14.58	6.72	9.18	10.45	13.24	17.69	11.63
Wholesale, Retail, Restaurants & Hotels	3.54	4.18	4.42	4.87	5.76	6.08	5.10
Transport, Storage, & Communications	0.26	0.0	0.15	0.17	0.56	2.34	0.56
Financing, Insurance, Real Estate, Business Services	9.31	10.53	11.69	15.18	18.42	27.95	16.50
Community, Social, and Personal Services	0.0	0.24	0.24	0.20	0.24	0.09	0.21
Activities not Adequately Defined	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total							

Source: Center for Research on Poverty Reduction & Income Distribution

3.12 As Table 3.3 based on HIES data of 2000-01 suggests, unemployment rate is highest among the extremely poor and lowest among the non-poor showing the critical importance of employment generation for poverty alleviation. Furthermore, since the minimum wage is not regulated effectively, access to employment opportunity does not guarantee an end to poverty. A more salient problem is that a vast majority of the poor are employed in the informal sector. A combination of low wages and risks that are inherent in informal sector employment worsens the prospect of moving out of poverty. 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. This will have the effect of reducing the reliance on informal sector on the one hand, and will also likely result in higher wages in the formal and informal sector alike.

Table 3.3

	Extremely Poor	Chronically Poor	Transitorily Poor	Transitory Vulnerable	Transitory Non-Poor	Non-Poor	Total
Unemployment Rate	10.43	6.68	7.79	6.78	7.06	6.65	7.12
Urban	7.56	10.05	10.48	8.73	8.85	7.34	8.69
Rural	10.96	6.04	7.27	6.25	6.23	5.83	6.53

Source: Center for Research on Poverty Reduction & Income Distribution.

3.13 From the foregoing discussion, the broad conclusions that emerge are:

- Poverty increased in the 1960s despite a very high growth rate due to low employment generation and declining real wage rate;
- Decline in poverty levels in the 1970s despite a low growth rate because of employment generation and focus on meeting the basic needs of the people;
- Sharp decline in poverty both because of high growth and employment generation (average GDP growth rate in 1980s was 6.1 percent, unemployment around 3 percent, poverty ranges between 24 to 29);
- Sharp increase in poverty with slowing down of growth—related to macroeconomic shocks in the form of successive periods of drought between 1999-2001--and rising unemployment, (average GDP growth during 1990s was 4.4 percent, unemployment rose from 4.7 percent in 1992-93 to 7.8 percent in 1999-00, poverty rose to 30.6 percent);
- Poverty in Pakistan is characterized by large amounts of clustering around the poverty line. This suggests that there exist a high proportion of vulnerable population who is likely to move in and out of poverty as a result of changing economic conditions. This underscores the importance of looking at a range around the poverty line, rather than a fixed head count number, for devising an appropriate poverty reduction strategy as well as for assessing the impact of policy changes.

Spatial and Non-Income Dimensions of Poverty

3.14 Poverty situation in Pakistan is characterized by wide variations between urban and rural areas, geographical regions, and gender. Poverty in Pakistan is predominantly rural. Table 3.1 also shows the depth/intensity of poverty and its severity. The poverty gap at 6.4 and 6.8 for 1998-99 and 2000-01 respectively and severity at 2.0 implying that poverty in terms of poverty gap and severity has pretty much stabilized.

3.15 From various analytical works in the past, a number of stylized facts about poverty and its correlates emerge, which help in framing a poverty reduction strategy:

- a) ***The rural poor are highly vulnerable to droughts:*** Between the two HIES rounds of 1998-99 and 2000-2001, the estimated increase in poverty is attributed largely to the increase in rural poverty. This coincides with the persistent drought that depressed crop yields and reduced employment opportunities, particularly in non-irrigated dry mountain and barani areas but also in tail-end canal command areas.
- b) **Poverty incidence varies across provinces.** NWFP has the highest rural (44.3%) as well as urban poverty (31.2%). The 1998-99 HIES for Baluchistan shows relatively low poverty but this has to be interpreted carefully since the 1993-94 HIES showed rural poverty in Baluchistan as high as in NWFP¹.

¹ . Baluchistan occupies a vast territory, but has low population density that makes it difficult for a survey to be representative. Seasonal fluctuations in consumption may also raise doubts about Baluchistan's data for 1988-99

	Urban	Rural
Punjab	26.5	32.4
Sindh	19.0	29.2
NWFP	31.2	44.3
Balochistan	28.4	24.6
Azad Jammu and Kashmir	14.5	15.6
Northern Areas	22.6	36.5
FATA	.	44.5

Source: HIES 1998-99, Federal Bureau of Statistics

- c) **Education is the most important factor distinguishing the poor from the non-poor.** Poverty declines as the education level of the head of household increases. HIES 1998-99 shows that 42 percent of the population living in households with illiterate heads is poor compared to 21 percent of households with literate heads. With poor and non-poor, net primary enrollment rates of 36.6 and 59.3 respectively, these differences are not falling. Female primary school enrollment of the poor households at 30.2 percent is also lower than that of the non-poor households' 52.3 percent. Households with literate mothers have lower infant mortality rates (56 per 1000 live births) compared to households with illiterate mothers (90).
- d) **Relatively poor communities have inadequate access to public health services:** 45% of the children in poor households aged one to five years have been fully immunized as against 58% in non-poor households. Children with recent bouts of diarrhea belonging to poor households are less likely to have had medical consultation compared to non-poor households (83.9 %) and less likely to have used ORS (48.5 % and 58.3%).
- e) **The poor are characterized by inadequate access to public services in general:** Only 52.2 % poor households have electricity connections compared to 76 % non-poor households. Gas connections exist in 10.9% of poor households compared to 22.9% for non-poor households.
- f) **The nature of employment and poverty are related in urban areas.** Among the working poor in urban areas, paid employees (44.9 % of urban population) have a lower incidence of poverty (25.3%) compared to the self employed (18.2 of population and 27.7 % poverty incidence).

Human Development Indicators

3.16 Poverty is also manifested in terms of access to basic social and economic infrastructure that help improve the quality of life at various levels of income. Amongst these, education is the most important as it enables the poor to get out of poverty over time. Other indicators that contribute to improved living standards and life expectancy are health care and drinking water. Table 3.4 reflects the progress made in human development indicators. The human development indicators for Pakistan are still low

despite significant progress in recent years and show marked urban-rural and geographical variations that substantiate the income poverty differentials noted above.

3.17 Human development indicators reveal substantial male-female disparities.

Table 3.5
Human Development Indicators

Region	Adult Literacy (10 yrs.& above)		Infant Mortality Rate (per 1000 live birth ²)		Percentage of Population Having Access to Drinking Water		Primary Gross Enrollment Rate ³ (Excluding Katchi)	
	1998-99	2000-01	1998-99	2000-01	1998-99	2000-01	1998-99	2000-01
Pakistan	45	48	89	82	83	86	71	72
Urban	65	68	73	65	93	94	94	91
Rural	36	38	95	88	77	80	63	66
Punjab	46	49			95	96	75	76
Sindh	51	51			73	81	64	63
NWFP	37	40			65	58	70	77
Baluchistan	36	36			33	37	64	62
Male	59	60	90	84			80	83
Female	31	34	89	81			61	61

Sources: Pakistan Integrated Household Survey 2000-01

Pakistan in the recent past has made significant progress in increasing female life expectancy as well as in improving female literacy levels, and primary and secondary school completion rates. Yet, large gender-gaps remain, e.g. the adult literacy rate for women is 34 percent as compared to 60 percent for males. The gender gaps are particularly large in rural areas. The same is true for completion of primary or higher schooling (Table 3.6). Women's participation in paid employment is limited. They currently account for one-fifth of the paid non-agriculture labour force. However, in the case of life expectancy at birth, the gaps have diminished in recent years. These statistics reveal that concerted effort must be made to address the constraints faced by women to access education and employment opportunities.

Conclusions and the Way Forward

3.18 As the diagnostics in this chapter suggests, constraints in a number of sectors have to be addressed simultaneously to make a significant dent in poverty. The community dialogues organized through Rural Support Program Network and Participatory Poverty Assessment carried out by DFID confirm the quantitative correlates

² PIHS 1998-99 reports rate for 1995-97 whereas PIHS 2000-01 reports rate for the period 1997-99

³ A Sub-Committee headed by the Director, PIDE with representatives from the Ministry of Education, Federal Bureau of Statistics and the PRSP Secretariat is looking at the National Education Management Information System data (reporting GER at 89%) and PIHS data to reconcile the two sets of data and will be finalizing its report soon.

of poverty listed in a previous section: limited resource endowment, geographical characteristics of some regions, lack of access to education, health, and employment opportunities. Moreover, ample qualitative evidence points to marginalization of the poor from markets and institutions that impede their ability to improve their incomes and influence policies that directly affect them. For example, inaccessibility and relative isolation (parts of NWFP and Baluchistan) results in poor access to markets for their limited products. Inadequate social services delivery is also one of the primary reasons for poverty to perpetuate, particularly in rural areas.

Table 3.6
Gender Disparities in Human Development Indicators

Region/ Province	Adult Literacy		Completed Primary or Higher		Life Expectancy	
	1998-99	2000-01	1998-99	2000-01	1998-99	2001
Pakistan						
Male	59	60	49	49	63	64
Female	31	34	25	27	63.5	66
Punjab			48	49		
Male	57	59	28	31		
Female	34	38				
Sindh						
Male	65	64	54	51		
Female	35	36	28	26		
NWFP						
Male	56	60	45	47		
Female	20	21	14	16		
Baluchistan						
Male	54	53	40	41		
Female	16	16	9	11		

Source: PIHS 2000-01, Pakistan Demographic Survey, 2001

3.19 The level and intensity of poverty is closely linked with pace and pattern of economic growth in urban and rural areas and income generating opportunities associated with such growth. Poverty is also related to degree of social, political, and economic inclusion or exclusion. Another key determinant that cuts across exacerbate the impact of these factors on the poverty, is weak governance, that includes ineffective government, inefficient allocation of available resources, weak implementation of development projects and national priorities, inefficient judicial system, poor service delivery performance and corruption and leakage, among others. Persistent poverty and inequalities provide a fertile breeding ground for ethnicity, sectarianism, and lawlessness. Over-centralization and inadequate community participation affect the social services delivery adversely. The Government has formulated a comprehensive strategy to address this complex problem effectively and to bring about a significant and sustained reduction in poverty. This strategy is discussed in chapter five.

FOUR

PROGRESS SINCE I-PRSP

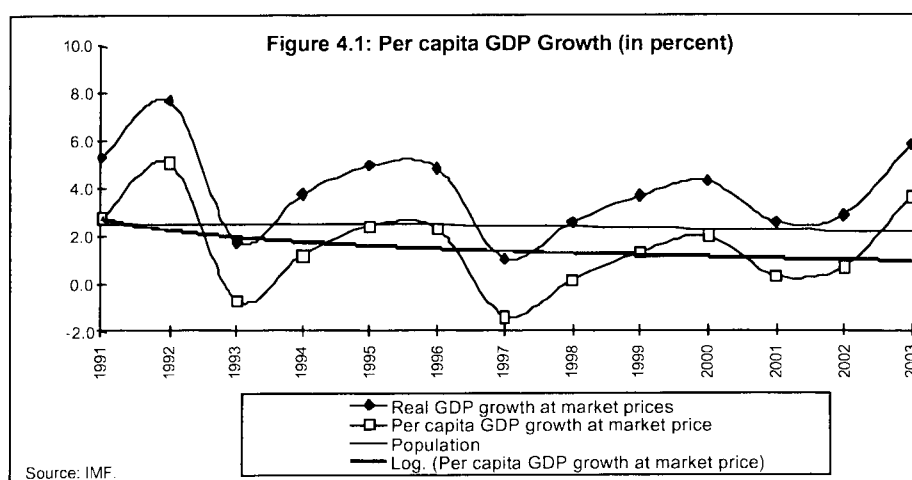
4.1 Poverty has always been the overriding concern of development efforts in Pakistan, but it was explicitly stated as an objective only in the IPRSP (November 2001). The IPRSP was the first attempt to formulate a strategy with a long-term poverty alleviation perspective. Its core elements were to engender growth, improve human development and governance, and reduce the vulnerability of the poor to shocks. Towards this end, the Government launched stabilization and a broad based structural adjustment program, three and half years back, to address severe macroeconomic imbalances manifested in an unsustainable and growing public debt and looming Balance of Payments crisis. Macroeconomic stability was considered to be absolutely vital to improving the investment climate and to raise the economy to a higher growth path on a sustained basis. The objectives of stabilization program were to reduce the “twin deficits” (fiscal and external current account) to restore macroeconomic balance, to bring the Balance of Payments to a viable position, and to build up foreign exchange reserves with a view to strengthening shock absorbing capacity of the economy.

4.2 The structural reforms included reforms in the *tax system and tax administration* with a view to broadening the tax base, improving the tax compliance and minimizing tax evasion; *trade reform* for removing tariff and non-tariff barriers, bringing the maximum and the average tariff at lower levels and liberalizing Pakistan’s trade regime; *financial sector reforms* to improve the health and soundness of the country’s banking and financial sector; *fiscal management* to improve financial controls and budgeting as well as posting of data pertaining to public finance regularly on the web-site; *agricultural sector reforms* for increasing the role of private sector in agricultural marketing, deregulating the prices of agricultural commodities and improving the incomes of the farming community in the country; *deregulation* of petroleum and gas prices; *reactivating* the privatization program; *establishing various regulatory agencies* to regulate various sectors of the economy; *governance reform* to enhance the efficiency of civil service, judiciary and law enforcing agencies; national anti-corruption strategy to minimize financial corruption from the society; and establishment of public procurement authority to regulate and bring transparency in public sector procurement. The *devolution* of power to the grass root level to decentralize the decision making process in policy design and implementation and to improve the delivery of services, is by far the most significant and major reform replacing the centuries old colonial system. Similarly, reform programs were initiated in social sectors. The Government also started public works program (Khushal Pakistan Program) to create temporary employment, DERA to mitigate the affects of drought, and to strengthen other social safety nets. Following is a quick review of the main macroeconomic developments.

Macroeconomic Performance

4.3 These reforms have helped in transforming the Pakistani economy from a highly regulated to a more open, market-oriented economy, creating an energetic private sector expanding its role to finance, power, social sectors and to improve the country's macroeconomic fundamentals. These efforts have yielded impressive results. Despite a series of domestic and external shocks such as an unprecedented drought, the events of 9/11, regional tensions, and rising uncertainties in the run up to the war in Iraq, Pakistan's economy has made significant progress towards revival of growth and macroeconomic stabilization. The continuation of sound macroeconomic and structural policies has contributed to a significant improvement in external and fiscal position and a pickup in growth.

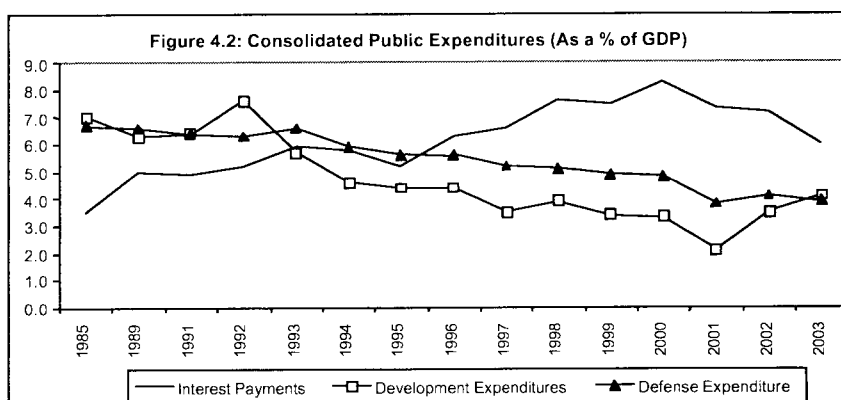
4.4 After hovering around 3% for quite sometime, the real GDP grew by 5.1% during 2002-03 (Figure 4.1); industrial production grew by close to 9% as against an average of 3% in the 90s; agriculture sector grew by 4.1 percent against – 0.1 percent in the preceding year; inflation was 3.1% against an average of 10% in the 90s; national saving rate was close to 20% of GDP against an average of 13%-14% in the 90s; fiscal deficit reduced from an average of 7% of GDP to 4.5%; public debt as percentage of GDP has reduced from 110% in 2000-01 to 90.5% in 2002-03 declining further below 90 percent during FY2004.



Exports grew by 21% in a very difficult external environment; current account balance has remained in surplus for the last two years—surplus was as high as 4.8% of GDP; our external debt and foreign exchange liabilities have been reduced by \$ 3 billion in the last 4 years and stood at \$ 35 billion by the end of the last fiscal year; and most importantly, external debt as percentage of foreign exchange earnings has declined sharply from as high as 335% in 1998-99 to 179% in 2002-03.

4.5 The brunt of macroeconomic adjustment was borne by development expenditures. With the sources of macroeconomic vulnerability on the mend, the

composition of public expenditure has improved significantly. Interest payments as a share of GDP have fallen to 6 percent in 2003 from the peak of 8.3 percent in 2002 (as percentage of total revenue interest payments have declined from 64% to less than 36%); and defense expenditure has continued its downward trajectory. This has opened up the fiscal space for development expenditure, which is up to 4.1 percent of GDP, nearly double the low of 2.1 percent in 2001 (Figure 4.2).



Source: Economic Survey, 2002-03.

4.6 Lending Rates. To stimulate private sector credit expansions the monetary policy has been accommodative while financial sector reforms have brought about a lowering of intermediation costs and bank spreads. Consequently, the weighted average lending rates have declined from 14.6 percent in June 1999 to 7.58 percent in June 2003. Likewise, the weighted average 6 months T-bills yield has declined from 10.60 percent in June 1999 to 1.66 percent in June 2003. The export refinance rate has declined from a peak of 11.50 percent in July 2001 to 1.50 percent in September 2001 and the return on National Savings Scheme instruments have also declined significantly from 18 percent to 8.50 percent for Defense Savings Certificates, and from 16.33 percent to 7.67 percent for Special Savings Certificates. The NSS are now related to auction rates of similar maturity of Pakistan Investment Bonds under a formulaic link. Short-term real interest rates have begun to rise and are expected to reach positive level in the near future.

Progress in Other Reforms

4.7 Devolution was the major thrust of reforms. Considerable progress has been made in terms of creating a legal and institutional framework. All the provincial governments enacted Local Government Ordinance in 2001 and undertook step fiscal decentralization by notifying interim awards, thus distributing resources between the provincial and district governments. Capacity building programs have also been undertaken.

4.8 The proposed measures under **civil service reform** aimed at (a) right-sizing the civil service by reducing staff, decentralizing functions and responsibilities, streamlining government departments and offices, improving pay and pension and improving

efficiency and accountability. There has been substantial progress in this area that includes retrenchment of over 40,000 posts at the federal level, pay and pension adjustments (twice in 2001 and 2003) and initiation of far reaching accountability process.

4.9 Tax Reforms. The Government has cut the number of tax exemptions significantly. Eliminating the practice of frequent issue of taxpayer or commodity specific statutory regulatory orders (SROs) is a key part of the tax reform strategy. In the last three budgets, over 75 exemptions were withdrawn under Income Tax and broad categories of goods under GST. Additionally, 14 categories were brought under the cover of GST on Services. Income Tax exemptions are now required to be part of the finance bill rather than granting through SROs. Most of the remaining exemptions relate to core policy objectives or international agreements with the estimated revenue foregone at less than half a percent of GDP. To address the situation of low tax to GDP ratio, the Government undertook a tax survey and documentation exercise in 2000. This was supplemented by a comprehensive tax and tax administration reform program initiated in November 2001. The growth rate of revenue has picked up in 2002-03 following a slow down in the wake of September 11 events, which during FY03 was 13.8 percent. In comparison, tax collection grew by an average of 8 percent during 1999-00 to 2000-01 and by 7.2 percent during 1996-97 to 1998-99.

4.10 Public Debt. The Government developed a formal debt reduction and management strategy two years ago focusing on (a) integrating public and external debt reduction with government's economic revival and poverty alleviation strategy; (b) building up foreign exchange reserves; (c) attaining high revenue and export growth targets; (d) eliminating the imbalance between current revenues and current expenditures; (e) keeping defense spending constant in real terms; (f) reducing fiscal and current account deficits to sustainable levels; (g) lowering the cost of borrowing, and (h) seeking concessional financing from the IFIs. The Government has also established a Debt Policy Coordination Office (DPCO), which is preparing a ten-year debt reduction path and recommending ways to reduce financing costs and sustainable debt limit.

4.11 On the **expenditure side**, progress has been made on containing contingent explicit liabilities that are specific obligations created by law or by contract that the government must settle. In FY 02, the Impact of contingent explicit liabilities on the budget averaged only 0.6-0.7 percent of GDP and in FY03, it was 0.4 percent of GDP. However, contingent implicit liabilities include obligations not legally binding but are likely to be borne by the government because of public expectations, have remained substantial. In FY03, the drain on the budget from WAPDA and KESC amounted to 1.8 percent of GDP.

4.12 Financial Reforms. As part of the financial sector reforms, SBP has been restructured separating its core central banking functions (monetary policy and supervision) from its non-core functions (currency circulation, securities issue, treasury) and transferring them to a subsidiary under the SBP Banking Services Corporation Ordinance, 2001. SBP has been given autonomy protected through constitutional cover and its role in supervising the banking sector has been strengthened. Amendment in Banking Ordinance to enforce capital adequacy ratio (Rs 1 billion or \$ 17 million), risk

weighted capital adequacy ratio (in excess of 8 percent) and strict enforcement of Prudential Regulations have led to re-capitalization and consequent improvement in the health of banking system. The government has restructured the nationalized commercial banks (NCBs) by inducting professional management and independent boards. To resolve the challenge of high proportion of non-performing loans (NPLs) in the portfolio of NCBs, a multi-pronged strategy is being followed that includes setting up of an asset management company, Corporate and Industrial Restructuring Corporation (CIRC), to clean up banks' balance sheets. Other measures include a transparent mechanism of write-off of bank loans whose recoverability is almost zero after realizing the value of collateral. Banks have also increased their provisions against NPLs. As a result of these measures, the net NPL ratio of the commercial banks has sharply dropped to single digit. The quality of new loans disbursed during the last five years has improved significantly recording a recovery rate of almost 95 percent. The Development Finance Institutions, providing subsidized credit, have been phased out reducing from 12 to 4 working in the areas of SMEs, agriculture, industrial investment, and housing finance while all others have been liquidated, merged or shut down. A new law Financial Institutions (Recovery of Finances) Ordinance 2001 has been promulgated which will facilitate the process of mortgage foreclosures and expeditious settlement of banking disputes. The law is expected to transform dispute resolution mechanism in the financial sector. In addition, Protection of Foreign Currency Accounts law has been enforced to prevent repetition of the foreign currency accounts seizure in 1998. The Chartered Accountant Act will also be amended to ensure effective regulation of the professional conduct of Chartered Accountants.

4.13 The thrust of regulatory framework is to increase the ability of the banking system to weather financial shocks, strengthen their capacity to extend credit at lower cost, reduce the direct role of the government and foster good governance.

4.14 Major reforms have been carried out to improve the **capital markets** and corporate governance. The Securities and Exchange Commission (SECP), regulating the capital markets and corporate sector since 1999, has been made the sole regulator recently for non-bank finance companies, which include investment banks, housing finance companies, venture capital companies, leasing companies, discount houses and asset management companies. The reforms undertaken by the SECP focuses on improving the governance of the stock exchanges, installing effective risk management measures and bringing transparency in the corporate sector by addressing issues concerning reliability of audits and adequate and timely disclosure of information.

4.15 **Trade.** The policy measures already taken to liberalize trade are in conformity with World Trade Organization (WTO) agreements that include rationalizing tariff structure by reducing duty on a range of imported inputs for domestic industry from maximum of 35 percent in FY01 to 25 percent and reduction in the number of slabs from 5 to 4, i.e. 5, 10, 20, 25 percent. Pakistan has also liberalized its trade policy in respect of Afghanistan with a view to participating in its reconstruction and rebuilding needs.

4.16 Pakistan is in conformity with the WTO Agreements except where it has been granted extension or a transition period. The country Anti-dumping Countervailing and Safeguard law has been enacted to protect domestic industry from unfair trade

practices. Pakistan has modified Intellectual Property Rights (IPR) laws to ensure compliance with the WTO-TRIPS (Trade Related Aspects of Intellectual Property Rights) requirements. The Patent, Copyright, Trade Mark, Industrial design, Layout designs of Integrated Circuits are in conformance with the TRIPS Agreements. IP legislation follows TRIPS standards providing for civil as well as criminal remedies.

4.17 The **privatization process** is under implementation through public offerings to stock exchanges, sales to strategic investors and open public auction. Ministry of Privatization has completed 132 transactions during 1991 to June 2003 for approximately Rs 100 billion. The United Bank Limited, Muslim Commercial Bank, Al-Falah Bank, Investment Corporation of Pakistan and mutual funds have already been privatized. Off-loading of 23% shares of National Bank of Pakistan through stock exchanges has been completed. The Zarai Taraqati Bank has been corporatized and restructuring of Industrial Development Bank of Pakistan (IDBP) is under process.

4.18 Important reforms were initiated to develop infrastructure. A medium term agricultural plan (Rs. 116.2 billion) is underway that will enhance the existing storage capacity of the country by 5.6 MAF of water, and will bring 1.9 million acres of land under cultivation and thousands of jobs will be created during construction of these schemes besides generating 332 MW of power. For this purpose the Government has started constructing reservoirs including (i) Gomalzam with 1.14 MAF storage capacity in Dera Ismail Khan; (ii) Meerani Dam with 0.30 MAF in Baluchistan; (iii) Raising of Mangla Dam with 2.9 MAF, Kurram Tangi Dam and small dams in NWFP with 1.2 MAF; (iv) Satpara Dam in Northern areas with live storage capacity of 0.05 MAF; (v) new canals including Raine canal in Sindh, Kachhi Canal in Baluchistan, Greater Thal canal in southern Punjab and Chasma Right Bank Canal to serve Punjab and NWFP; (vi) delay-action dams recharging ground-water in Pishin, Quetta, Mastung, and Mangochar valleys; rehabilitate irrigation system of Sindh (strengthening banks of feeder, main canals and branches (3095 Mcft), silt clearance of branches, distributaries and minors (714 Mcft), stone pitching (47Mcft), rehabilitation of regulators and bridges (409 nos), revamping of telecommunication system of canal network and rehabilitation/replacement of tubewells/watercourses; rehabilitate irrigation system of Punjab and Punjab Barrages Modernization including lining 7308 Km of canals and rehabilitation of six barrages (Jinnah, Taunsa, Khanki, Sulmki, Balloki and Islam). The objectives of these projects are the development of land and water resources to increase agricultural production. Hydropower policy was revised to allow the private sector entry. Telecommunication sector has also been opened for the private sector by deregulating it. Likewise, in education and health a whole range of reforms was initiated.

Lessons Learnt

4.19 The experience of IPRSP was mixed. As noted above, it made a good progress in terms of economic growth and macroeconomic stability and has implemented measures to remove structural bottlenecks. As a result growth is picking up but it is too early yet to see the impact in terms of employment growth and poverty reduction. The last Pakistan Integrated Household Survey and Household Income and Expenditure Survey were carried out in 2001. Progress in providing essential infrastructure, such as roads, irrigation, telecommunication, IT, and electricity, to communities is more easily

measured and outcomes are satisfactory. Despite increase in industrial production, capacity utilization in major industries such as sugar, cement, automobiles etc., is still in the range of 60-70 percent because of excess capacities built up during 1990s. Therefore, creating employment opportunities remains a major challenge.

4.20 The lessons learnt from the IPRSP experience are firstly, that broad-based economic growth is a must for poverty reduction; and without reasonable and sustained growth in agriculture and rural economic activities, GDP growth cannot be broad-based. Secondly, economic liberalization must continue to provide opportunities for private sector development. Thirdly, access to education, health, safe drinking water and rural infrastructure are key for better human development outcomes along with economic growth and therefore must be improved. Fourthly, the delivery of goods and services in an equitable and efficient manner cannot be ensured without good governance. For these reasons, the PRSP has been crafted around four basic pillars that are discussed in detail in the subsequent chapters.

FIVE

THE STRATEGY GOING FORWARD

5.1 Informed by the analysis of determinants of poverty in chapter three, this comprehensive Poverty Reduction Strategy Paper builds on the IPRSP to articulate a strategy for accelerating growth and reducing poverty and thus realize the Millennium Development Goals. The strategy rests on four pillars:

- I. Achieving high and broad-based economic growth focusing particularly on the rural economy, while maintaining macroeconomic stability.
- II. Improving governance and consolidating devolution, both as a means of delivering better development results and ensuring social and economic justice.
- III. Investing in human capital with a renewed emphasis on effective delivery of basic social services.
- IV. Bringing the poor and vulnerable and backward regions into the mainstream of development, and to make marked progress in reducing existing inequalities.

5.2 The four pillars should not be seen as stand-alone pillars. Indeed, they are closely inter-related. The improvement in literacy, nutritional status and health are valuable outcomes on their own. The Government is fully cognizant that improving these indicators for the population, as a whole requires stepped up efforts. Improved social indicators will increase skills and productivity and thus will contribute to higher economic and per-capita income growth. However, 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.

5.3 The four pillars address different aspects of the same problem—poverty. While the first pillar attempts to address income and human poverty directly, the last pillar reflects the Government’s determination to step up efforts in the protection of the most vulnerable, marginalized segments of the population. As worldwide evidence and Pakistan’s own experience demonstrate, growth is a precondition for sustained poverty reduction. However, the scope for poverty reduction is greatly enhanced if there is a simultaneous reduction in inequality of access to basic assets, to education, good health, credit, and land, and if the poor are protected from adverse shocks, such as drought, illness, and age destitution, or death of the family’s breadwinner. The Government recognizes that without improvements in governance, growth is unlikely to accelerate, and improvements in the delivery of key services such as education, health, and water and sanitation will be limited.

5.4 Relative to the IPRSP, the strategy enunciated here embeds a new approach in a number of areas. The most important of these, discussed in greater detail in the next sections, include the following: (i) the additional fiscal space brought about by debt

restructuring, reduced PSE losses, and increased tax revenue will be directed, as a priority, to poverty-reducing and growth enhancing expenditures; (ii) the range of pro-poor expenditures will be broadened relative to the IPRSP to include law and order, access to justice and rural electrification and that these will be maintained at a minimum of 5 percent of GDP; (iii) sustainable high economic growth is stressed and policies to accelerate income and employment growth in rural areas, where majority of poor live, are emphasized; (iv) social inclusion through social mobilization and Citizens Community Boards and improving governance receives renewed impetus; (v) comprehensive programs to enhance the transparency and effectiveness of public spending, effective implementation of development plans, and better delivery of social and economic services are highlighted as the primary means of accelerating human development, particularly among the poor and neglected groups; and (vi) unlike the past, the fiscal and implementation constraints in implementing the strategy are explicitly taken into account.

5.5 New modalities of implementation and service delivery are identified for ensuring better results. Government's role has been streamlined. Public interventions will be limited and focused on areas where they can yield the maximum social benefits. The strategy relies on the private sector, Civil Society Organizations, and communities based groups for carrying out economic activities, infrastructure development and service delivery wherever possible, in partnership with all levels of government. The strategy also strongly emphasizes decentralization and maximizing the involvement, empowerment, and provision of resources to provincial and local governments and community groups for identifying development activities and allocating resources for them for strengthening service delivery and for ensuring better program management, accountability and transparency. The strategy emphasizes the increased importance of prioritization in resource allocation, namely through the development of a multi-sector, rolling Medium Term Budgetary Framework. This will have two purposes: to protect poverty-related expenditures, and more broadly to improve the planning and transparency in the budgetary process. Additionally, detailed structural and sectoral reform programs have been developed to bring about necessary changes in key areas. Finally, PRSP lays strong emphasis on effective monitoring and evaluation arrangements with appropriate benchmarks, intermediate indicators and outcomes for key activities, so that performance can be evaluated and monitored on a regular basis.

5.6 This chapter first discusses the key structural elements of the four pillars of the strategy. Then, recognizing the Federal nature of the country and the important role of the provinces in implementing the strategy, some provincial perspectives are presented, followed by a discussion of the special issues pertaining to the Federally Administered Tribal Areas. Finally, the strategy is aligned (tentatively at this stage) with the Millennium Development Goals.

Pillar One: Accelerating Economic Growth while Maintaining Macroeconomic Stability

This pillar has the following policy and structural elements: macroeconomic framework, monetary and fiscal policy; financial sector reform; capital market development; trade liberalization and export growth; investment policy reform and

privatization, streamlining the regulatory framework; improving the enabling environment for the SMEs; the provision of supportive infrastructure; rural development strategy and housing finance.

Macroeconomic Framework

5.7 The poverty reduction strategy emphasizes accelerated and sustained economic growth that requires a macroeconomic framework, which can ensure continuity in macroeconomic stability, assure high level of public spending to support key elements of poverty reduction strategy, and stimulate and expand private investment further. The Government will continue to manage three macroeconomic policy instruments (fiscal policy, monetary or credit policy, and exchange rate policy) to maintain macroeconomic stability and accelerate growth. For this purpose, alternate macroeconomic scenarios have been developed to guide future spending decisions (Tables 5.1 to 5.3). The projections under these scenarios set the broad direction over the medium term and are indicative and are not meant to pre-empt any future adjustment needed to align with real fiscal and financial outcomes. The overall fiscal deficit in the base-case is projected to be within the range of 4-3.5 percent over FY04 to FY08 that will be financed through a mix of concessional foreign assistance, debt swaps for social sectors, grants and low cost domestic borrowings. Further growth in tax revenues as percentage of GDP, reduction in public enterprise losses, and declining debt servicing will release increased revenues for PRSP expenditures, the details are discussed in chapter seven. Should the economy suffer any exogenous shock lowering the growth or tax reform yields results with a lag, the Government will protect PRSP expenditures and take remedial measures to cut other expenditures. However, it may lead to a higher deficit.

Fiscal and Monetary Policy

5.8 To improve its fiscal position, the Government intends to enhance the tax to GDP ratio that has remained stagnant at around 13 percent as a result of a narrow tax base, weak tax administration, a complex tax regime, and widespread culture of tax evasion and corruption. For this, the Government is focusing on improving tax policy and strengthening tax administration. Tax policy reforms include: (i) abolition of wealth tax; (ii) introduction of two tier Agriculture Income Tax in all provinces; (iii) reduction in multiplicity of taxes both at federal and provincial levels; (iv) rationalization of various taxes; (v) reduction in Corporate Tax for banking and non-banking companies from 58 to 47 percent and from 45 to 43 percent respectively; (vi) extending General Sales Tax to fourteen categories of services; (vii) broadening the base of General Sales Tax; (viii) rationalization of import duties, bringing down maximum tariff to 25 percent and reducing tariff slabs from five to four; (ix) introducing Universal Self Assessment System for Income Tax with selected audit based on risk assessment for various classes of taxpayers; (x) lowering of income tax rate to 35 percent; (xi) gradual withdrawal of Central Excise Duties; and (xii) eliminating all tax whitener schemes.

5.9 The **reform of tax administration** includes: (a) restructuring of Central Board of Revenue; (b) establishment of Large and Medium Taxpayers Units handling GST, Excise Duty, and Income Tax under one window to eliminate contact between taxpayers and tax collectors; (c) Customs Reform Project to facilitate in reducing time for clearance

of goods from 8 days to 24 hours; (d) developing human resource development strategy that will include recruitment, compensation, placement, and performance evaluation; and (e) establishment of Tax Ombudsman office to redress grievances of taxpayers against tax administration.

5.10 **Continuing the revamping of tax administration**, the government will facilitate electronic filing of declarations by importers on a self-assessment basis; make arrangements for parameter and risk-based audits; establish one more LTU and two MTUs; and model sales tax offices. A Tax Administration Reform Program Implementation Plan (TARPIP) is underway. Organization-wide initiatives will focus on expansion of the tax base; establishment of new revenue offices; pilots in Direct and Sales Tax as well as Customs; and strengthening Cabinet Committee for Revenues for accountability and oversight of CBR. The key objectives during the medium term (FY04 to FY06) will be (a) to increase the number of income taxpayers by 500,000; (b) broaden the coverage of the General Sales Tax; and (c) extending the General Sales Tax on more categories of services in coordination with the Provincial Governments.

TABLE 5.1
Growth and Inflation

Items (Percentage)	2002- 2003	2003- 2004	2004- 2005	2005- 2006	2006- 2007	2007- 2008
Agriculture	4.2	4.0	4.3	4.4	4.5	4.5
Manufacturing	7.7	7.8	7.6	7.6	7.6	7.9
Large Scale Manufacturing	8.7	8.8	8.5	8.5	8.5	8.8
Small Scale Manufacturing	5.3	5.3	5.3	5.3	5.3	5.3
Other Sectors	4.7	5.0	5.8	6.1	6.2	6.3
Real GDP Growth Rate	5.1	5.3	5.8	6.0	6.1	6.2
Inflation	3.1	4.0	4.0	4.0	4.0	4.0
GDP at Market Prices (Billion Rs)	4,018	4,420	4,875	5,397	5,991	6,668
AS % of GDP						
Investment	15.5	16.5	17.0	17.5	18.0	18.5
Fixed Investment	13.1	14.5	15.5	16.0	16.5	17.0
Public	4.5	5.5	6.0	6.3	6.5	6.7
Private	8.6	9.0	9.5	9.7	10.0	10.3
National Savings	20.3	20.0	19.5	19.0	18.5	18.0
Foreign Savings	4.8	3.5	2.5	1.5	0.5	- 0.5
ICOR	2.6	2.7	2.7	2.7	2.7	2.7

Source: Economic Advisor Wing, Ministry of Finance

5.11 Sustained increase in fiscal revenue mobilization requires stronger revenue effort not only by the federal government but also the provincial governments as provincial revenue mobilization is currently 0.5 percent of the GDP and is static for quite a while. The provinces will need to increase their own revenues in line with the expansion in sub-national spending to reach the Government's goal of poverty reduction and to be consistent with the on-going devolution process. On the non-tax revenue side, the government will seek greater cost recovery in higher education, health depending upon access to basic services for the poor, water usage for irrigation, and infrastructure usage.

5.12 The Government is also aiming to address the issue of "**Benami**" that allows a single person to hold financial and land assets in the name of a person who is not the true beneficiary to enhance compliance with taxes. The Task Force constituted has submitted its report along with broad principles of legislation measures that will require limiting the enforceability of Benami transactions and holdings for consideration of the Cabinet. On promulgation of law, it will certainly generate additional revenues under direct taxes.

5.13 The fight against poverty cannot be won without reducing the **debt burden**. The medium-term debt reduction goals have been defined and are reflected in the macroeconomic framework. Debt is expected to come down from the current level of 90.2 (by end-June 2003) to 66 percent of GDP (or 503 percent to 371 percent of total revenues) by 2007-08. The Government is developing a plan linking external borrowings to deficit financing requirements and a clear domestic borrowing strategy. The Government is aiming at generating significant primary surpluses during the medium term and transforming from revenue deficit to revenue surplus in FY05. This will help in slowing down the rate of borrowing, as government's own resources and not fresh borrowing will cover a part of interest payments and will underpin continued progress towards debt reduction.

5.14 The Government through a consultative process has introduced Fiscal Responsibility and Debt Limitation (FRDL) Bill in the National Assembly to underscore the importance of limiting a sustainable level of public debt and fiscal deficit. The core principles of the proposed legislation are (a) to bring revenue deficit to zero not later than FY08; (b) to reduce total public debt by not less than two and a half percent of the GDP in every financial year while maintaining social and poverty alleviation related expenditures at least four percent (now 5 percent with the expansion in PRSP expenditure categories) of GDP; (c) to minimize public debt to sixty percent of the estimated GDP by FY13; (d) not to issue new guarantees, including those on rupee lending, bonds, rates of return, output purchase agreements and all other claims and commitments that may be prescribed for any amount exceeding two percent of GDP. The law aims at insulating public spending from populist spending impulses.

5.15 The **real cost of borrowings** is a critical variable in determining the growth of the debt burden. On the domestic side, the sharp deceleration in the rate of inflation from 11 percent per year in the mid-1990s to less than 4 percent during the last three years combined with the locked-in high interest rates on National Savings Schemes (NSS)

Table 5.2
Trends in Public Finance and Debt
Base Case Scenario

Items (Rs in Billion)	2002- 2003	2003- 2004	2004- 2005	2005- 2006	2006- 2007	2007- 2008
Total Revenue (% ofGDP)	721.1 (17.9)	756.0 (17.1)	837.1 (17.2)	930.3 (17.2)	1048.7 (17.5)	1189.9 (17.8)
Tax Revenue	556.4 (13.8)	599.8 (13.6)	671.3 (13.8)	752.2 (13.9)	851.7 (14.2)	969.9 (14.5)
CBR Revenue	461.6 (11.5)	510.0 (11.5)	571.2 (11.7)	642.2 (11.9)	730.9 (12.2)	833.5 (12.5)
Surcharges	68.2 (1.7)	61.1 (1.4)	68.3 (1.4)	75.0 (1.4)	78.0 (1.3)	86.7 (1.3)
Other	4.7 (0.1)	2.5 (0.1)	2.5 (0.1)	2.6 (0.1)	2.8 (0.1)	3.0 (0.1)
Provincial Taxes	21.9 (0.5)	26.2 (0.6)	29.3 (0.6)	32.4 (0.6)	40.0 (0.7)	46.7 (0.7)
Non-Tax Revenue	164.7 (4.1)	156.1 (3.6)	165.8 (3.4)	178.1 (3.4)	197.0 (3.3)	220.0 (3.3)
Total Expenditure	906.0 (22.5)	935.0 (21.1)	1027.2 (21.1)	1135.3 (21.0)	1264.7 (21.1)	1423.3 (21.3)
Total Current Expenditure	799.5 (19.9)	771.8 (17.5)	830.5 (17.0)	901.2 (16.7)	975.3 (16.3)	1064.4 (16.0)
Federal	598.5 (14.9)	566.4* (12.8)	596.5 (12.2)	636.7 (11.8)	681.7 (11.4)	737.7 (11.1)
Provincial	201.0 (5.0)	205.4 (4.6)	234.0 (4.8)	264.5 (4.9)	293.6 (4.9)	326.7 (4.9)
Development Expenditure	106.5 (2.7)	171.2 (3.9)	196.7 (4.0)	234.1 (4.3)	289.4 (4.8)	358.9 (5.4)
PSDP	129.2 (3.2)	160.0* (3.6)	200.0 (4.1)	240.3 (4.4)	295.3 (4.9)	367.5 (5.5)
Net Lending	- 22.7 (0.5)	11.2 (0.3)	- 3.3 (0.1)	- 6.2 (0.1)	- 5.9 (0.1)	- 8.6 (0.1)
Overall Fiscal Deficit						
Excluding Grant	- 184.9 (4.5)	- 179.0 (4.0)	- 190.1 (3.9)	- 205.0 (3.8)	- 216.0 (3.6)	- 233.4 (3.5)
Including Grants	70.7 (1.8)	136.1 (3.0)	126.7 (2.6)	134.8 (2.5)	138.1 (2.3)	146.7 (2.2)

Financing of Deficit	184.9	179.0	190.1	205.0	216.0	233.4
	(4.5)	(4.0)	(3.9)	(3.8)	(3.6)	(3.5)
- Domestic	89.0	98.2	89.3	97.5	100.7	109.0
	(2.2)	(2.1)	(1.8)	(1.8)	(1.7)	(1.6)
- Foreign	- 18.3	37.9	37.4	37.3	37.4	37.7
	(0.5)	(0.9)	(0.8)	(0.7)	(0.6)	(0.6)
- Grants	114.2	42.9	63.4	70.2	77.9	86.7
	(2.8)	(1.0)	(1.3)	(1.3)	(1.3)	(1.3)
Total Public Debt	3,624.8	3,758.5**	3,896.5	4,060.2	4,236.3	4,420.6
	(90.2)	(85.0)	(79.9)	(75.2)	(70.7)	(66.3)
Domestic Debt	1727.6	1886.6	2034.0	2190.6	2351.4	2491.1
	(43.0)	(42.7)	(41.7)	(40.6)	(39.2)	(37.4)
External Debt	1897.2	1871.9	1862.5	1869.6	1884.9	1929.5
	(47.2)	(42.3)	(38.2)	(34.6)	(31.5)	(28.9)
Revenue Deficit/Surplus	- 78.5	- 13.5	6.6	29.1	73.4	125.5
	(2.0)	(0.3)	(0.1)	(0.5)	(1.2)	(1.6)
Primary Deficit/Surplus	14.9	28.7	14.1	3.1	0.1	11.4
	(0.4)	(0.6)	(0.3)	(0.1)	(0.0)	(0.2)
Memo Items						
Exchange Rate (Average)	58.50	57.75	58.10	59.00	60.20	61.40
Exchange Rate (e.o.p)	58.50	57.75	58.10	59.00	60.20	61.40
Interest Rate of Ext. Debt	2.0	2.0	2.0	2.0	2.0	2.0
Interest Rate on D. Debt	9.2	9.1	8.7	8.4	8.0	7.5
External Debt (\$ billion)	32.8	33.4	33.1	32.7	32.3	31.9
Prepayment of foreign debt (billion \$)		1.0	1.0	1.0	1.0	0.5
External Debt Net (billion \$)	32.8	32.4	32.1	31.7	31.3	31.4
GDP at MP (billion Rs)	4018	4420	4875	5397	5991	6668

Source: Ministry of Finance and Economic Advisor Wing,

Figures in parenthesis are as percent of GDP

* Includes operational shortfall of Rs.8.0 billion

** Includes domestic debt to be raised for prepayment of external debt

instruments kept the real cost of domestic debt high (between 7.0 to 7.4 percent). On the external side, the nominal interest rate on external public debt is about 2.5-3 percent. A significant reduction in the cost of public debt is part of the government's strategy to reduce the debt burden. As an intermediate step, a formulaic link has been established reflecting PIB yields that will be further refined by March 2004. The government will effectively address the on-tap feature of NSS instruments and consider enhancing recourse to PIB. Similarly, a formulaic link has been established between rates of return on General Provident Fund of government employees and PIB yields.

Effective Spending

5.16 On the expenditure side, the Government is taking steps to reduce losses of Public Sector Enterprises (PSEs) through restructuring and professional management.

There is a scope for further reducing the losses of these PSEs, thus releasing additional funds for poverty reducing expenditures. Measures towards this end include corporatization of WAPDA for ultimate privatization of un-bundled entities beginning FY05 thereby keeping the fiscal deficit under control and limiting the impact of contingent and direct implicit liabilities. One DISCO and one GENCO are already being processed for privatization. The Government also aims at formulating a comprehensive medium term Financial Recovery Plan (FRP) for each of WAPDA's successor companies and KESC. The PIA has turned around from nearing bankruptcy in FY01 to a profit earning organization as a consequence of various measures taken by the Government, anticipated profits for FY03 is Rs 3.275 billion. Same is true of Pakistan Steels, accumulating huge long-term liabilities in FY00 has earned a profit of Rs 1.05 billion in FY03 after repaying its liabilities of Rs 10.41 billion and achieving utilization capacity of 91 percent.

5.17 The decline in delivery of most of public sector services is mainly because of inadequate spending on these services in proportion to population growth and lack of effectiveness of public expenditure sequel to erosion over time of rules, procedures, and inadequate managerial skill. The effectiveness of the public expenditure suffers from (i) lack of strategic focus and articulation of sectoral priorities in the budgetary process; (b) lack of information on the costs of policies, programs, and services; (iii) a primary focus on inputs with performance judged largely on matching of spending with budget appropriation; (iv) short-term horizon for budget making that do not account for long-term costs and benefits; (v) an artificial distinction between development and current budget; and (vi) disincentive for spending agencies to save resources as current year spending is the starting point for the next year's allocation.

5.18 To address these issues, the Government is developing **Medium Term Budgetary Framework (MTBF)** for improved budgetary outcomes and enhanced effectiveness of public expenditure. It will (a) provide greater certainty about the level of available resources, permitting clear-cut decisions over what can and cannot be funded; (b) enhance participation and ownership among line ministries in the budget process as a result of its improved predictability and consistency; (c) improve management of the overall resources available to the budget, implying both enhanced allocations to priority sectors and more efficient management of funds received; and (d) greater consistency between macroeconomic performance, policy formulation and public expenditure. Efforts will be made to integrate recurrent and investment budgets gradually under a coherent MTBF. It will require consistency between sector-specific policies, programs, project selection and the PRSP strategy.

5.19 Option of **pre-payment** of expensive external debt and liabilities (EDL) in view of improved reserve position, prospects of continuing current account surpluses and low domestic and international interest rates is in process. The government will retire \$1.078 billion expensive debt carrying interest rates ranging from 4.6 to 11 percent maturing between FY 2005 to FY2019 during FY 04. The Government aims to retire additional US \$3.5 billion during FY05 to FY08. This will reduce the future debt servicing outflows significantly thereby releasing sufficient fiscal space for increased spending on social uplift and infrastructure development.

Table 5.3
Trends in Public Finance
Low Case Scenario

Resources	Base	Low	Expenditures	Base	Low
Revenue			Defense	+ 0.0	+ 0.0
Mobilization	+ 1.0	+ 0.7	Interest payments	- 1.4	- 1.3
Grants	+ 0.3	+ 0.1	PSEs Losses	- 1.3	- 1.0
Fiscal deficit	- 0.5	- 0.2	Non-defense, Non-interest Expenditures	+ 3.5	+ 2.9
Total Resource	+ 0.8	+ 0.6	Total Expenditures	+ 0.8	+ 0.6

5.20 The Government plans to return to the international capital markets with bond issue to diversify its sources of financing development and expanding its international investor base by accessing global markets. The objective is to establish an effective international pricing benchmark and to ensure that the country's debt instruments are present in key markets. The Government has also committed to participate in the Asian Bond Market initiative and has committed \$ 50 million for Asian Bond Fund. This policy will be carefully implemented to ensure that the Government finances the deficit with recourse to low cost concessional borrowing first.

5.21 **Monetary Policy** is aimed at stimulating private sector activity while at the same time maintaining low inflation. The risks for an upsurge in inflation are limited because of weak import prices, strong Pakistani rupee, the positive outlook for agricultural output, stable petroleum prices, lower fiscal deficit, low cost of domestic capital, low credit demand of PSEs, and absence of pressure on wages. The SBP will, if its stock of treasury bills is further depleted, introduce a new instrument (SBP certificates) and will use it to sterilize excess bank liquidity with a view to moderating the growth of the monetary aggregates. The current monetary stance is unlikely to be altered unless there is a shift in the inflation outlook or some unanticipated exogenous shock hit the economy.

5.22 The **Balance of Payments** position of Pakistan has improved due to rising trend in workers' remittance, improved trade balance as a result of higher growth in exports, visible growth in foreign direct investment, and reversal of capital flight as depicted by bullish stock market, real estate markets, increased use of self-financing by importers of machinery and sustained trend of de-dollarization of the economy and trend is likely to persist. This scenario will help in consolidating the progress made in macroeconomic stabilization and reducing debt vulnerability. The current account surplus (excluding grants) is expected to narrow. It is expected that strong performance in exports will continue. Remittances and short-term capital inflows are likely to decelerate from their FY02 level, but they are expected to remain robust.

Financial Sector Reform

5.23 The vision of the government is to pursue a market based financial sector owned and managed by the private sector but operating under strong regulatory environment. As explained in the previous chapter, the financial sector reform strategy is based on five pillars: (a) making SBP an autonomous and strong regulator for banking sector; (b) restructuring and phasing out of DFIs; (c) developing a corporate bond market; (d) setting up of an asset management company (CIRC) to deal with NPL; and (e) promoting a network of micro-credit. The objectives of the on-going financial sector reforms are: (i) consolidating the banking sector through mergers, acquisitions, liquidations so that a few but stronger banks provide full range of services; (ii) privatizing nationalized commercial banks so that 80 percent of banking assets are in the private hands; (iii) restructuring and strengthening non-banking finance companies and make them an integral part of financial services and industries; and (iv) building institutional capacity of SBP and Securities Exchange Commission of Pakistan (SECP) in becoming effective regulators and supervisors of the financial sector.

5.24 The main components of financial sector reforms are:

- Liberalization measures that include interest rates, elimination of selective credit controls, lower cash reserve ratios;
- Development of financial markets including inter-bank market, treasury bill market, capital markets;
- Increased competition amongst banks, privatization of financial institutions, foreign firms;
- Strengthening prudential regulation and supervision; and

5.25 The principles that will guide the road map to implement the decision of the Supreme Court of Pakistan towards the **Islamic financial system** are (i) there shall be no severe disruption or abrupt dislocation to the present financial system and the transition will be smooth, orderly, and gradual; (ii) all foreign loans, credits, transactions—past, present, and future—will not be affected; (iii) all existing contractual obligations on asset and liability side will be honoured and the depositors and account holders will be fully protected; (iv) license will be issued for establishing and operating full fledged Islamic bank which will transact only in the products and services compliant with Shariah by the Commission on Transformation of Economy; (v) Banks will be encouraged to set up subsidiaries and branches for offering Shariah compliant products and services; (vi) examining the experiences of other Islamic countries; and (vii) undertaking training in Islamic banking products.

5.26 The SBP will soon launch Pakistan Investment Bonds (PIBs) extending up to 15 years and 20 years to develop a benchmark and yield curve for long term investment by institutional investors such as Life Insurance Companies, Provident Funds, Benevolent Funds and Pension Funds, and to develop housing finance sector. The Government's long term vision of the financial system is that the financial sector reform should result in the outcomes that (i) only self-sustained and commercially viable financial institutions which do not depend on the Government's support either in respect of resource mobilization or in respect of pricing their products be allowed to operate in the market;

(ii) limiting Government's role to creating a regulatory environment and an incentive regime that will induce investors to invest in the equity of financial institutions and the savers to channelize their savings through these institutions; and (iii) facilitating the corporate sector to mobilize a significant portion of its long term financing needs, equity as well as debt, from the capital market, which will impose a certain level of financial discipline on market players. The SBP will also work on developing a three-tier structure of the financial system, i.e. Universal banks, specialized banks, and non-bank finance companies to see its viability. With the enforcement of Financial Recoveries Ordinance 2001, the required legal framework is already in place for speedy closure to default cases. Bankruptcy law, at the draft stage, will provide a mechanism for exit of companies

Capital Markets

5.27 The government will encourage the capital markets to take measures in the following areas over the next two-three years:

- Development of mutual funds and pension funds to support the market;
- Underwriting capacity of stock market and intermediaries;
- Enlarging the base of retail investors;
- Development of Electronic Communication Networks (ECN) and Alternate Trading Systems (ATs) for more efficient and less costly trade execution;
- Gradual phasing out of COT financing and its eventual replacement with margin financing and future markets in line with international best practices;
- Encouraging companies to raise capital through fresh equity offerings;
- Enhancing retail investor base;
- Deepening of market by listing of mega issues;
- Enhancing distributive capacity of brokers by encouraging them to set up offices all over the country.

5.28 Realizing that the NSS system requires reform to make the provision of these instruments affordable to the Government, the reform process of NSS has already been initiated. The Government has taken several measures in recent years to address some of the weaknesses of NSS instruments. A key element of the reform strategy is to strengthen the domestic capital market so that it is capable of generating resources to support the private sector investment and to reduce interest costs to the budget. Reform of the pensions system could give capital markets a boost. As part of this strategy, the NSS is expected to become a modern savings institution, dealing with mutual funds while aligning NSS rates on comparable government instruments. The NSS outlets will be fully automated and restructured. Other short to medium-term measures include improving the framework for contractual savings to further deepen capital markets and in particular for development of long-term debt market; establish a deposit insurance scheme for small depositors and a bank failure resolution mechanism to limit the cost of bank failures.

5.29 The **insurance sector** is undergoing substantial restructuring. The Insurance Act of 1938 has been replaced by the Insurance Ordinance, 2000 that allows easier access to markets, requires a level playing field between public and private sector insurance

companies, affords greater flexibility for portfolio management and encourages an active and involved regulatory oversight by SECP.

Trade Liberalization and Export Promotion

5.30 As illustrated in the previous chapter, the Government of Pakistan has implemented a comprehensive program of trade reforms gradually moving their economies away from protectionism towards greater trade openness and global economic integration. Currently, the maximum tariff is 25 percent, down from 125 percent in 1990-91. The effective tariff, defined as collection net of custom duties relative to dutiable imports, declined from 73 percent in 1990-91 to 16 percent in 2002-03. The total number of tariff lines with specific tariffs has also declined from 103 in 1995 schedule to 43 lines. The CBR has also undertaken a review of the statutory regulatory orders (SROs) related to trade and industry recently. Pakistan has been taking a number of trade defense measures—in the context of WTO—to protect against the inflow of illegal and cheaper imports threatening the domestic industry. The Anti-Dumping Ordinance was promulgated in December 2000 empowering the National Tariff Commission to exercise anti-dumping duties based on proper investigation. The Countervailing Duties Ordinance promulgated in 2001 would ensure protection to domestic producers against illegal subsidized exports and the Safeguard Ordinance enforced in 2002 would deal with any significant injury (real or threatened) to the domestic industry caused by a surge in imports.

5.31 Sustained export performance is a key priority. Towards this end, the Government is making efforts in the areas of facilitation, WTO related issues, export promotion and diversification, extension of export promotion zones and industrial clusters and measures to prepare for the elimination of MFA quotas by 2005. The Government's policy will focus on measures to sustain exports in textiles and other sectors where exports already exist, and measures to improve competitiveness of sectors, which are not yet capable of exporting. For this, the Government is committed to liberalize and de-regulate Pakistan's trade and widen the export base through revival of industrial activity and strong institutional supply side measures. The trade policy endeavors to continue focusing on value addition for sustainable growth in export earnings. The policy is guided by demand led strategy to secure higher world market share for traditional and non-traditional export items. Simultaneously, continued efforts are afoot to increase market access for Pakistani products. In the long run, growth in exports will need strong competitiveness in the economy, which will require, inter alia, tackling the infrastructure and trade-logistics bottlenecks and improving the enabling business environment. For this purpose, the Government under an ADB funded Trade Enhancement Facility program is removing different barriers to improve trade-regime.

5.32 The **export strategy** will focus on (i) reducing cost of doing business; (ii) increasing market access; (iii) technology and skills upgradation; (iv) social, environmental and security compliance; (v) encouraging export oriented foreign investment; (vi) region-specific strategy; and (vii) value addition. An Upgradation Fund will be managed under public-private partnership. An Export Facilitation Inter-Ministerial Committee will be constituted. The freight subsidy for product diversification and geographic expansion will continue. Two Special Export Zones will be established in

Karachi and Punjab focusing on textile sector and Karachi Export Processing Zone will be upgraded to regional standards and other processing zones. The other initiatives that are under consideration of the Government to boost exports are establishment of Leather Board and revision of Duty and Tax Remission for Exports (DTRE) Rules to make them user friendly. In addition, the policy aims to rationalize the export finance scheme, shifting its focus towards pre-shipment financing, value-added exports and targeting SMEs. To improve administrative and enforcement mechanism, the Government will establish an umbrella organization called "Pakistan Intellectual Property Rights Organization (PIPPO).

5.33 The **import trade regime** aims at (a) un-interrupted supply of adequate raw materials to the industries; (b) facilitating liberal import of machinery for industrial development; (c) facilitating inflow of latest technology; (iv) increasing efficiency of the domestic industry by gradually exposing it to the international competition; and (v) further liberalization of trade regime. The Government will also take a number of stocktaking and analytical exercises to prepare for the next phase of trade reform and include (a) comprehensive review of remaining SROs aimed at suggesting further reduction of exemptions and defining a clear criteria for those that need to be maintained; (b) review of costs and benefits of remaining protection policies; and (c) rationalization of tariff structure with the aim of phasing out anti-export biases.

Private Sector Development, Investment Policy and Privatization

5.34 Macroeconomic stabilization reforms are not sufficient to sustain higher growth unless complimentary micro-level reforms are fully implemented. Sustained pro-poor economic growth based on robust private sector activity is the critical element of Pakistan's poverty-reduction strategy. Investment, both domestic and foreign, is vital in this context. Therefore, all sectors of the economy have been opened up for foreign and domestic investment with particular emphasis on agriculture, manufacturing, specially small and medium enterprises, information and communication technology, oil and gas and other infrastructure sectors. The regimes of deregulation and privatization have created a climate of financial openness. The essence of investment policy is to strengthen Pakistan's competitiveness by improving the policy regime, offering fiscal and tariff relief, and providing comprehensive facilitation centers. Foreign investors have been allowed participation in industrial projects on 100 percent equity basis. In addition, full repatriation of capital, capital gains, dividends, and profits is allowed and equity investment by Pakistani investors abroad has also been permitted. Tariff on import for industrial sector machinery provides relief. To keep Pakistan competitive in international market and support the viability of investments in the country, various incentives are available to foreign and local investors. The Government of Pakistan has either signed or initiated agreements on Avoidance of Double Taxation with 51 countries and Bilateral Agreements on Promotion and Protection of Investment with 38 countries to encourage investment, protection against discrimination vis-à-vis local investors, and to provide for a dispute settlement mechanism.

5.35 To lower the cost of doing business and encourage job creation, the Ministry of Labour is currently engaged in **consolidation of 101 labour laws** into laws and enforcement of other measures that will have impact on employment and growth, the

details are discussed in chapter six. Following are some areas of priority to facilitate development of the private sector: (a) improving labour related regulations; (b) removing impediments redundant commercial regulations; (c) rationalizing the tax and duty structure at local, provincial and federal levels to encourage transition of enterprises from informal to formal sector; and (d) reducing barriers to entry. As part of improving investment climate in the country, a study is under progress to identify and review further entry barriers and interface between private sector and government institutions. The Government recognizes that the deficit in infrastructure can be met with active participation of the private sector, well regulated.

5.36 Deregulation: As Pakistan embarks on the process of creating competitive markets and eliminating direct or implicit consumer and producer subsidies, a number of steps have been taken to deregulate prices and trading in various sectors. The most far-reaching reform has taken place in the oil and gas sector. Imports and pricing of petroleum products have been deregulated and the private sector is now free to import and fix prices. An automatic price adjustment formula for consumer prices of petroleum products linked with international prices has been adopted. Likewise, price distortions in natural gas have also been eliminated. The government has freed up agricultural prices by moving towards market based pricing. With a view to allow farmers to receive international prices for their produce, all restrictions on the import and export of agricultural commodities have been removed. Wheat procurement and trade, which was until recently an exclusive monopoly of the state, has been opened to the private sector. Exports of wheat and wheat products have also been allowed to the private sector. Similarly, as part of overall policy of deregulation, the government has encouraged the private sector to import DAP and other fertilizers and Drug Act has been made more market friendly.

5.37 Building on on-going deregulatory reforms, a Committee on Reforms in Regulatory Legal and Policy Environment, established in January 2002, is expected to map out a comprehensive regulatory program and implementation steps needed to get rid of irritants and further free up the economy and to improve investment climate in Pakistan by lowering costs of doing business and enhancing export competitiveness. The Committee would undertake the following tasks: (i) conduct a review of labour regulations and laws that constrain competition and/or impose high and unnecessary compliance costs; (ii) identify and remove entry barriers that stifle new initiatives and restrict the growth of existing business activity; (iii) identify and remove price controls; (iv) reduce the interface between private and government institutions; (v) recommend changes to laws to remove discretion, to increase transparency of regulatory decisions and to eliminate regulations that no longer serve public purpose; and (vi) develop a strategy for timely implementation of the recommended changes in the laws and regulations. The key activities undertaken by the Committee relating to date are discussed in employment section.

5.38 Privatization is an important vehicle to attract private investment, both domestic and foreign direct investment (FDI) and to release fiscal space for activities that the government must invest in. Despite difficult international environment, the privatization program of Pakistan made headway by targeting domestic investors for smaller transactions, strategic sale to attract foreign direct investment, and disinvesting

government shares in state owned companies through the stock markets. The Government managed a large strategic transaction with the sale of United Bank Limited. Based on successful initial public offerings of National Bank of Pakistan and Oil and Gas Development Corporation, the Privatization Commission intends to take a similar route for other transactions, namely Pakistan Petroleum Limited. In addition and Sui Southern Gas Company; a number of key transactions including Habib Bank Limited, Pakistan State Oil, Faisalabad Electricity Supply Corporation and Jamshoro Generation Company have reached advanced stage of privatization. The potential transactions include privatization of Karachi Electric Supply Corporation, Pakistan Telecommunication Company Limited, and off-loading remaining 49 percent interest in Allied Bank. The Privatization Law provides that 90 of the privatization proceeds will be transferred to the Federal Government for debt retirement and 10 percent for poverty alleviation programs. The restructuring of Industrial Development Bank is also underway.

Regulatory Framework

5.39 The Government of Pakistan believes that it is not its business to be in business. This belief has been the major driving force behind ambitious privatization program. The Government has restricted its role to policy formulation, regulation and facilitation, to enable the private sector to make investment decisions and to inculcate efficiency and competitiveness. The Government is also encouraging the private sector to undertake infrastructure development in various sectors. In this backdrop, the Government has established various regulatory authorities, namely National Electric Power Regulatory Authority (NEPRA), Oil and Gas Regulatory Authority (OGRA), Pakistan Electronic Media Regulatory Authority (PEMRA), and Pakistan Telecommunication Authority (PTA). The Securities Exchange Commission of Pakistan is now responsible for regulating non-banking financial institutions discussed above. The Government is also aiming at restructuring the Monopoly Control Authority and introducing a new Competition Law preceded by effective capacity development of the Authority to deal with monopolies and cartels to protect the consumers. The regulatory framework ensures certainty and transparency in the decision making process and provides comfort level to the potential investors. It has improved governance. The Government will strengthen the regulators and deepen the reforms in this area over the next three years by building their capacity.

Small and Medium Enterprises

5.40 In Pakistan as elsewhere in the world, the SME sector has a great potential for generating employment especially for the low-income groups. Thus, creating a business environment that is supportive of SMEs is an important strand of the Government's poverty reduction strategy. This sector contributes 30 percent to GDP with value addition to manufacturing industry around 35 percent and generating 25 percent of manufacturing sector exports earnings (\$ 2.5 billion). It provides 99 percent of non-agriculture jobs. The development of agro-processing sector (mainly for fruits, vegetables, dairy, and livestock) and initiatives for fair marketing, transportation, and handling of agricultural produce presents wide range of opportunities for private sector growth in the agro-based rural economy. Rural based agribusiness SMEs are a natural source for exploiting these opportunities that will provide new avenues for employment and income generation for rural population. The micro enterprise development initiatives

through provisions of credit through Banks are expected to spur economic activity mainly in self-employed segment of population. Over a period, this sector will transform into formal SME enterprises.

5.41 The Government recognizes that SME led private sector development needs further strengthening of regulatory environment, adjustment in prudential policies, and provision of support services for enterprise establishment, development, quality improvement and export /local marketing in the short to medium term. The Small and Medium Enterprises Development Authority (SMEDA) is actively developing programs for managerial skill development, technical and informative support to SMEs. SMEDA has developed strategies for a large number of sectors and facilitates SMEs in documentation for financial institutions, providing free technical, managerial and marketing advice.

5.42 The Government has established SME Bank with a mandate to provide financial assistance and business support services to SMEs. The bank has also undertaken a customized financing scheme for country's women entrepreneurs titled "Women Entrepreneur Development Program". The Government is seeking assistance from Asian Development Bank to support the Government and the private sector in (a) formulating and implementing SME Policy and Regulatory Policy development; (b) providing SMEs with direct access to services for enhancing competitiveness and employment generation; (iii) improving SMEs' access to finance through SME Business Support Fund; (d) SME Bank restructuring; and (e) disengaging the Government from activities that could be better provided by the private sector. SME led economic growth is expected to significantly impact poverty through: (i) income generating activities in the rural and urban economy; (ii) creating employment opportunities; and (iii) providing forward linkages to the micro-enterprises benefiting from the availability of micro-credit.

Supportive Infrastructure

5.43 The Government fully recognizes that while growth and service delivery improvement are critical for poverty reduction, infrastructure development is critical both for accelerating growth and for providing better integration of Pakistan's various provinces and regions. It is thus an important element of the Government's poverty reduction strategy. Supportive infrastructure (aviation, ports, railways, and roads) is a catalyst for generating economic activity, employment and growth. There is huge road development and maintenance backlog requiring attention of the Government to enable the country to possess adequate road infrastructure catering for the present and future needs. The Government has initiated a number of actions during the last four years to address key constraints faced by the Transport Sector: (i) drafting a new integrated transport strategy; (ii) turnaround of railways through improved governance, staff rationalization, asset rehabilitation, shedding of non-core functions and expanded private sector partnerships; (iii) a new Merchant Marine Policy; (iv) a revised National Aviation Policy; (iv) implementation of Trade and Transport Facilitation Program to improve commercial facilitation and trade competitiveness; and (v) improved rural access.

5.44 **Communications:** Roads are increasingly being viewed as 'service' or 'business'. The Government has articulated clear development priorities for the sector.

The **National Highways network** is being augmented and integrated on a nationwide basis to move goods and people efficiently. The strategy is to broaden highway system and modernize its maintenance. The Government has begun to implement the 'fee-for-service' principle on NHA network. A Road Maintenance Account (RMA) has been established to finance sustainable maintenance needs. The GOP/NHA has initiated a multi-year National Highway Improvement Program covering rehabilitation, resurfacing and improvement of 2700 km of the highway network. The National Highway Safety Ordinance has provided legal basis for establishing the National Highway and Motorway Police Force for strict enforcement of traffic laws. The Ordinance also provides for axle load limits for commercial vehicles and legal framework for its enforcement.

5.45 The underlying problems faced by **Pakistan Railways (PR)** appear consistent with those faced by other public sector railways, especially those in developing world, i.e. excessive staffing, inadequate MIS for accurate costing and business decision-making, large overheads, burden of an under-utilized and loss-making network of branch lines and services, lack of adjustment to changing market conditions, and engineering rather than business-led operational management. The Government adopted a more disciplined approach nearly four years ago that resulted in improved performance with increased traffic and significantly improved working ratios. Nevertheless, the Government recognizes that sustained improvement and turn around in the PR will need addressing the fundamental causes of the railway problem. This will need the introduction of a modern and fully automated accounting system that can provide information necessary for informed decision-making and an option study that presents a range of private public partnership (PPP) arrangement adopted for the railway sector and their possible applicability to Pakistan. Such arrangements may stretch from management contracts, joint ventures, competitive services, private funding of dedicated rolling stock, concessioning of the entire railway, or the individual services.

5.46 Along with further Government support for the acceleration of social development, **Gwadar Deep Sea Port** is expected to be a key driver of development in Baluchistan. The area will be declared as duty free zone with investments for SME warehousing envisaging regional reach and industrial development. The project will bring a change in the life of the people of Baluchistan and make them more demanding in terms of education, social empowerment and will allow faster human development in the province. It will provide enhanced investment opportunities and generate employment in the province. Additionally, it will boost the trade in the region. Efforts are also being made to increase holding capacity of liquid and dry cargo at ports. The up-gradation of runway and terminal buildings at various airports is also under implementation.

5.47 **Power Sector:** The Government is fully committed towards encouraging the use of hydel, coal and gas reserves for power production, and to reduce the losses of power sector utilities. These are the key elements of the Government's strategy, so as to deliver more reliable and affordable power supply not only to households, but also just as important to businesses.

5.48 The strategy in this sector is to develop hydropower resources with a hydel-thermal mix of 39:61, improving from existing ratio of 28:72, and create competitive

power sector. The government is executing or about to execute different hydropower projects to meet the growing demand of electricity in future years. While a large increase in hydro capacity is important to improve country's generation mix and cost of power, the new gas and coal reserves, and recent developments in gas-combined cycle and coal-fired generation technology increases the options for improving generation mix and overall cost of power comparatively quickly. The production of low cost hydel-power and power from coal and gas will provide relief in overall tariff to the consumers and will generate employment opportunities.

5.49 Though Pakistan has made progress during the past four years in eliminating the operating losses of a number of PSEs, notably Pakistan Railways, Pakistan International Airlines, Pakistan Steel and most nationalized commercial banks, the losses in the power sector continue at a high level. The losses of Water and Power Development Authority (WAPDA) and Karachi Electric Supply Corporation (KESC) in FY03 were close to 1 percent of GDP whereas the total budgetary support to these entities was around 1.8 percent of GDP, which is anticipated to decline during FY04 to 1.3 percent of GDP. Though substantial improvement has been made since 1999, operational inefficiencies, weak bill collection, high levels of transmission and distribution losses due to theft and leakage, high cost of furnace oil, relatively high cost of purchases from IPPs including payments for large unutilized generation capacity, and subsidization of households and farm consumption are the main factors responsible for continued losses.

5.50 Taking cognizance of these challenges, the government is pursuing a strategy to restructure public enterprises to improve their operational efficiency and financial viability, and managerial accountability while establishing a multiyear tariff framework and improving the regulatory framework. The Government and implementing agencies are fairly advanced in implementing reform program set out in the Government's Strategic Plan for Restructuring and Privatization of the Pakistan Power Sector approved in 1992 that included corporatization of WAPDA, Regulatory Framework, financial viability of the sector, privatization, market structure and competition. The main objectives of the reform agenda in the power sector are: (i) mobilize private resources for development of the sector; (ii) improve the utilities' performance and efficiency through corporatization/commercialization; and (iii) strengthening a transparent regulatory framework to provide comfort to the potential investors. The restructuring of WAPDA and KESC is progressing. Licenses have been issued to all thermal generation, transmission and distribution companies. The process of transferring assets and liabilities is underway and the unbundled entities are filing petitions before NEPRA for determination of tariffs and finalizing power purchase agreements. Government will, however, maintain a lifeline tariff to ensure that a basic allotment of electricity is available to the poor. Gradually, the unbundled entities will be offered for privatization. Nevertheless, given the global downturn in the power sector, it is likely to take sometime for getting a viable bid. However, investors' interest has revived in KESC. The process of creation of competitive markets with new power system operating rules that include differentiated tariff regime will be implemented once the fully corporatized system of WAPDA is operational by end-June 2004. As part of competition for and in the market for electricity supply, Generation Policy 2001 has been approved, which provides for competitive selection of sponsors for new IPP based on the price of electricity offered by the sponsors. Additionally, NEPRA is in the process of issuing licenses to Captive and Small Power Producers, which allows

power sales from such plants directly to DISCOs or bulk power consumers. The operationalizing of Ghazi Brotha Hydel Project (1400 MW) and the substantial decline in payments to IPPs after FY04 will also help reducing the average generation cost.

5.51 The Government with the assistance of the World Bank is also developing a medium term financial recovery plan (FRP) 2004-2008, for these utilities. Building upon earlier Financial Improvement Plan (FIP), the FRP will focus on actions needed to bring all WAPDA successor companies on to a financially sustainable path, pricing issues and differentiated tariff, institutional changes necessary to improve collection from FATA, institutional changes to strengthen regulatory processes, and ensuring timely implementation of tariff adjustments determined by NEPRA (within 30 days of such determination). Large investments are required in the power sector: because 40 percent of the population still does not have access to electricity; investments in distribution and transmission during the past decade were not adequate; and the networks are in urgent need of rehabilitation and expansion. Mobilizing adequate finances for the investment program therefore represents a major challenge for the Government and the utilities. The government also aims for a detail study to analyze social impact of tariff adjustments in the energy sector.

5.52 **Oil and Gas:** The Government has implemented comprehensive reforms in oil and gas sector as part of its overall agenda for economic liberalization. The strategy for this sector is to privatize government share of existing fields, replacement of furnace oil by gas in power plants, infrastructure development for new gas discoveries and maximization of coal utilization in the power and other industrial sectors. The reform initiatives in this sector are focused towards deregulation, liberalization, privatization and greater utilization of indigenous resources; attracting foreign investment and collaboration with international oil and gas companies. As part of this reform program, measures that have been implemented include: (i) deregulation of petroleum products markets, allowing free imports and setting-up of competitive market based prices; (ii) adoption of formula based gas pricing framework, with six monthly price revisions; (iii) phasing out of household sector subsidy on gas prices; (iv) separation of policy, ownership, and regulatory functions, the latter being assigned to Oil and Gas Regulatory Authority (OGRA); (v) improvement of petroleum products specifications to conserve environment; and (vi) privatization of certain oil and gas sector assets. Major emphasis has now shifted towards reorientation of the energy sector from thermal and furnace oil to hydel, coal and gas. Continued reforms will provide a strong signal to stakeholders on the commitment of the government to safeguard and balance the interests of all concerned. The need for sustaining the reform program is crucial for the long-term development and growth of oil and gas sector as it will provide a very strong signal to stakeholders on the commitment of the government to safeguard and balance the interest of all concerned.

5.53 The Government will continue to encourage the use of **Compressed Natural Gas (CNG)** as an alternate economical fuel for automobiles to reduce environment degradation, save foreign exchange and generate employment. The government has also adopted a transparent gas-pricing framework. The subsidy to feedstock fertilizer industry is also proposed to be phased out and will be reflected in the budget. The mechanism is being evolved with the assistance of the World Bank. The oil prices have

been completely deregulated to allow automatic price adjustment for consumer prices of petroleum products that have been linked with international market prices, on fortnightly basis. A new investment policy for offshore oil and gas exploration has been implemented. The Government plans to continue attracting foreign investment both in the upstream and downstream sectors. The Government is also focusing on optimum utilization of indigenous coal reserves in the country. Thar coal will provide for power generation of 3000 MW, in phases, during the next five to seven years. This will transform the poverty stricken Thar area generating employment opportunities and minimize the sufferings of people.

5.54 Pakistan has been endowed with extensive geological potential and **mineral wealth**. However, unlike other developing countries with good mineral endowment, it has not yet been able to promote growth and alleviate poverty by exploiting its natural resources to the maximum. The country's mining industry is dominated by the public sector and mineral exploitation contributes only 0.4 percent of GDP. The commercial exploitation of minerals plays an important role in the economic growth. Being labor intensive and located in the mountainous areas of northern and southern Pakistan, mineral projects can be effectively used for poverty alleviation. To encourage private sector investment, the Government of Pakistan has recently formulated a National Minerals Policy (NMP) including (i) establishment of a regulatory framework, (ii) sector institutional framework, (iii) licensing, (iv) environmental protection, (v) fiscal regime, and (vi) social development. To facilitate the implementation of NMP, the Government has established the Mineral Investment Facilitation Boards and a Mineral Investment Facilitation Authority. However, inadequate infrastructure, lack of marketing strategy and lack of finances are the major challenges confronting this sector. The Government also needs to align regulations with international best practices based on NMP.

5.55 **Telecommunication:** The Government of Pakistan has launched comprehensive reforms to overcome Pakistan's low teledensity level, increase usage of Information Technology and to support the needs of a modern, fast growing economy. The main issues in the sector can be classified under two broad categories: (a) performance, and (b) competition and private investment environment. Recognizing that the availability of quality telecommunication infrastructure is limited, the Government has undertaken several initiatives to reform this sector. Some of the key policy initiatives include: (i) announcement of the National Information and Communications Technologies (ICT) Policy and Action Plan in August 2000 aiming at accelerated deregulation and private participation in the telecommunication sector; (ii) strengthening of regulator Pakistan Telecommunications Authority (PTA); (iii) approval of telecommunication deregulation policy in July 2003 that allows free entry of new private operators to compete with PTCL, increases service choices for customers at competitive and affordable rates, and increases rural access; finalizing mobile policy and review of license terms and conditions of existing mobile operators consistent with the government's deregulation policy and extending licenses to two new mobile operators to increase competition. The key initiatives undertaken by the government for expansion of Information Technology include (a) gross reduction in PTCL bandwidth charges (b) launching of Software Technology Park in Islamabad, Lahore, and Peshawar (c) free Internet connections to public sector universities.

Rural Development Strategy

5.56 As already mentioned that poverty in Pakistan is predominantly a rural phenomenon. 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. The agriculture sector accounts for 25 percent of GDP, contributes 74 percent to total export earnings and employs around 45 percent of the labor force. Within the agriculture sector, crop production, mainly wheat, cotton, sugarcane, and rice accounts for about 59 percent of value added and livestock about 37 percent. It is argued that the highly skewed distribution of land ownership in rural areas has a substantive negative impact on agriculture productivity and an indirect effect on the agriculture resource base. The counter argument has been that major land redistribution reforms will lead to further fragmentation of land holdings and thus will adversely impact productivity. Notwithstanding, the revitalization of rural development will provide a sound foundation for broad-based accelerated economic growth.

5.57 **Agriculture:** The emerging issues in the agriculture sector include: (i) flat yield and the productivity of water; (ii) under-performance of rural factor markets and extension services; (iii) under-investment in research and technology development; (iv) unreliability of water services; (v) improved rural infrastructure and education provision; and (vi) scaling up of diversification into new, higher value crops and the use of new and more efficient irrigation technology. In achieving pro-poor growth through agriculture, Government is aiming to improve rural and agricultural infrastructure and supporting agricultural programs that generate sustainable growth. It includes development of high yielding varieties of improved and hybrid seed, balanced application of fertilizer, integrated pest management and improved agronomic management, and agriculture extension system, Commodity Boards, and Integrated Pest Management Project. The government is freeing up agricultural prices by removing market imperfections to safeguard farmers' interests.

5.58 To improve agriculture productivity and profitability through high tech interventions, the government will encourage corporate agriculture farming, for which, the government will lease out big chunks of state-owned uncultivated land to potential investors along with various incentives such as rebate in stamp duty and registration fee, etc. It is expected to produce high quality products, value addition at farm level, provide job opportunities and exportable surplus, and ensure international competitiveness. For improving the conditions of farming communities, concerted efforts will be directed to increase the flow of credit to the agriculture sector with a new thinking and approach to identify the farmers' needs and capacity to utilize credit. The credit needs have certainly increased due to enhanced mechanization, certified seed, use of chemical fertilizers and pesticides. Zarai Taraqati Bank Ltd. (ZTBL) is targeting a vast majority of small landholders to help improving productivity. Nevertheless, the major challenge to shift the focus of institutional credit support from land owners alone to rural poor that include landless, tenants, agricultural artisans, women, and other disadvantaged groups who are disorganized. This will need to organize the rural communities. The Government is implementing reforms in this sector with the assistance of ADB under Agriculture Sector Program Loan.

5.59 As part of the strategy to promote agriculture, the government has abolished restrictions on the import and export of all agricultural commodities including wheat. Nevertheless, it is important to protect farmers against market volatility. Therefore, the Government will continue to follow the policy of support price for wheat and indicative prices for other crops like sugarcane, cotton, and rice. The Government has launched Crop Maximization Project on small scale to support poor farmers and plans to expand it on large scale to create real impact on poor segment of rural population. A major focus of this intervention will also cover capacity building and training of the resource poor farmers. The government will continue shift in the policy regime to remove market imperfections, increasing productivity and farmers' profitability, and foster exports.

5.60 **Water:** The most critical challenge facing the agriculture sector is the shortage of water as it is key engine of agriculture growth. The capacity of existing reservoirs is shrinking because of silting. Shortage of water at critical times creates controversies over its sharing and also adds to poverty. The recent drought exposed the vulnerability of the vast Indus Basin irrigation, need for additional storage to improve and increase supply and provide greater operating flexibility and assurance. The projected water shortage is estimated to be 23-25 MAF over the next two decades to meet the incremental demand of irrigation for sustained agriculture growth, environmental flow requirements, disposal of salts and pollutants, urban domestic and industrial needs, system losses and water accord deficit. The combination of high population growth, persistent poverty, lagging growth in the rural sector, and the looming constraints on water resources and irrigation development suggest a paradigm shift in water resource development and management strategy over the next two decades.

5.61 The demand side---water delivery and the efficiency, governance, water pricing, rehabilitation and modernization of infrastructure and improved operations and maintenance, incentives for wise and more productive use of water--- has also been recognized as important and critical. The policy response of the Government will shift to a balanced approach to investment in water infrastructure and water management to address supply and demand side issues simultaneously. The strategy going forward will be based on (a) integrating irrigation, hydropower and agricultural development investment; (b) modernize both the water infrastructure and the institutional and governance arrangements; and (c) balance in investments in both water infrastructure and water management and in both supply management and demand management. To ensure that farmers are able to respond to policy incentives and research and development (R & D), the strategy will focus on the flow of information and secure water entitlements or rights.

5.62 As part of this strategy, additional projects in the pipeline include Sabakzai Dam, Basha Diamer Dam with a storage capacity of 5.7 MAF and generating capacity of 3,360 MW or other large dams with high storage and power generation capacity depending upon national consensus. Sehwan Barrage Complex on the Indus in Sindh with a storage capacity of 0.65 MAF, Yugo Dam on the Syhok River in the Northern areas with a storage capacity of 4.82 MAF, and Skardu Dam on the Indus River in the Northern Areas with a storage capacity of 15.52 MAF are also under consideration. The Vision 2025 to develop water and hydro-electric sectors calls for huge investments (\$50 billion) in multi-purpose storage reservoirs (irrigation, hydropower, and flood control), several

new canals to expand irrigation, as well as canal lining and drainage. The goal is to address water scarcity, the flow of floodwater that remains unutilized, and safe disposal of drainage effluent, tapping of underground water and reducing seepage losses in the country's irrigation system. More than three-fourth investment would be for new storage dams, hydropower capacity, and for new canals to sustain sufficiently high agriculture growth rate.

5.63 Water conservation will also remain a priority area for the government. It has been planned to renovate the remaining 90,000 watercourses; 45,000 out of 135,000 have already been lined. The Government will promote improving watercourse maintenance, organizing sustainable water users associations (WUAs), and introducing water saving irrigation technology. The techniques like laser leveling, bed and furrow cultivation and zero tillage are being promoted. The new initiatives in the water sector are modeled to recover the maintenance and restoration cost.

5.64 The Government is implementing a far-reaching reform program based on three principles: decentralization, participation, and management transfer in this sector. Under this governance framework, the Irrigation Departments will phase themselves out of the role of service delivery (operation and maintenance, water distribution, and abiana collection) retaining only policy and regulator for the autonomous entities created. The Provincial Governments, in the context of renewed commitment to core principles and outcomes of the reform process, would focus on recasting the program by building on the lessons and experience gained so far.

5.65 Expanding electricity supply to rural areas—which account for most of the population that does not have access to electricity—represents a special challenge. Low population densities and limited demand for electricity, along with high capital costs for expanding the network to rural areas, make rural electrification commercially unattractive for utilities. The Government has launched a **rural electrification program**. Under this program 15,000 villages will be electrified during 2003-04 to 2005-06. It will facilitate (a) the establishment of agro-based and cottage industries which will help in economic uplift, poverty alleviation and job opportunities; (b) improving living standard of rural population utilizing electric appliances and access to T.V. (c) pumpage of sub-soil water for domestic and agricultural purposes that will enhance productivity (d) providing support to rural women in terms of labor (e) reducing rural/urban inequities and may slow down the urban migration of rural population. To pace up rural electrification will need a Master Plan

5.66 **Livestock** farming provides 25-30 percent of the income of small farmers and landless livestock producers. The sub-sector's share of agriculture value added is 37.6 percent and 9.7 percent of GDP. This sub-sector has tremendous scope for pro-poor growth as the value of milk is more than that of the major crops. Empirical studies have shown that small farmers that combine livestock with crop production have income twice as high as those with only crops. Therefore, efforts are underway to increase flow of funds to this sub-sector. The strategy in this sector will be to focus on genetic improvement of breeds of livestock; Increase development of feed and fodder resources; establishment of feed mills; eradication of diseases of economic and trade importance; state of the art slaughter houses; establishing chilling and milk powder units; and

improvement in marketing of livestock and livestock products. The Provincial Governments have initiated their own programs to promote livestock breeding as a tool to reduce rural poverty under various area development projects. Each of these projects has very strong component to extend credit to women for livestock development to help rural poor to increase their income and providing self-employment.

5.67 The other programs planned for implementation in rural areas are: micro-credit program; support to livestock producers in shape of input supply; improvement of feed and fodder resource base; and introducing live animal on meat weight basis backed by legislation to eliminate exploitation of the livestock producers by the middlemen. Projects in the technical and service category will aim to provide the farmers: (i) better disease control through vaccination campaigns and improved disease surveillance system; (ii) new production resources; (iii) increase productivity through improved breeds, feed processing, improved fodder storage, and better management of communal grazing resources; (iv) improved storage and processing of livestock products; (v) access to markets and investment in infrastructure; (vi) training and education of livestock breeders.

5.68 The Government also plans to address issues of **dairy industry**, confronted with low productivity, a weak infrastructure, (lack of an efficient collection system and refrigeration, and transportation facilities resulting in high level of wastage), and lack of financing and education. Automation of milk collection has brought demonstrable benefits to farmers and local dairy cooperatives, increasing efficiency, transparency, and fairness. It enables faster procession of milk, and preventing spoilage. The Ministry will need to introduce milk preservation techniques, e.g. lactoperoxidase system in remote areas, will improve shelf-life and bargaining capacity of the producers enabling competitive price of their produce. Establishment of an endowment fund will help protecting small-producers.

5.69 **Fisheries** are another important sub-sector that plays significant role in the national economy and food security of the country. It contributes 1.0 percent of GDP and considered as one of the most important economic activity along the coastline of Sindh and Baluchistan where the poorest communities of fishermen live. The Government has revised Deep Sea Fishing Policy to improve export of fish and fishery products and to uplift the socio-economic condition of fishermen. The marine fishing program includes aquaculture development; upgradation of marine fisheries, installing global positioning system (GPS) in fishing boats, survey of the fish stocks, improving post-harvest facilities (chilling, refrigeration, hygienic conditions), upgradation of fisheries quality control laboratories, and European Union accredited processing units. Freshwater fish farming is gaining momentum and by now 40,000 hectares have been brought under fresh water fish farms in the provinces of Punjab, Sindh, and NWFP. Trout culture is being developed in the northern areas of the country by establishing private hatcheries and farms.

5.70 The Government will initiate a program to target the boatless fishermen working as labourers and small boat owners focusing on areas like up-gradation of existing boats through installing GPS to make them aware of sea climate and refrigeration of fish hold capacities. Women of coastal areas who lack necessary training and modern equipment

that results into enormous post harvest losses and deterioration of quality carry out post-harvest handling of fish and fish products. Therefore, a program will be launched to supply improved processing equipment backed by training support to small-scale fishermen and women. A program of streamlining existing extension service of fisheries will be undertaken. A project aimed at introducing and promotion of fish and shrimp culture in coastal areas of Sindh and Baluchistan will be implemented to increase their production and will help poor coastal communities of these areas.

5.71 Access to cultivable land assets has a positive impact on the food and nutritional requirements of poor households. Pakistan's poverty reduction strategy proposes to address the issue of rural poverty through the accelerated distribution of **state owned land** to small farmers. The distribution of land will be fully supported with the provision of infrastructure, availability of agricultural machinery and other inputs. Micro-credit window will be available to them through Khushali Bank, Zarai Tarqati Bank Limited and other institutions. Women will be given priority so that they can equally benefit from distribution of state land and support package.

5.72 To improve the rural infrastructure, the Provincial Governments have undertaken major projects constructing **Farm to Market Roads** in rural areas to facilitate the rural population to access to services and markets for the agricultural produce. Under a phased program, 2713 kilometers of roads have been constructed in various districts of Pakistan. The Government will implement these projects in at least Punjab, NWFP, and Baluchistan. Sindh will also undertake this program under Rural Development Project.

Social Mobilization

5.73 There is a strong self-help tradition in rural areas, which has constructed most of the village irrigation system, drinking water supply schemes, village tracks and access roads. The participatory project mechanism can be built on this self-help tradition while honouring the local culture. The existing structure of extended rural households provide natural groupings which can be mobilized, strengthened, and utilized as a nucleus for community based organizations (CBOs) with whom partnership will be built and to whose demands the project could respond. The Citizen Community Boards can be an excellent entry point to discuss and establish development oriented community participation. This will provide for participatory mode of development at the grass root level.

5.74 Targeting of women requires a modified approach consistent with local culture and traditions in different parts of Pakistan. To create and develop acceptance for women activities, women organizers may visit villages to identify interested and needy women and Women Organizers (WOs) may be formed. To facilitate this process, social mobilizers can be recruited from among the most outspoken and conservative community members after their participation in a training workshop on rights, responsibilities, development process, and empowerment under traditional and customary practices.

5.75 Area Development Projects undertaken in NWFP and Punjab provide a roll model for rural development. This approach ensures (i) full participation of beneficiaries

in project design and implementation leading to greater ownership; (ii) a process approach; (iii) decentralized and localized implementation arrangements with capacity support to government and community groups in implementation and maintenance; and (iv) use of robust technology. To name a few, these are NWFP Barani Area Development Project, Malakand Rural Development Project, Second Barani Area Development in Punjab, Rural Development Works in Baluchistan, and Sindh Rural Development Project.

Housing Finance

5.76 Housing is recognized as a productive economic activity because it contributes through a high multiplier effect with a host of beneficial forward and backward linkages in the economy. There are at least 40 industries, which are directly or indirectly related to housing construction. The housing backlog is estimated to be about 4.30 million units in 1998 while the projected backlog in 2002 is estimated at 5.39 million housing units. Shortage of finance constitutes a major constraint in housing production and maintenance. A rapid growth in housing finance will significantly contribute to the economy in the form of additional employment and support to a variety of allied industries. Given the shortfall of 270,000 units per year, the potential market for housing finance is about Rs. 60-70 billion against the current annual lending of Rs. 2 billion to housing sector, which is less than 1 percent of total formal lending. In view of this, the Government has declared "Housing and Construction" as a priority industry.

5.77 Realizing the shortage of houses and importance of housing construction, the Government has taken several measures to give thrust and resounding dimensions to construction sector. The National Housing Policy has been approved that envisages accelerating housing activity by facilitating provision of housing inputs including land, finance, building materials, institutional and legal framework, and regularization of katchi abadis (squatter settlement). One of the corner stones of the Policy is to ensure development of housing for the poor and needy and housing for the majority of rural population. The strategy under this policy aims at (a) facilitating availability of affordable land; (b) resource mobilization through government initiatives, mortgage loans, mortgage refinancing facility, and induction of insurance; (c) providing incentives through tax rationalization, reduction in stamp duty and registration fee, simplification of procedures and enforcement of effective foreclosures laws; and (d) encouraging the private sector through various incentives to participate in this sector.

5.78 The several key measures announced to boost housing construction include (i) tax deductibility of mark up (up to Rs 500,000); (ii) reduction in excise duties on cement, while abolishing excise duty on wire and cables; (iii) increasing the mortgage limit to Rs 7.5 million, up from Rs 5 million; (iv) change in debt to equity ratio from 70:30 to 80:20; and (v) amending the foreclosure law allowing the banks to repossess the mortgaged property without recourse to courts. To promote rural housing, the Provincial Governments will consider granting proprietary rights to individuals and families residing in houses constructed on "Shamlat deh" and state land. The Provincial Governments will also take steps to regularize Katchi Abadis and develop packages for their upgradation or relocation. To reduce population pressure on the big cities, satellite, intermediate, secondary, and industrial towns as employment centers of the future will be developed,

especially for the rural population. It is expected that the boom in housing and construction sector because of higher multiplier will generate employment opportunities and contribute in economic growth.

Pillar Two: Improving Governance and Devolution

The structural elements of this pillar are: devolution; fiscal decentralization; access to justice; police reforms; civil service reform; pay and pension reform; capacity building; anti-corruption strategy; procurement reform; freedom of information; fiscal and financial transparency and strengthening statistics.

5.79 The governance matters critically in economic growth and development of human capital. Just as a stable macroeconomic framework provides an overarching public policy background that nurtures efficient economics of private sector, good governance creates certainties about rights and obligations, enforcement of contracts and predictable consequences of breaches of rules and regulations. It is governance in many of its manifestations that gives the agents the necessary confidence to participate in the process without fear of bias and discrimination. Therefore, a successful public policy requires considerable emphasis on governance without which the full potential of the economy cannot be actualized and effective spending and improvement in service delivery will not be ensured.

5.80 In recent years, it is considered that poverty is highly conditioned by governance factors as well. In Pakistan, addressing the governance component of the poverty reduction strategy has required major transformation of governance structures and systems, as well as of political and organizational culture, especially at the local level. This was essential due to an accumulated governance deficit that has led to institutional decay and breakdown. Despite the enormity of such an undertaking and the level and continuity of the political will required, Pakistan is now committed to overcome its governance crisis and lay the foundation for a successful poverty reduction strategy. This commitment consists of a series of fundamental transformations, including devolution of power to the grass roots level and decentralization of administrative and financial authority, improved access to justice at the local level, civil service reform, participation of the people in the decision-making process, transparency, and accountability.

Devolution

5.81 The Government's strategy for institutional renewal is a bottom-up approach to restructuring. For this, it launched devolution program to devolve power to the grass roots level. This process has consisted of devolution of power, decentralization of administrative authority, deconcentration of management functions, diffusion of the power-authority nexus and distribution of resources to the district level. At the end of two years of devolution efforts, there has been considerable progress on a number of fronts, in particular on the political front. Next steps, which the government will implement over the next two to three years, will focus on administration and fiscal decentralization.

5.82 Devolution of political power has taken place through the direct election of union councilors and union nazims and naib nazims. Indirect elections have also taken place of rural tehsil, urban town, and district nazims and naib nazims. The councils have vertical linkages as union nazims and naib nazims represent their unions in the district and tehsil councils, respectively. All of these officials assumed their positions on 14th August 2001. The experience of two years of devolution indicates the desirability of undertaking direct elections of zila and tehsil nazims, given the greater legitimacy and accountability conferred by direct elections.

5.83 Women have at least 33% seats in local councils at the union, tehsil, and district levels. This provides a nation-wide array of women's leaders that can improve the situation of women in the country and also improve the situation of the poor. The Government backed Women's Political Participation Project seeking to promote the capacity of lady councilors. Reserved minority and peasant and workers seats on each local council guarantee the representation of vulnerable and poor groups.

5.84 **Decentralization of Authority** has restructured the administrative setups at the district, tehsil, town (in a city district) and union levels. Administrative structures at the district level now function under the Zila Nazim. The District Coordination Officer (DCO) is responsible for coordinating the activities of eleven groups of offices each headed by an Executive District Officer (EDO). Municipal services have been reorganized under the tehsil/town Nazim. The Tehsil/Town Municipal Officer (TMO) and Tehsil/Town Officers function under the Tehsil/Town Nazims. At the union level the union administration operates under the Union Nazim. Through the institution of Local Government Commission a supervisory and dispute resolution mechanism has been established. However, at the end of two years of devolution process, it seems desirable to bring elected local government to Islamabad also. It is also necessary to form the new group of offices in the areas of Community Development, Adult Literacy, and Information Technology as well as effectively transfer to Tehsil all of the units and personnel designated conforming to the Tehsil Municipal Administration.

5.85 **Deconcentration of Functions** in the revenue and police hierarchies has taken place. Now coordination, revenue and magisterial functions are not concentrated in one post. Likewise police investigation has been separated from watch and ward. The provinces have policy and standard setting functions in the areas decentralized to the districts. The Tehsil/Town Municipal Administrations have been assigned the responsibility for planning and delivering municipal services (local roads, water supply, street lighting, markets, urban amenities, etc.). The union administrations plan and execute small community development projects in addition to their major role of monitoring the services and facilities.

5.86 There is a view that deconcentration of functions will not be complete until federal to provincial devolution takes place to strengthen provincial autonomy. This will entail the restructuring of the federal level to eliminate units that are unnecessarily duplicating provincial functions, such as education, health, agriculture, etc. It will also involve restructuring of provincial level and require strengthening capacity for policy formulation and winding down direct execution of functions being assumed by the local governments.

5.87 **Distribution of Resources** is being undertaken through the mechanisms that facilitate equitable, transparent and predictable transfers to local governments. Besides, it encourages local administrations to improve revenue mobilization at the local level. These mechanisms are described in a subsequent sub-section titled “fiscal decentralization”.

Fiscal Decentralization

5.88 Assigning service delivery and taxation responsibilities to various levels of governments is fundamental issue in fiscal federalism. In Pakistan, the distribution of regulatory and service delivery functions is specified in the 1973 Constitution. Local Governments in Pakistan are established by provincial government ordinances (currently LGO 2001) that also determine their powers and responsibilities. The allocation of taxing powers to various levels of government is determined by considerations of efficiency, national equity, and administrative costs. The three levels of government have been empowered to levy tax and collect user charges. Nevertheless, public finances in Pakistan are characterized by vertical fiscal imbalances between the federal and provincial governments by most researchers.

5.89 One possible response to the vertical imbalances in the budgets of the three tiers of government could be to reassign taxation authority downward to the provincial and local governments. While this could be an option on grounds of better fiscal accountability and greater autonomy of provinces, it can increase regional disparities. Because fiscal capacities of provinces (and districts) are diverse, devolving taxation authority will result in considerable differences in public revenues and services delivery in the provinces (and districts). Thus, as is the case in other federations, the Government of Pakistan’s transfer has an element of equalization so that the population of poor provinces is not left behind. The Government’s response to vertical fiscal imbalances is therefore to transfer an increasing share of fiscal space generated at the center to provincial governments. It is expected that provinces will also redistribute resources taking into account poverty and/or other backwardness criteria to local governments. Equitable transfer mechanisms and conditional incentives can address regional resource redistribution objectives and ensure efficient service delivery. This is the route adopted in the 1973 Constitution and LGO 2001. The National Finance Commission (NFC) and Provincial Finance Commissions (PFCs) are entrusted to come up with such equitable transfer mechanisms.

5.90 Fiscal decentralization entails providing local governments with locally generated revenues, in addition to a reliable and predictable transfer of funds from the upper level of government. When combined with effective accounting and auditing, on which the Government is investing with ADB financing, local council monitoring, and community participation, fiscal decentralization can ensure more judicious, responsive, and efficient use of resources. It can also improve service delivery as local governments can better assess spending priorities and utilize their resources in a cost-effective manner.

5.91 Under the Local Government Ordinances 2001 local governments have the authority to plan and spend the funds according to local priorities in accordance with the

budget approved by the respective council. It is expected that social expenditures will increase in decentralized as compared to under the centralized government structure. This is because of greater proximity to the real needs of the people and their greater participation in prioritization. This can facilitate implementation of poverty reduction strategies.

5.92 A new set of laws and guidelines for fiscal decentralization are being formulated and implemented. In this respect budget rules, accounts rules and CCB rules have already been notified. To ensure consolidation of accounts under the new local government finance system, the same chart of classification will be used at all levels of federal, provincial, and local governments. The PIFRA project financed by the World Bank is supporting computerization of budget and accounts. It is envisioned that eventually all levels of governments will switch over to the PIFRA system. Specifically, it is envisaged that by end FY04 52 sites will have been computerized and all 127 sites will be computerized by FY07. To ensure proper implementation of these rules requires extensive capacity building of the accounts offices and officials. The Asian Development Bank's Decentralization Support Program will cater to capacity building relating to financial management and the World Bank supported PIFRA II project. The provinces have notified Rules in many areas of financial management as part of interim arrangements that need to be reviewed and further improved. Delegation of Financial Powers Rules as currently notified does not adequately reflect the decentralization process, especially for local governments. It is planned to revise these in light of the changes brought in the structures at the district and sub-district levels.

5.93 Presently the local governments depend primarily upon fiscal transfers from provincial governments for meeting their expenditure requirements. Local revenue mobilization is an important activity for the sustainability of local governments. Future strategy will look at further devolution of taxes to the local levels, widening of tax base, rationalization of local taxes and improvement of collection and recovery mechanisms.

5.94 Provincial Finance Commissions (PFCs) have been constituted in each province. These Commissions comprise of officials and representatives of local governments and the civil society. The main function of the PFCs is to ensure equitable and transparent distribution of resources. A formula based mechanism for fiscal transfers directly to local governments has been put in place. Interim awards have already been notified for revenue distribution. The PFCs are in the process of finalizing the Provincial Financial Awards, which shall be valid for a period of three years. The interim awards vary from province to province reflecting their peculiar socioeconomic conditions and resource situation.

5.95 The broad principles of NWFP award include (i) sharing of the divisible pool in the ratio of 40: 60 percent between the provincial and local governments respectively after excluding obligatory expenditure from the total pool; (ii) transfer of 90 percent of the provincial allocable amount (share of local governments) on the basis of formula [population (50 percent), backwardness (25 percent) and lag in infrastructure (25 percent) and 10 percent as fiscal equalization for resource redistribution; (iii) sharing of development funds of a district in the ratio of 60 : 30 : 10 between the district government, TMAs, and Union Administration (UAs) respectively; (v) sharing of 30

percent amongst TMAs in a district on the basis of UAs in a Tehsil/Town; and (vi) allocating 70 percent of funds transferred to a district on social sectors and 30 percent for other sectors. The obligatory expenditures include debt servicing, pensions, subsidies, and charged expenditures.

5.96 The interim award of Sindh is based on expenditure benchmarks of the two tiers of the government and include (a) sharing of the divisible pool excluding non-tax receipts in the ratio of 60 : 40 percent between the provincial and local governments respectively; (b) transfer of provincial allocable amount on the basis of formula to the district governments [population (50 percent), backwardness (17.5 percent), tax collection (7.5 percent), Transitional transfers (25 percent)] to meet current expenditures; (c) distribution of non-tax receipts from education, health, and works amongst district governments on the basis of collection; (d) sharing of development pool in the ratio of 30 : 70 percent for provincial government and the local governments respectively to be transferred to the districts on the basis of formula [population (50 percent), backwardness (30 percent), backlog of on-going schemes (10 percent), and equal share (10 percent); and (e) transfer share received from of 2.5 percent GST to district governments.

5.97 The interim award of Punjab is based on (a) sharing of the divisible pool in the ratio of 60.20 : 39.80 percent between the provincial and district governments respectively; (b) transfer of share from 2.5 percent GST to districts as straight transfer and fiscal equalization grant in absolute amount; (c) distribution of funds out of provincial allocable amount for current expenditures to districts and TMAs on historical need basis; (d) transfer of development funds to the districts on the basis of population (67 percent) and underdevelopment (33 percent); and (e) allocating 25 percent funds out of share of a district from development funds to TMAs.

5.98 The interim award of Baluchistan includes transfer of 37.90 percent of total provincial revenues, net of capital receipts, to the district governments on the basis of population (50 percent) and area (50 percent).

5.99 Local Government Ordinances 2001 specify that fund transfers shall be directly to local governments. The timely availability of funds is critical for ensuring adequate service delivery. To enable direct fiscal transfers to take place smoothly requires notification of the Fiscal Transfer Rules, currently in development. There is a need to develop a proper management information system to monitor releases to local governments and the budgets and expenditure of local governments.

5.100 Since the functions of accounts and audit have been separated, special structures are being created to implement these measures and ensure that complete fiscal decentralization takes place. The Local Government Ordinances 2001 provide the institutional framework under which local accounting and auditing will be conducted. Capacity building needs to accompany the introduction of these new processes at the local level. An important component of the financial system that needs further improvement is procurement and contracting systems. It is envisaged that procurement and contracting systems will be reviewed and new rules notified that are in line with the local government system. Under the Local Government Ordinances 2001 the Nazim is required to appoint an internal auditor and establish the necessary systems to ensure

compliance with rules and regulations and judicious utilization of public money. Monitoring by concerned citizens in coordination with union council monitoring committees is an effective mechanism to ensure greater transparency. The fiscal decentralization effort will require important support from donors to overcome financial constraints. It also needs a concerted effort by the provincial and local governments to substantially increase their own revenues, which at present are quite low and static for the last many years by expanding tax base, plugging the leakage, adjusting the tariff, and effective cost recovery to supplement revenue transfer from higher level of government.

5.101 **The Diffusion of the Power** is consisted of strengthening representation and participation at all levels of government through the creation of empowered, elected local governments and a system of check and balance. The divisional level where there were administrative structures and no corresponding political dispensation has been abolished. The district has been consolidated as a unit for planning, decision-making, and service delivery through a reorganized district administration working under a political leadership. Monitoring by local councils serves as another check and balance mechanism. The executive magistracy has been abolished. It combined executive and judicial functions at the local level but was not accountable to the people at the local level. The implementation of Article 175 of the Constitution has separated the judiciary from the executive completely at all levels. This strengthens the good governance percept of independence of the judiciary and provides greater protection for citizen's rights.

5.102 Recognizing that the process of **community empowerment** socially, economically, politically, culturally, morally, technologically, is a dynamic process in which actors and stakeholders, especially the weaker and the poorer, are enabled not just to express and analyze their reality, but to plan and act upon it, an enabling environment for community participation has been created through the legal framework for village and neighborhood councils and Citizens Community Boards (CCBs). Village and neighborhood councils are directly elected bodies that can undertake community development activities on the basis of voluntary contributions. They can also be delegated and contracted to deliver services for local councils as long as financing is provided. Citizen Community Boards is non-elected voluntary associations of civic-minded citizens. They can strengthen the capacity of union council monitoring committees and can participate in the bottom-up, demand-driven planning process contemplated in devolution. The organized voice of the poor will participate in the decision-making and local development processes through electing representatives to local councils, local council monitoring committees, and solving their own problems through community development projects formulated by the community and supported by their local councils. Four sets of actions are required to promote community empowerment: (a) the organization of Citizen Community Boards (CCBs); (b) the creation of the Devolution Trust for Community Empowerment (DTCE); (c) the election of village and neighborhood councils, and (iv) the promotion of a devolution movement.

5.103 CCBs can serve as an important mechanism for local action on economic growth and poverty reduction. This potential will be realized by organizing the CCBs to effectively occupy the space for participation provided by the Local Government

Ordinance. They can directly formulate and execute community development initiatives and collect voluntary contributions for this purpose. They can also formulate and execute community presented projects and apply to local councils for support as part of the district-level bottom-up planning process. To ensure ownership they would deposit 20% of the amount required for the project from their voluntary contribution funds. Upon approval the local council will finance the remaining 80%. At least 25% of local council development budgets in all three tiers of local government (union, tehsil, district) must be devoted to community development projects prioritized by CCBs under the law.

5.104 Realizing that the ultimate success of devolution depends on restructuring institutions and equally on the participation of the people in local governance and developmental processes and that the devolution should not be reduced to the new roles of elected representatives and the bureaucracy, the National Reconstruction Bureau is undertaking a major communication exercise to make people aware of what the devolution process entails, and – even more important – what benefits it can bring. Until people understand the process they cannot be expected to be active supporters and participants in it. The key to understanding is communication.

5.105 Devolution is now a ground reality. The challenge now is the full implementation of all of its components and consolidation that include (a) some modifications such as the direct election of zila and tehsil nazims; (b) some additions such as federal to provincial devolution to strengthen provincial autonomy; and (c) federal and provincial restructuring. Full implementation requires that fiscal decentralization, improved access to justice at the grass roots level, and police reform be fully executed, in addition to the consolidating the structures and processes of local government and community empowerment. Finally, the civil service reform is necessary to align the administration to the devolution. The implementation of these reforms in an integrated and holistic fashion is the core strategy to produce more effective governance through citizen empowerment, strengthened representation and participation, transparency and accountability, citizens' voice and increased responsiveness to citizen demands through a bottom-up process. This in turn will condition improved service delivery and effectiveness of public expenditures at the local, provincial, and federal levels. The challenge is formidable though, it needs concurrence of all actors and stakeholders.

Access to Justice

5.106 Improved access to justice is an absolutely necessary complement to devolution that is directly linked to poverty reduction. An important factor for grass roots support for devolution is precisely the restoration of the confidence of citizens in the police and courts. The Government recognizes that judicial, legal and Police reforms are essential to establish rule of law and enforcement of contracts that will stimulate economic growth and encourage private investment—both local and foreign. The basic problems of judicial administration in Pakistan relate to case management and delay reduction, automation of courts, human resources and its development, infrastructure inadequacy, and redressal of small causes. The Government in collaboration with the Judiciary and the Provincial Governments is implementing Access to Justice Program (AJP) to address issues associated with administration of expeditious justice.

5.107 The Government firmly believes that a strong and an independent judiciary is a prerequisite for establishing rule of law. The separation of judiciary from the executive in accordance with constitutional provisions is complete. To strengthen country's judicial system, the Government through AJP (FY02 to FY06) aims at facilitating major and long term reformation. It will improve access to justice so as to (i) provide security and ensure equal protection under the law to citizens, in particular the poor; (ii) secure and sustain entitlements and thereby reduce the poor's vulnerability; (iii) strengthen the legitimacy of state institutions; and (iv) create conditions conducive to pro-poor growth, especially by fostering investor's confidence. The Government will also take measures under AJP to address the vulnerability of the poor by (i) alleviating the vulnerability arising from everyday harassment, under-performance, exclusion, and denial of basic rights by public officials; (ii) easing the vulnerability of informal sector activities to rent-seeking activities of officials responsible for licensing and regulating people's access to economic and environmental assets; and (iii) improving the accountability of public officials and improving the accessibility and affordability of public goods and services in which the poor rely disproportionately.

5.108 The mandate of the Pakistan Law and Justice Commission (PLJC) has been expanded to include administration of justice. It will now also focus on issues such as (i) working of the civil and criminal justice systems; (ii) penal policy; (iii) research on existing laws and regulations to reduce the vulnerability of the poor; and (iv) issues of finance and administration relating to the justice system. A special purpose fund titled "Access to Justice Development Fund (AJDF) has been established. To ensure speedy and inexpensive justice, the Government is establishing exclusive Family, Juvenile; and Small causes courts and strengthening logistic support to courts and infrastructure. This will be supplemented through Alternate Dispute Resolution mechanisms provided in the Local Government Ordinance 2001. District Ombudsmen and Musalihat Anjumans will be created to redress citizen's grievances related to district offices and to amicably resolve local disputes, respectively.

Police Reforms

5.109 The **Police Order 2002** is a major step towards ensuring maintenance of law and order and dispensing speedy justice. It aims at transforming police force from an instrument of government coercion to a service delivery organization that protects people's rights. The setting up of Public Safety Commissions at the national, provincial, and district levels comprising elected representatives will provide for local control and institutionalize accountability at the grass roots while ensuring functional autonomy of Police on matters involving professional ethics and standards. Public Safety Commissions are being established at the federal, provincial, and district levels. The latter will be comprised of half members from the Zila Council and half selected through an independent selection process. A Police Complaints Authority will also expedite investigations into allegations of excesses and neglect by Police. The District Public Safety Commission (DPSC) will ensure local control over police, and an effective check and balance on police excesses or neglect. It will approve annual policing plan prepared by the district police officer (DPO) in consultation with the Zila Nazim. It can also remove the DPO for cause and due diligence. The DPSC can take measures to improve police-community relations, including the promotion of Citizen Police Liaison Committees

(CPLCs). Union Council Public Safety Commissions will promote and monitor police results and performance at the grass roots level through Inter-Union Consortia that conclude results and performance contracts with Police Station involving incentives. The Devolution Trust Fund for FY04 is set-aside for this purpose.

5.110 The Criminal Justice Coordination Committees at the district level will ensure speedy justice. To strengthen the rights of the citizenry and improve the quality of prosecution in the country, an independent Prosecution Service has been established in each province to relieve the Police from its duty as prosecutors. To improve security environment, the Government will strengthen Police's capacity to deliver effectively by establishing forensic laboratories, improving investigation and detection skills, beefing up training institutions, enhancing mobility and communication, strengthening intelligence capability, training to combat terrorism, and providing adequate funding as well as improving compensation structure commensurating nature of the job while improving its public image. The implementation of various provisions of the Police Order will transition to full enforcement. These measures, as well as all of the decentralized offices will provide the poor and the illiterate more effective recourse to redress grievances and more open access to justice in their own communities, an important element for empowerment, dignity, and rights.

Civil Service Reforms

5.111 The Government is fully cognizant that increased spending will not improve the delivery of key services, nor will it automatically translate into better policies. There is a strong realization that civil service reform is essential for improved governance and poverty reduction. In addition, the full implementation of both the local government system and improved access to justice require reform of the civil service. This is necessary to adapt the public administration at the union, tehsil, district, provincial, and federal levels to the new reality of devolution, as well as to achieve a public administration that is more focused, transparent, accountable, demand driven and responsive to citizen demands.

5.112 Civil service reform is necessary for the full realization of both devolution and poverty reduction, as well as to achieve a more focused, results and performance oriented, demand driven, transparent and accountable public administration that is more responsive to the citizenry. The main elements of the Government's civil service reform strategy include: a flatter structure of civil service; merit based recruitment and promotion criteria; performance based compensation; incentives to improve innovation (i.e. encourage prudent risk taking), and to increase the demand for professional skills (i.e. for training and education) are integral components of reforms.

5.113 The Government recognizes the motivating power of an articulated vision for the civil service. The purpose of Civil Service reforms is to improve the effectiveness and performance of the civil service and to ensure its affordability and sustainability over time. The ultimate goal is to improve upon the service delivery mechanism which citizens consider necessary and to enhance the level of institutional capacity in the public sector to carry out core government functions by (a) fostering among public servants the values of 'service', 'responsiveness to public', 'transparency in public dealings', 'concern for the

taxpayer's money' and 'centrality of the citizen'; (b) promoting national cohesion and inter-provincial harmony while ensuring necessary autonomy to provinces in matters relating to public services of their respective provinces; (c) curbing corruption, strengthening internal accountability and institutionalizing accountability to the people; (d) providing to all government employees equal opportunities for professional development, recognition and advancement to the highest position in public service; (e) ensuring continuous updating of the skills / capacity of public service to meet the demands of a modernizing and progressive state and providing mechanisms for induction of the needed skills, where / when such skills are not available, particularly at the higher policy-making levels; and (f) instituting effective personnel establishment controls so as to preclude the possibility of unauthorized / irregular induction at all levels.

5.114 To institutionalize merit based and transparent appointments ensuring de-politicization of civil service, the Government has taken measures to enhance independence of the Federal Public Service Commission (FPSC), increase its financial autonomy, extend its role in the recruitment of public servants and limit and define the posts which are outside its purview. Similarly, to ensure transparency in promotion of officers against selection posts (BS-19 and above), the Central Selection Board has been made broad based and more representative and is now chaired by the Chairman, FPSC. To check inflationary trends and to make evaluation of officers more objective, *Performance Evaluation System* has been revised to ensure that the evaluation is job specific, against pre-determined targets while grading is comparative. A legal framework, Removal from Service (Special Powers) Ordinance, 2000, has been enforced to weed out in-efficient and corrupt government servants.

5.115 **Restructuring of the Civil Service** is one of the significant administrative features of the Civil Service Reforms. Presently, neither the existing organizational set-up in the public sector catalyzes the potentials and energies of the civil servants nor on-the-job training provides adequate development of the required executive management, creative policy analysis and development skills. To address the structural issues, a proposal for creation of five new services is under consideration:

- The Federal Civil Service.
- The National Executive Service.
- The Provincial Civil Service, including Provincial Executive Service.
- The District Civil Service.
- The Tehsil Municipal Service.

The NES is proposed to have three broad streams of professional specialization, which will be the feeding cadres for the National Executive Service:

- Economic Management
- Social Sector Management
- General Management

5.116 The Government and the National Reconstruction Bureau in collaboration with the provincial governments will work on restructuring of the civil service to further the devolution and on-going reforms in various sectors of the economy and compensation structure to ensure adequacy and to reduce severe compression in wage structure. Civil

service reforms will aim at strengthening administrative capacity to perform core government functions with adequate prioritization and focus to raise the quality of infrastructure and services.

Pay and Pension Reform

5.117 Though the Government has raised the salary and pension of government employees twice in the recent years (December 2001 and July 2003) to adjust for inflation, the compensation in the Government is still very low as compared to the private sector, especially for the higher managerial and professional cadre (BPS 19-22). The retrenchment of a large number of employees is unlikely to be politically feasible, significant pay reform combined with highly selective future hiring can be achieved through fiscal space and attrition in the low priority non-productive cadres and groups, which will over time serve to rationalize the structure of the civil service. The compensation needs to be linked with job-content, skills, and the comparative salaries in the private sector and pay increases be tailored to the nature of the responsibilities and hardship of posts to reduce the incentives for corruption. Unfunded pension liabilities are likely to increasingly impose a burden on the Government of Pakistan, and even more so at the provincial level. Therefore, pension reform for civil servants is critical at both levels of government. The Actuarial Office in the MOF is already working on pensions reform for civil servants and will be a key area of focus.

Capacity Building

5.118 The PRSP consultative process has brought home a clear message that a quantum leap in efficiency and management is needed if the country has to accelerate and sustain growth, reduce poverty, anticipate opportunities and challenges of the future, and to enable its enterprising citizens and private sector to realize their full potential and compete in a fiercely competitive global market. The mismatch between skills and compensation is a serious impediment in attracting high quality people in the public sector resulting into frequent use of MP scales. The Government recognizes that successful implementation of GOP's on-going reform program, both at the federal and provincial levels, and devolution is inseparably linked with the capacity of government institutions and the quality of civil service.

5.119 Project execution, service delivery, economic policy formulation and financial management capacities of union, tehsil and district administration are priority areas for the Government. Special focus is needed in newly assigned functions such as community development, adult literacy, and information technology as well as internal audit for local governments. Local accounts and external audit are equally important. The capacity building of PFC, Local Government Commission, Police Safety Commissions, Police Complaint Committees, Prosecutors, District Ombudsman and Musalihat Anjumans is critical for the devolution to succeed. The capacity building at the local level, both of elected representatives as well as government functionaries is being partially addressed through the Devolution Support Program. The emergence of large number of new roles as a consequence of devolution will require a large-scale reorientation of governmental training institutions and resources.

5.120 The Government aims to implement a **public sector capacity building project (PSCBP)** with the assistance of the World Bank focusing on professional development and capacity building. The strategy for public sector professional development is anchored on (a) creating champions of change at the senior level supportive of transformation processes who would engender reforms currently underway in the country including devolution, lead the process of policy formulation and implementation, and provide a nurturing environment for high quality work; and (b) developing a critical mass of internationally trained policy specialists, decision-makers, and implementers across key government ministries, regulatory authorities and departments. The Government realizes that this big-bang approach is necessary for changing the existing public sector system and quality of service. The objective is to increase professional skills. The priority needs to be given to build the capacity of all three levels of legislators—federal, provincial, and local--- in terms of policy formulation and policy oversight roles.

Anti-Corruption Strategy

5.121 The National Accountability Bureau (NAB) has effectively arrested the widespread corruption in society during the last three years. To sustain this momentum and eliminate the corruption, the Government has recently approved National Anti-Corruption Strategy (NACS). NACS implementation tools are (a) legislation for access to information by general citizens; (b) integrity pledges publicly by government ministers whereby any failure to perform the promise entails resignation; (c) code of conduct to which institutions will adhere to eliminate corruption; (d) provision of conflict of interest prohibiting participation in decision making whenever private interests may be present in the performance of public duties; (e) declaration of assets by all prominent public office holders and their effective monitoring; (f) integrity pact by groups of related stakeholders; (g) provisions for whistleblower and their protection; (h) establishing vigilance units; (j) random integrity testing on those in vulnerable position; (k) citizen charters; and (l) service delivery surveys and report cards. The broad-based Steering Committee is evolving modalities to implement various aspects of NACS. Given the importance of justice system in fight against corruption, the NAB will work more closely with the access to justice program. The control systems in government departments will be strengthened that will make the existing rules and regulations more effective. Looking ahead, greater reliance on automation, civil service reform, and training of legislators and civil servants will form integral part of NACS.

Procurement Reforms

5.122 Pakistan Procurements Regulatory Authority (PPRA) has been established to regulate all public sector procurements and to take such measures as may be necessary for improving governance, management, transparency, accountability, cost effectiveness, and quality of public procurement. Towards this end, the Government is aiming at formulating a universal law incorporating basic principles and principal methods of procurement and framing of subsidiary rules and regulations in consultation with the key stakeholders. While finalization of draft law may take some time, the PPRA proposes to finalize the draft rules and regulations by end-February 2004. It will help in eliminating corruption in public sector procurements. It is important to note that the

Government of NWFP has already promulgated the universal law on procurement in July 2002 and is about to adopt enforcing rules shortly.

Freedom of Information

5.123 The promulgation of Freedom of Information Ordinance 2002 is GOP's recognition of the role that a free media can play in informing the public thereby encouraging accountability of public actions. Today all economic decision-making is disclosed to the public. The Letters of Development Policy, loan agreements with the donors (PRGF, SACs), quarterly budgetary reports, quarterly pro-poor expenditures, economic policies and performance, privatization program, gas pricing framework, Public Sector Development Program, to cite few, are available on the web and open to scrutiny. This openness has improved the governance framework has added transparency in the use of public funds, certainty and predictability in the economic policies and for these reasons there is stability and buoyancy in the market.

Fiscal and Financial Transparency

5.124 The Government is pursuing a comprehensive strategy for improving public accounting and auditing functions by separating the two and introducing New System of Financial Control and Budgeting delegating significant financial powers to the administrative heads of spending agencies. Automation under Project for Improving Financial Reporting and Accounting (PIFRA) will ensure transparency in fiscal administration. The new system will provide timely information for better budget management, financial control, cash forecasting and trend analysis, fiscal administration and debt management and will introduce greater degree of transparency in financial transactions. Fiscal Monitoring Committees at the Federal and Provincial levels prepare, reconcile, and publish updated quarterly consolidated data verified by the Controller General of Accounts. This is facilitating the Government to tackle the problem of unidentified expenditure.

5.125 With deepening of current reforms and further strengthening of the system, fiduciary risk to the donors will be minimal. Recognizing the need for consolidation of existing reform program, the activities during the medium term will include: (i) improving budget development processes at the federal, provincial, and district levels; (ii) improving budget execution; (iii) strengthening accounting expertise across the board and building capacity commensurating shift in fiduciary responsibilities; (iv) accelerate PIFRA computerized accounting system implementation; (v) develop training and certification programs for the Auditor General's Department; and (vi) building capacity of the PAC Secretariat. The government will have accounting, internal control, and internal audit framework at all levels of the government in addition to provide Chief Financial Officers to the Ministries.

Statistics

5.126 The availability of reliable and timely economic, demographic, and social statistics is essential for good policy analysis and formulation, and for an informed public debate about outcomes and priorities. As is the case in many countries, Pakistan's

economy and society has changed more rapidly than its statistical systems. It is now an urgent priority to strengthen them. Strengthening the statistical agencies will require reforms in the legal framework governing statistics, institutional reform, and investment in human capital. The Government is aiming at restructuring of existing statistical agencies and to develop a long-term plan to strengthen the statistical system including training and motivation of the staff, strengthening infrastructure, and related measures. The Government is seeking Technical Assistance in this regard. Pakistan is now participating in the General Data Dissemination System (GDDS) beginning November 2003 with statistical metadata posted on the IMF's data dissemination board and will now move toward Standard Data Dissemination System (SDDS).

Anti-Money Laundering Law

5.127 The financial liberalization and integration of financial markets has led to an ever growing number of off-shore banking centers and tax havens competing for increasingly large supply of money fleeing from the developing countries. Money laundering becomes easy. To combat this problem and to check terrorism financing, the Government will submit Anti-Money Laundering (AML) law to the Parliament in FY04 providing for establishment of Financial Investigation Unit and extra-territorial jurisdiction. In the interim, SBP and SECP have proceeded and updated their respective prudential regulations and established dedicated AML units.

Pillar Three: Investing in Human Capital

The structural elements of pillar III are: improvements in education and health delivery; drinking water and sanitation; youth development; and strengthening the commission for human development.

5.128 Most social development indicators for Pakistan compare poorly with those of other developing countries at similar levels of per capita income. A weak social profile is detrimental to growth as human development is essential for attracting investment and generating capacity for sustainable growth. Pakistan's long-term sustainable growth and poverty reduction prospects are critically contingent on investment in human development which is constrained by financial resources. As the demand for social services rises, the Government will need to increasingly target human resource investment to the poor and will need to work more closely with the private sector, non-governmental and community based organizations as well as donors to ensure provisions to the people.

5.129 The main responsibility and role of improving social services lies with the provincial and district governments. At this point, there is some degree of overlap and mismatch between responsibilities for design of the program, implementation, and delivery. This is partly due to the on-going devolution process devolving from upper level to lower levels of government, and thus, the Government's effort in the next 2-3 years will need to better align accountabilities and expenditures, resources, and administrative and policy functions. Both provincial and district governments have extensive programs to improve service delivery in education, health, and other social services. The governments of the NWFP and Sindh embarked upon extensive health, education and

social sector programs supported by Structural Adjustment Credit from the World Bank in FY 03. The Government of Punjab is seeking support from the World Bank and the Asian Development Bank for its social development program and Baluchistan is following the same path. The provincial governments have transmitted their priorities to improve service delivery in these sectors to the district governments through the Provincial Finance awards. However, the Federal Government also has a responsibility since education, health, population welfare are on the Concurrent Legislative List in the Constitution of Pakistan. The Federal Government has transmitted its priorities in these sectors through federally funded conditional transfers to the provinces and further to the district governments.

Education

5.130 The education service delivery in Pakistan is faced with a multitude challenges---from lack of infrastructure and facilities to severe shortage of qualified and trained teachers. The other challenges include: (a) under-investment in quality; (b) lack of accountability and tracking mechanisms between planners and service providers; (c) commensurate resource mobilization to achieve targets and outcomes; (d) drop out rate and teachers absenteeism; (e) availability and accessibility of low-cost, high quality education; (f) absence of formal criteria for funds allocation at school level; and (g) standardized data collection and dissemination. One positive area of development has been the emergence of a rapidly growing private sector that is prevalent in both urban and rural areas,

5.131 Literacy in Pakistan is estimated at 49 percent with considerable gaps across genders, provinces and the rural-urban divide. Male literacy was 61 percent and female literacy 36.8 percent in 2000-01. Pakistan is facing the challenges of coverage and quality in education. While the gender gap has narrowed slightly this is partly, due to decline in male enrollment at secondary level in public sector schools who have shifted into private options. There are also significant differences across provinces with decline in enrollment in Sindh and Baluchistan in public sector education. Government has a policy framework in place to advance gender equality in education. Diverse programs including compensatory program (stipends, free textbooks, and school nutritional support) and initiatives through public private partnerships (school upgradation) are resulting in higher coverage for girls

5.132 Problems to ensure quality are widespread. These are acknowledged at all levels and encompass teacher shortage and absenteeism, minimal supervision, poor infrastructure and shortage of teaching materials. The Social Action Program (SAP) launched in 1992-93 succeeded in increasing the number of schools, inadequate attention was given to quality attributes including teacher availability and teachers' accountability. This rendered many schools non-functional. The growth in private schooling estimated at 30% of total provision, especially in rural areas, suggests that there is considerable demand for quality education.

5.133 Guided by the **objective of 'education for all'**, the Government aims at improving the access and quality of primary education. The Government also recognizes that while improving basic education is the most urgent priority, sustained economic

growth requires sector-wide growth for sub-sectoral balance to sustain education improvement and good governance. Learning from SAP, the Government's strategy continues to be strengthening service delivery, and increase in funding on account of debt re-profiling, improvements in revenue collection, stronger economic growth and assistance from donors. The national education policy emphasizes increased enrolments in public sector schools, removing urban-rural and gender imbalance, improving quality of education at all levels particularly through curriculum reform, strengthening higher education, providing for demand-driven education and encouraging private sector participation. The linchpin of this effort is Education Sector Reforms (ESR) Action Plan 2001-2005, embedded in PRSP. An Education for All (EFA) Plan of Action (2001-2015) has been developed through broad based consultations with the principal actors and other stakeholders. The priorities under EFA include: (i) universal primary education and quality education for all; (ii) adult literacy rate of 86 percent for both males and females; (iii) reducing illiteracy by 50 percent with focus on reducing the gender gap; and (iv) quality education and technical and skill development programs. The Government is also in dialogue with development partners for Education for All Fast Track Initiative (FTI) to enhance quality and coverage in education.

5.134 The ESR is based on long-term framework linked to EFA goals by 2015. The key elements of the ESR strategy include: (a) sector-wide approach for reinforcement of linkages between sub-sectors (primary, elementary, secondary, technical, higher education, non-formal literacy, madrassah education) to eliminate gender and access gaps and ensure optimum utilization of facilities; (b) improving access and equity for Quality Universal Primary Education through improving school infrastructure; (c) increasing literacy through adult literacy programs; (d) supporting technical education in secondary schools; (e) improving quality of secondary education; (f) quality improvement through revision of national curriculum and textbooks, strengthening teachers' training, and establishing a National Education Assessment System (NEAS); (g) increasing access through public-private partnerships; and (h) mainstreaming madrassah education through introduction of general education subjects. The ESR is fully integrated with relevant Millennium Development Goals (MDGs). It aims at achieving the sub-sector targets by 2006: Literacy from 49 percent in 2000-01 to 60 percent by 2005-06, Gross primary enrolment rate from 83 to 100 percent, Net primary enrolment rate from 66 to 76 percent, Middle School Gross enrolment rate from 47.5 to 55 percent, Secondary school enrolment from 29.5 to 40 percent; and Higher education enrolment from 2.6 to 5 percent.

5.135 In the long-term perspective, the ESR aims to attain the following targets:

- **100 percent literacy through Universal Primary Education (UPE)** both formal and non-formal systems, and adult literacy movement (15 years and above). It is proposed to establish 270,000 **Adult Literacy Centers** to increase literacy in the country. The Government is soliciting support of the National Commission for Human Development, Allama Iqbal Open University, NGOs, Citizens Community Boards, Girl Guides and Boy Scouts to address this gap. In addition, Pakistan has launched its program under United Nations Literacy Decade (2003-12) devising guidelines. The basic objective of the guidelines for the strategic framework of action for UN Literacy Decade is to improve the implementation of

national literacy plan/policy to achieve during the decade, the targets set for literacy by EFA.

- **Quality for sustaining 100 percent literacy through** upgrading one school as a center of excellence in each sub-district, professional development of teachers and managers, continuous curriculum reform and examination reform and assessment systems. **Teachers Resource Centers (TRCs)** are being set up at the district and tehsil levels for providing decentralized information and capacity building opportunities to teachers, managers and communities. To date 300 TRCs have been established.
- **Technical/Vocational education in all districts of Pakistan through** area specific skill programs in existing secondary schools, setting up of one polytechnic at Tehsil level, second shift in existing polytechnics, especially for women.
- **Technical Stream:** To provide job opportunities to youth, an innovative element of ESR is the introduction of technical education stream in 1,100 secondary schools, 10 in each districts preferably five male and five female. The plan aims at introducing a skill development stream in the ninth and tenth grades, as the third option to the existing science and art groups. The program will be supplemented through the provision of micro-credit. To make the output more compatible with the market, 34 new emerging technologies have been introduced along with appropriate Teaching Learning Materials. Strengthening of science education in secondary schools is also a strong element of the sub-program. The program envisages construction of science laboratories in 1,000 schools. A program for reinvigorating polytechnics at tehsil level and initiating second shift in the existing polytechnics is being evolved in consultation with the provinces. The program will focus on opportunities for women. At least one polytechnic will be set up at the district level.

5.136 Recognizing a close nexus between poverty and illiteracy, extending entitlements through ESR is a major challenge. The Ordinance for compulsory primary education has already been promulgated in all provinces except in Baluchistan and federal territory, to highlight the mutual social responsibility of state and society. An incentive package has been developed to meet the educational needs of poor students such as free textbooks, uniforms, stipends, fee waivers and nutrition. Stipends for students are being provided through Zakat as well as formal budgetary allocations. The Ministry of Education launched the National Action Plan for EFA on April 9, 2003 for achieving universal primary education, early childhood education and adult literacy by 2015. The gender disparities are being narrowed through mixed primary schools, compensatory programs and appointment of female teachers. The annual targets of ESR are to increase gross participation rate by 4 percent, primary completion rate by 5 percent, while reducing gender disparity by 10 percent.

5.137 The Government is implementing **National Education Assessment System (NEAS)**. The focus is to evaluate and assess learning achievements of students at primary (Class IV) and elementary (Class VIII) levels. NEAS will set up minimum

standards for performance to provide feedback for enhancing quality of education through improvement/revision of curricula, textbooks, teacher education, training and examinations. **Mainstreaming Madrassahs:** The objective is the uniformity of curriculum through mainstreaming subjects in madaris, helping link graduates to employment opportunities. The Government will mainstream 8,000 madaris during five years starting from 2002-03 through introduction of general education subjects under a three-year grant package for registered madaris. The program includes: (i) one time grant to the Madaris to improve their libraries and equip them; (ii) training of 32,000 teachers; and (iii) monitoring and evaluation through provincial and federal education departments/Ministry. It will also enable the madaris to get registered with the Government.

5.138 **Quality Assurance:** ESR provides a comprehensive approach for quality improvement that includes revision of curricula for class IX-XII, introduction of multiple textbooks through deregulation of textbooks, staff development including teacher education; training and professional development of planners and managers at all levels; setting up of professional cadre for improved management and planning of education; strengthening of teachers training institution; examination reforms; academic audit-linking grants/incentives with quality, increasing non-salary budget by three percent annually.

5.139 Recognizing immense contribution of the private sector and NGOs in the social sectors, the ESR is anchored in development of partnerships between the private sector, civil society organizations and the public sector. **Public-Private Partnerships** are critical to reaching the goals of access and quality at all levels of education creating possibilities for both voice and choice and improved service delivery. The Governments at the national and provincial levels have developed incentive packages for the private sector to provide enabling environment that include. Several creative programs have been initiated by public sector. These are (a) adopt a school or school improvement program (b) non-elite private sector schools in abandoned or underutilized public sector institutions (c) community participation project for school upgradation in afternoon shifts from primary to middle and from middle to secondary and higher secondary levels (d) introduction of IT in schools and colleges through the private sector and (e) access to public funds at district level to be utilized by Citizen Community Boards and Parents-Teachers Associations.

5.140 **Fast Track Initiative (FTI):** EFA-FTI is a global partnership initiated by G-8 through multi-lateral and bi-laterals to accelerate progress towards the goal of universal primary completion (UPC) for boys and girls alike by 2015. The initiatives combine stronger national policies, improved capacity, and incremental and effective external support. The FTI focuses on UPC as one of the six goals of Dakar Declaration and also influences two other MDG goals, gender equity and adult literacy. UPC would be an outcome/output indicator to ensure alignment to international indicators, once baseline and projections are established. The Ministry of Education along with the provincial governments has formally entered the FTI process with donors linking it to coherent donor coordination, PRSP, Sector Reforms and the National Plan of Action for EFA

5.141 The Government views **governance of education** as extremely important as meager resources seek (a) amelioration in more effective and efficient management; (b) moving the decision making process as close to the source of action as possible; and (c) demand for increasing participation in choosing and managing education by the communities and children. The Government is developing a responsive, participatory, and accountable system of educational governance and management by empowering the local governments and also engaging the civil society in the formulation, implementation and monitoring of strategies for educational development. Future challenges to implement ambitious ESR package comprise administrative decentralization, capacity building at national, provincial, and district levels to develop skills in planning, budgeting, implementing and supervision, working with teachers, communities and district level managers, increased public spending on education and development of strong institutions of higher education and quality research.

5.142 The governance reforms in education in the provinces will focus on: (i) transparent criteria for teachers recruitment; (ii) decentralizing the management of local schools to school management committees (SMCs) or parents teachers associations (PTAs), or school councils which has already been initiated in some of the provinces and reaffirmation of their role in school management and in monitoring and curbing teachers' absenteeism; and (iii) developing transparent approach to targeting districts and students for scholarships for girls or boys; and formal contract between the provincial and district governments for transfer of additional resources for education. Model partnership terms have been developed under Punjab Education Sector Reform Program.

5.143 Budgetary allocations to education have remained below 2 percent of the GDP. The ESR targets will entail considerable resource commitments. Given the present growth rate of population, 21 percent increase by 2006 will require enrolment of additional 6-7 million children at the primary level. This will further increase if the PIHS base data is considered. Clearly, higher public spending will be required for improving educational attainments. The Government recognizes that detailed work is necessary to firm up education funding requirements (details discussed in chapter six). Tentative estimates, however, suggests increase in public spending on education from 1.8 percent in 2001-02 to 2.5 percent of GDP by 2007-08. This will mean an average spending of 2.2 percent of GDP over the next 5 years resulting into an increase of 45 percent in real terms over the 2001-02 level taking one-third of the fiscal space generated. The Government proposed to absorb substantial part of this increase in primary and secondary education while reversing the downward trend in investment in higher education. The provincial governments will need to rationalize spending allocation within the suggested increase by enhancing non-salary expenditures for primary and secondary schools improvements; provision of missing facilities in existing infrastructure; provision of quality service such as teachers' training; increasing resources for new infrastructure on need basis; girls incentive programs and demand side interventions such as free textbooks, uniforms, transport, scholarships, and in-kind payments to the families. It is recognized that to achieve ESR targets and EFA goals, increase in domestic resources may not be adequate and will require substantial donors assistance. To get better outcomes, the government aims at addressing the institutional problems including accountability, responsibility, service orientation, and incentive system.

5.144 The Higher Education Commission (HEC) is taking a holistic approach to the development of higher education sector in Pakistan. It is clear that faculty is the heart and soul of the university. HEC will strive for the development of programs that address the higher education sector as a whole, and not piecemeal and the development of an environment conducive to academics, research, along with mechanism for management of funds and timely procurement. The foreign Ph.D. scholarship programs have been initiated to develop a research base in areas of key importance to the social and economic development of Pakistan. Special attention is focused on education and research infrastructure, including physical infrastructure, electronic access highway, digital library program, curriculum and distance education mechanism. While working towards overall uplift of the entire higher education sector, the Commission is in the process of developing targeted programs to catalyze development in the focus areas: Engineering Sciences, Pharmaceuticals, Biotechnology, Information Technology, Social Sciences/Economics/Management, Agricultural Sciences , and Health Sciences.

5.145 **Special Education (Disability):** The National Census 1998 indicates that 2.49 percent of the population suffers different types of disabilities. The disabilities distribution includes physically handicapped (19 percent); mentally handicapped and insane (14 percent), multiple disability (8.21 percent), visually impaired (8.6 percent), hearing impaired (7.40 percent), and unclassified (43.33 percent). The areas of focus include (i) prevention and detection of disability through early intervention; (ii) education and training; (iii) integration and mainstreaming; and (iv) vocational training, employment and rehabilitation. Special Education centers established in the public and private sectors do not provide proper equipment, trained teachers and transport facilities.

5.146 Recognizing the need for their education and rehabilitation, their mainstreaming will be ensured through aligning the policies at all levels of the government, changes in curriculum, and provision of specialized aids and equipment. The strengthening, upgradation and revitalization of special education centers will be accorded high priority over the medium term. Vocational training centers including sheltered workshops are also planned for disabled persons. Women and children are a special focus. The National Institute of Special Education will further strengthen its program of teachers training and research for improved service delivery. The program will also promote the use of computers for education and training of persons with disabilities in the federal and provincial special education centers. The private sector and donors will also be engaged in this system. Efforts are also being made to develop a National Action Plan for implementation of national policy for disability management. The Government has already promulgated Disabled Persons (Employment and Rehabilitation) Ordinance, 1981, reserves 1 percent quota for persons with disabilities. It is proposed to be increased to 2 percent. Agencies such as Pakistan Bait-ul- Mal, Zakat Administration, Khushali Bank, national and international organization will be associated to provide national support through micro-credit to support programs like "Vocational Rehabilitation and Employment of Disabled Persons" (VREDP) with communities participation which are planned to be replicated in urban and semi-urban areas.

Health

5.147 The current health status of the nation is characterized by a high population growth rate, high incidence of low birth-weight babies and maternal mortality. While communicable, infectious, and parasitic diseases remain a severe burden, malaria and tuberculosis (TB) continue to be potential threats. Although, consolidated public health expenditure rose during 1995-96 to 2000-01, it represents 0.60 percent of the GDP. Additionally, a major share of these expenditures is focused towards tertiary health care facility with the result that primary and secondary tiers especially in rural areas have been neglected. In addition, serious institutional and governance deficiencies mar the health sector. The other challenges facing the health system are access (availability and affordability), unawareness, and inadequate budgetary spending. Analysis of the burden of disease (BOD) conducted in 1996 indicated that around 60% of BOD is because of poverty related communicable diseases, childhood illnesses, reproductive health problems and malnutrition. Major impact of these diseases is borne by poor segments of society and vulnerable groups.

5.148 The major challenges facing the health sector are slow progress in improving the indicators related to maternal health, child health, and morbidity and mortality caused by communicable diseases. These areas are also integral part of "Millennium Development Goals" (MDGs). Although, the coverage has improved over recent years, however, providing quality health care to vast majority of population is a formidable task. The focus in the health sector is to reduce poverty of opportunity.

5.149 The government is well aware of the magnitude and depth of the problem. It has endeavoured recently to address the broader issues in social sector delivery through major reforms while IPRSP reflected the government's commitment to improving public service delivery as central to achieving the goals of reviving growth and reducing poverty. The National Health Policy (NHP) focuses on health sector investments as part of poverty alleviation, and accords priority to primary and secondary healthcare services. The key objectives of the policy are targeted ten specific areas for reform including: (i) reducing the widespread prevalence of communicable diseases; (ii) addressing inadequacies in primary/secondary health care services; (iii) promoting gender equity; (iv) correcting urban biases; (v) bridging basic nutritional gaps; (vi) improved regulation of private health sector; (vii) removal of professional and managerial deficiencies in district health system; (viii) capacity building for health policy monitoring; (ix) creating mass awareness in public health matter; and (x) improving the drug sector to ensure the availability, affordability, and quality of drugs.

5.150 Pakistan, being a signatory to MDGs, needs to improve the performance of the health sector significantly to ensure good progress towards reaching MDGs. With this in view, the medium term health strategy is focused towards raising public sector health expenditures through a focus on prevention and control of diseases, reproductive health, child health, and nutrient deficiencies. The thrust of public expenditures is geared towards primary and secondary tiers. This approach provides a clear shift from curative to preventive health care and focuses on disadvantaged, weaker sections of society especially those belonging to rural areas. It aims at promoting gender equity through targeted interventions like increase of Lady Health Workers (LHW) and improvements in

maternal health care. The LHW program is expected to reach 100,000 by 2005 and will meet the need of 100 million people. LHWs are covering the unserved population at the primary level to ensure family planning and primary health care at the doorstep through an integrated community based approach. Additional programs include Directly Observed Treatment Schedule (DOTS) strategy against TB; Roll Back Malaria (RBM) approach in combating malaria, measures for preventing the spread of Hepatitis B, elimination of neonatal tetanus and polio, HIV and Aids through immunization and public health campaigns and institutional federal-provincial partnership in the war against disease.

5.151 The other steps to improve health outcomes over the medium term include strengthening of primary health care, training and re-training of medical staff, provision of emergency obstetric care facilities, instituting public-private partnerships, granting administrative and financial autonomy to teaching hospitals, establishing health boards and village health committees the reorganization of district health offices to make them locally managed health care network in rural areas, improvement in hospital administration and their financial management and the proper regulation of the private sector. Long-term interventions include redefining the role of federal and provincial government by giving more responsibility to the district government and inculcating an element of cost recovery for services rendered while at the same time ensuring responsiveness to health needs of the poor.

5.152 Preventive and promotive health programs are being implemented or will be implemented during the next three to five years as part of the National Health Policy with clearly defined federal and provincial spheres of responsibilities. These include National Program for Primary Health Care with the aim to provide preventive, promotive and curative health services at the doorstep of community mainly in rural areas and urban slum areas by a workforce of female community based health workers, LHWs; National Expanded Program of Immunization (EPI) is under execution to immunize children against six communicable diseases and has been expanded through introduction of Hepatitis B vaccine and is focusing on increasing routine EPI coverage; and Maternal and Neonatal tetanus-Special Immunization Activities. However, the challenges are mainly at implementation level. The immunization coverage will be improved through: institutionalizing micro-planning at locality level; using dropout rates as an indicator of performance and coordination with LHWs to trace dropouts and un-immunized children and women; annual feedback from the localities where coverage is low; province wise assessment of non-salary budget to identify shortfalls and find out options to fill-in the resource gap; decentralizing repair and maintenance of cold chain; alternate ways to reduce reliance on mobile strategy like contracting out services to local NGOs and CBOs. The low performing areas will be continuously mapped and options developed to improve coverage including skill development of low performers.

5.153 The provincial governments have taken a number of steps to ensure that public health delivery mechanisms work efficiently at the district level and below. Adequate administrative and financial powers are being given to the district health office under the devolution plan. A minimum of six specialties (Medicine, Surgery, Pediatrics, Gynecology, ENT and Eye) will be made available at these facilities. More autonomy will be given to tertiary and teaching hospitals/institutions. The provincial governments will

implement district and tehsil hospitals upgradation plans. A model referral system in selected districts of each province will be developed.

5.154 The behavior change communication (BCC) strategy will be revised to include advocacy with politicians and decision makers to appraise them of the benefits of holistic strategy and for its adequate financing; and implementation of an evidence based BCC strategy to improve knowledge, attitude and skills of caretakers and parents of children for immunization of children, timely treatment of sick children, care of women during pregnancy/child birth and immediately after birth, and use of appropriate preventive interventions against malaria.

5.155 The **distribution of reproductive health service** outlets varies widely in different provinces and districts. The government aims to institutionalize quality ambulatory midwifery care at community level and later expand and consolidate hospital care as referral system becomes streamlined and more resources become available for strengthening EmOC. Long-term objective is to provide one local resident midwife or an LHV for a population 3000–5,000 depending upon the population density. The public sector would employ midwives as outreach care providers with nearest health facility as their base, develop a cadre of midwifery supervisors and a system of annual feedback from low performing areas using an appropriate indicator (e.g. verbal autopsy of maternal death) and provide refresher courses to low performing midwives to build their technical capacity.

5.156 A donor assisted project extending over a period of five years is under execution to expand availability of reproductive services particularly in rural areas. A new **community based maternal and child health (MCH)** program is also at design stage. The LHW program has had a significant impact on delivery of MCH services and achieving PRSP goals such as immunization coverage and contraceptive prevalence rate. DFID is assisting the government in implementing an on-going program whereas the World Bank is designing “Enhanced LHW Program” through which LHWs will continue to endeavour to achieve high rates of utilization of those essential health services which have a very high impact on reducing morbidity and premature mortality, especially maternal and child health services. However, the program needs to become even better to achieve PRSP goals to include: (i) making the LHW program more poverty focused; (ii) using an evidence-based approach for managerial and programmatic innovations; (iii) ensuring that LHWs remain community-based workers and not regular government staff; (iv) ensuring sufficient government financing of the program; and (v) gradual devolving the program after pilot testing to develop ownership at the district and provincial levels while keeping in view their fiscal resource position and management capacity.

5.157 On the management side the quality of reproductive services will be improved through:

- Development of a strategic framework.
- Revision of monitoring tools in line with the strategic framework.
- Development of standard operating procedures (SOPs).
- A study to assess rational non-salary budget needs at both provincial and district level.

- A study to delineate the roles and responsibilities of district and provincial governments.
- Assessment of skill building need of staff in management, supervision, monitoring and technical areas followed by in-service training.
- Implementation of a BCC strategy to improve skills and behavior of the families to overcome delays in identification of pregnancy complications through community midwife and decision at family level to shift the woman to nearby referral facility.

5.158 The health sector adopted **Rollback malaria strategy (RBM)** in year 2000. However, the concept of RBM has not filtered below the provincial level. There are funding gaps in the following areas: (i) advocacy and mobilization of communities; (ii) developing partnership with private health sector in early diagnosis and prompt treatment; (iii) urban malaria; (iv) in-service training of staff in concepts of RBM; and (v) for ongoing monitoring. The government will be looking for Technical assistance for development of RMB strategic framework for the provinces in line with national RBM strategy and revision of monitoring tools in line with RBM strategy; and assessment of non-salary budget needs at district level.

5.159 **TB-DOTS** is integrated in district health systems. The LHWs, health staff, NGO workers and community volunteers undertake DOT. The DOTS expansion as of mid-2003 resulted in detection of 20% cases and treatment success rate of 77%. Technical guidelines and training modules are in place. The TB coordinators will receive necessary training at different levels. The government is aiming at developing a strategic plan including expansion of laboratory network; standardization of laboratory equipment and supplies; development of guidelines for quality assurance of sputum microscopy; establishing a system of annual feedback from the districts where TB-DOTS interventions are already showing visible results as indicated by the recent reports of STOP-T.B. Coordination Board reviews.

5.160 The Government is implementing **HIV/AIDS Control Program** in 2003 at Rs 2.858 billion for five years. The major focus is on behavior change communication, services to high-risk population groups, treatment of sexually transmitted infections (STIs), supply of safe blood, and capacity building of various stakeholders. The national goal is to prevent HIV from becoming established in high-risk populations and spreading to the general adult population, while avoiding stigmatization of the vulnerable population groups. The program has developed guidelines for linking with: private sector and NGOs for delivery of services to the high-risk populations, and program management through private firm; other stakeholders like education sector, labor sector, law enforcement agencies, print and electronic media, parasitological organizations, and NGOs; and monitoring mechanisms including means of verification of outcomes

5.161 The successive national nutrition surveys have consistently shown high levels of **malnutrition** among women and children less than 5 years. The basic indices have hardly changed in past 30 years. Malnutrition and other nutritional deficiencies affect a large number of women and children in Pakistan. **A nutrition program** has been launched implementing interventions to address the issues of low birth weight babies, maternal and child malnutrition, deficiency of micronutrients and promotion of breast-

feeding. The National Nutrition Program has been strengthened especially its components of breast-feeding, fortification, and provision of vitamin A, iron and iodine. ESR also proposes to initiate childhood education with a multi-sectoral approach aimed at improving health and nutritional outcomes in country.

5.162 The healthcare is now a devolved subject. The responsibility for service delivery from primary health care to first level referral services is now shifted from the provincial governments to district governments. There is also a considerable momentum towards granting greater managerial and financial autonomy to tertiary government hospitals, especially in the provinces of Punjab and NWFP to improve the quality and quantity of services with poor sharing equitably the benefits without a large increase in financial burden. The provincial governments, especially Punjab and NWFP, have initiated experimenting public-private partnership in health care services. While administratively demanding, the reform is quite promising.

5.163 The development and implementation of **Health Management Information System (HMIS)** initiated 10 years back is limited to primary health care facilities. The GOP has made a beginning towards making the HMIS comprehensive, improving quality of data and using it for monitoring outcomes of various health services. The development of **disease surveillance system** is a priority in the future. Towards this end, surveillance system for polio is already in place and for HIV/AIDS is on the anvil.

5.164 Further progress in health will largely depend on a variety of factors, both within and outside the health sector. The external factors include illiteracy, lack of access to safe drinking water, and inadequate sanitation. The internal challenges include (a) low government public health expenditures on health services a major share of which is focused towards tertiary health care, (b) weak policy formulation and poor management with overstaffing and inadequate expenditures on key inputs such as essential drugs, equipment, and operational supervision activities, (c) poor quality of care from health care providers, (d) weak monitoring and evaluation system, and (e) weak regulatory framework for the health sector. The recent devolution initiative aims to increase accountability by devolving financial and administrative powers to district/local authorities that are closer to service users. A major challenge will be to ensure that local governments give priority to those types of services, which are cost effective and have the potential for effecting large improvements in the health status of the population, including the poor. Unlike other developing countries, there is a limited presence of NGOs in the sector and reluctance on the part of government agencies to collaborate with NGOs. Recently, some experiments are underway in Punjab and NWFP. The Government of Punjab has handed over Basic Health Units to RSPN in two districts, Lodhran and Rahim Yar Khan, where the results are quite encouraging. It has improved both the management of BHUs through clustering and delivery of service. However, its extension will need a third party assessment. The National Health Policy aims to address these issues. The Punjab Government is piloting an initiative of fostering the development of health insurance for public and government employees.

5.165 Tentative calculations suggest that adequate financing of priority programs such as LHW, Maternal and Child Health, HIV/AIDS, Malaria, T.B. Control, health education, reproductive services, human resource development, and capacity building, enhancing

the non-salary budget for existing facilities and improved allocation for population program will need an addition Rs 10-12 billion per annum. This will necessitate increase in sectoral financing from 0.5 to 0.8 percent of GDP over the medium term and then moving to 1 percent of GDP in the long run.

Tawana Pakistan Program

5.166 The Tawana Pakistan Program is being implemented as a nutrition package for school-girls (5-9 years) in 26 high poverty districts all over the country. The Project will be implemented through the Bait-ul-Mal. It is likely to improve nutritional status of girls in primary schools, increase enrolment and sustain attendance of girls.

Population Welfare

5.167 Poverty and population are closely linked. The recently observed declines in fertility and in population growth rates, which began in the early 90's, will make a definite positive contribution to reducing economic pressures including poverty alleviation efforts. While fertility is declining there are still notable differentials in fertility behaviour across income and education groups. Any poverty reduction strategy has to ensure that the bonus attached to the decline in population growth rates translates into enhancement in opportunities for the poor in terms of income generation, jobs, and affordable and quality services particularly for health including family planning. To do so, the PRSP has to look beyond fertility outcomes of the poor to include health particularly among children and women, in poorer households.

5.168 The relationship between various dimensions of population and poverty are complex and operate in both directions. High levels of population growth, high densities of population, a youthful age structure and increasing urbanization, which characterize Pakistan's population, all exacerbate rising levels of poverty. At the same time inequitable distribution of resources and opportunities lead to greater unemployment, underemployment, limited access to assets, income sources and services related to health and family planning among the poor. This in turn exacerbates high levels of illiteracy, fertility, unwanted pregnancies and mortality rates among the poor and under-served populations in Pakistan. The way forward is to capitalize on some of the positive synergies between improving the position of women and opportunities available to them, expansion of girls' education, addressing environmental conditions, all of which are closely associated with ameliorating poverty.

5.169 Pakistan's population of 149.5 million, now growing at 2.06 percent per annum presents a challenge to economic development and poverty reduction. It generates a huge demand on limited resources. It is estimated that the population of Pakistan will reach 217 million by the year 2020. Additionally, the high population growth among the rural poor is generating pressures on rural water resources and the land leading to migration to urban slums that is contributing to rapid urbanization. Thus the present trend in population growth is a matter of deep concern and a central issue in overall planning as well as in the formulation of a poverty reduction strategy.

5.170 In response, the Government formulated a **Population Policy in 2002** that has been approved by the Cabinet. It calls for a sustained political commitment and the need for mobilizing broad support from various stakeholders in pursuance of its objectives. It addresses core problems such as the high population growth rate, low status of women and striking gender inequalities, high level of poverty and lack of access to quality social services while keeping in view the demographic structure. The Policy aims for a demographic transition that through decreasing fertility will achieve population stabilization by 2020. An Interim Population Sector Perspective Plan (2012) has also been prepared. The main objectives of the Program and Plan are: (a) decrease the population growth rate from 2.2 percent to 1.82 percent in 2004 and 1.6 percent by 2012; (b) achieve a replacement level of fertility (2.1) by the year 2020; (c) increase contraceptive prevalence rate (CPR) to 43 percent in 2006 and to 57 percent in 2012; (d) increase the program coverage to 76 percent in 2004 and to 100 percent by 2010. The Government will pursue the following strategy:

- Implement population stabilization agenda in collaboration with the relevant government organizations, private sector agencies and civil society including NGOs;
- Implement a comprehensive Reproductive Health Package;
- Advocate the crucial need to stabilize population growth and sensitize all stakeholders to recognize population growth as a national concern and cross-cutting issue which needs priority attention;
- Develop linkage between poverty, family security and life span 'health care' to improve status of women;
- Encourage males as partners in the Reproductive Health Programs, motivate them for responsible reproductive behavior in relation to women's health and promote responsible fatherhood;
- Ensure availability of wide range of safe, effective, affordable family planning methods with adequate information on their safe practices;
- Create a client centered environment through better understanding of the perspective in the prevailing social, cultural and behavioral context;
- Involve all service outlets of health departments to offer family planning services; and
- NGOs support to social marketing of contraceptives.

5.171 The interventions to be undertaken include: (a) up-grading Family Welfare Centers (FWC) to include socio-economic activities for women's uplift and promoting voluntary family planning; (b) provision of contraceptive surgical services and complete range of reproductive health and family planning services through Reproductive Health Services Centers; (c) reinforcing outreach services through Mobile Service Units; (d) establishing a cadre of male population welfare community workers at the Union Council level; (e) non-formal family life education programs and inclusion of population development in the school curriculum; (f) male involvement in the family planning through NGOs; (g) Targeting groups through orientation and sensitization for senior and midlevel management, labor unions leaders, trainers, medical staff; (h) enterprises' health infrastructure will provide family planning and reproductive health services; (i) distribution of printed material, rapid presentation, sensitization sessions, involvement of

labor unions, shopkeepers in housing colonies, school teachers to engage male workforce. The service delivery will be provided through Community Based Workers, Family Welfare Centers, Reproductive Health Service Centers, Mobile Service Units, Target Group Institutions, Outlets of Provincial Health Departments, and Private Sector Registered Medical Practitioners, Hakims and Homeopaths. The health and population sector is using three strategies to meet the consumer needs through a network of: (i) service delivery outlets of Population Welfare program; (ii) health facilities of provincial Directorate of Health; and (iii) social marketing outlets, especially in urban areas. A number of committed NGOs are also serving large segments of population, especially the poor segments of the society. The main challenge is irregular supply of contraceptives to DoH health outlets. There are unmet needs for contraception to the tune of 33%. However, urban clients have much better access to various contraception methods as they are also served by social marketing, retail pharmacies and by different NGOs.

5.172 Youth is the largest cohort of adolescents having aspirations regarding work and education, which far exceeds what, is actually available to them in terms of opportunities. Undoubtedly, the most effective way to solve the challenge of meeting their aspirations is for the economy to grow at faster rate and to provide jobs especially outside of agriculture. Adolescents are facing huge asymmetry in the chances they face to get an education and to get suitable employment based on their gender and the economic status of households. Females are at a disadvantage as are those young people from the poorest households. The government recognizes that the needs for providing services and opportunities will have to specially address poorer youth and adolescent girls.

Drinking Water and Sanitation

5.173 Improving health outcomes will require addressing (a) poverty; (b) illiteracy; (iii) lack of access to safe drinking water and inadequate sanitation; and (iv) improving the quality and access to health care. Policies to address the first two are discussed elsewhere, water and sanitation improvements will require, inter alia, increased availability of resources at the local level. The core objectives of the drinking water supply and sanitation sector are to increase sustainable access to safe drinking water in rural areas and basic sanitation in both rural and urban areas. This will provide better opportunity for the girls to go to schools due to time saved in fetching water and will facilitate in reducing water borne diseases. The Government is encouraging the local communities and NGOs to actively participate in the planning, designing, implementing, operating and maintaining water supply and sanitation schemes. The function has already been devolved to Tehsil/Town Municipal Administration under the LGO 2001 that needs actively involve the communities for cost recovery.

National Commission for Human Development:

5.174 The NCHD proposes plans to improve efforts at the district level in primary education, literacy, income generation activities and provisions of basic health care facilities and to propose plans for capacity building, training, and enhancement of competency of government functionaries working in the social sectors. NHCD has

piloted its work at Mardan (NWFP) and Narowal (Punjab) extending to fourteen more districts. The Commission will soon start its work in other districts. A Pakistan Human Development Fund will be established with seed money of Rs 1 billion and the Commission will mobilize resources globally. The Fund will be a three-way partnership between Government of Pakistan, Private Sector and International donor community. The Fund will support (a) Universal Primary Education (b) Non-Formal Basic Education (c) Literacy and Sustainable Livelihood (d) Primary Health Care and Family Planning including Community Midwife Program and (e) Capacity Building and Training of Line Departments, NGOs, CBOs in the area of health, education and poverty alleviation. This will help in capacity building through public-private partnership and will strengthen delivery of services in the social sectors at the grass roots.

Pillar Four: Targeting the Poor and the Vulnerable

Salient measures in this pillar include: expansion of micro-finance facility; streamlining programs such as Khushal Pakistan/Tameer-e-Pakistan/Drought Emergency Relief Assistance; strengthening other safety nets and pension program for the private sector.

5.175 The government is making targeted interventions to address poverty and generate income and employment through public works (Khushal Pakistan Program, Tameer-e-Pakistan Program, Tameer-e-Punjab, Tameer-e-Sarhad Programs, Drought Emergency Relief Assistance and micro-credit to improve life in the rural areas, and facilitating development of small and medium enterprises. The policy of targeted interventions will continue as one of the fundamental pillars of the growth and poverty reduction strategy. A major new feature of this pillar of the strategy is a focused strategy for rural development.

Micro Finance (MF) Facilities

5.176 Microfinance is fast emerging as a viable tool to address the question of poverty reduction as it enables the poor (i) gradually build their assets (ii) develop their micro-enterprises (iii) enhance their income earning capacity (iv) smoothen consumption (v) manage risks better (vi) empowers poor, especially women (vii) enhances economic growth (viii) contribute to integration of financial markets. The government is keen to promote microfinance activities in the country on a fast track basis. In line with PRSP objectives, the Micro-Finance Sector Development Program (MSDP) has been launched, with the assistance of Asian Development Bank, to broaden and deepen the micro-finance market in order to reduce poverty. It represents a major initiative to create a pro-poor financial architecture in the country and the program's objective is to provide a stable sectoral environment for the promotion of MF institutions and creating institutional capacity to retail financial and social inter-mediation services to the poor, especially to women. The Government has initiated a number of policy actions for the development of the MF sector. These include (i) developing an enabling policy framework conducive to MF growth; (ii) establishment of Khushali Bank (KB); (iii) development of a legislative and regulatory framework to encourage establishment of licensed private sector MF Institutions; (iv) developing long-term mechanisms for social capital build-up of poor households; and (v) restructuring of microfinance institutions.

5.177 **Khushali Bank**, is providing services in 40 districts mobilizing over 100,000 households into approximately 11,000 community groups. The bank is also providing community infrastructure development services and skill development support to its client communities. Over 31 percent of its employees and 35 percent of its clients are women. The bank is targeting client base of over 650,000 households by 2006.

5.178 **Pakistan Poverty Alleviation Fund (PPAF)** represents an innovative model of public-private partnership sponsored by the. It has three windows through which financial assistance is provided (i) line of credit for expansion of poverty targeted micro-credit programs through Credit and Enterprise Development (CED) unit (ii) grants and loans for community physical infrastructure on cost sharing basis, mostly for clean drinking water and irrigation purposes that are community identified, locally managed and local run through Community and Physical Infrastructure (CPI) unit, and (iii) grants to strengthen and build the institutional capacity of partner organizations and communities through Human and Institutional (HID) unit. The geographical outreach has expanded to 87 districts with total 3.299 million beneficiaries and 3000 CPI completed schemes. PPAF is also providing non-financial services facilitating POs with longer-term strategic planning and assisting them in developing and setting up IT systems. This will enable communities to develop direct links with corporate sector that would lead them in developing marketing linkages for which a separate Marketing Unit is being established. In view of significant progress made by PPAF, the World Bank has provided another credit of US \$ 238 million that will provide a boost to microfinance activities in the country and help in alleviating the poverty.

5.179 In addition, Zarai Tarqiati Bank Limited (ZTBL), First Women Bank (FWB), Khyber Bank, and the Rural Support Programs are involved in credit allocation to small enterprises. Agha Khan Rural Support Program (AKRSP) and Agha Khan Fund for Economic Development (AKFED) have also established First Micro Finance Bank, which will operate with the underlying long-term principles of outreach and sustainability. Pakistan will extend MF to one million households by the year 2005 through (i) the lead MF Institutions (ii) new private sector MFIs (iii) commercial banks and ZTBL (iv) semiformal institutions and NGOs.

5.180 Realizing the need for capacity building and skill development in microfinance, the State Bank of Pakistan is managing two endowment funds viz. Micro-Finance Sector Development Fund (MSDF) and Community Investment Fund (CIF). MSDF is dedicated to finance capacity building and skill development needs of poor communities, particularly women while CIF resources are used to provide grant for community level development schemes. These services are being delivered in collaboration with social sector service providers. Additionally, the Government, as a safety net, has established two endowments at SBP viz. Risk Mitigating Fund (RMF) to protect and replace the income generating assets of the poor in case of a natural calamity and a Deposit Protection Fund (DPF) to insure the savings of small depositors in the eventuality of bank's liquidation.

5.181 The Government realizes that the potential for microfinance development is massive as one third of the population continue to live in poverty in the country and for a significant impact on poverty reduction, outreach of microfinance has to be expanded

substantially on sustainable basis. The best way to achieve this objective is to set out a process that depends upon market resources that can trigger continuous growth in the sector. For this, the international development resources can be used to generate a catalytic effect to encourage the process of commercialization of institutional microfinance. It will also facilitate social mobilization and help in organizing communities for effective use of microfinance. There is also a need to conduct third party validation to evaluate the impact of microfinance in reducing poverty and policy adjustments, if needed.

Khushal Pakistan Program/Tameer-e-Pakistan Program/DERA

5.182 The Government launched Khushal Pakistan Program as a social intervention aimed at generating economic activity through public works and temporary employment covering 17 sectors including farm-to-market roads, water supply, sanitation, water courses, etc. The major thrust has been in the rural areas. The Government has so far provided Rs 31.5 billion since March 2000 to finance 34,812 schemes selected through community participation. The KPP schemes are being implemented through District Governments. This program has generated 0.9 million temporary employment and is providing essential infrastructure in rural and low-income urban areas.

5.183 To augment this social intervention, the elected Government has launched Tameer-e-Pakistan Program under which each member of the National Assembly has been allocated Rs 10 million during FY04 to undertake schemes relating to federal functions such as rural electrification, gas supply, etc. This menu of investment through this Program has been expanded to include social sectors. Similarly, the Provincial Governments will be allocating funds for development for members of the Provincial Assemblies.

5.184 The Government is implementing Drought Emergency Relief Assistance (DERA) with the assistance of donors to mitigate the effects of the drought and assess requirements and needs of the regions to avert large-scale human sufferings to provide systematic thrust to rehabilitate drought stricken areas through short, medium and long term schemes. So far Rs 4.6 billion have been released to the affected districts.

Other Social Safety Nets

5.185 The social safety nets for the vulnerable currently available in Pakistan include Workers Welfare Fund (WWF), Food Support Program, Social Security, Employees Old Age Benefit (EOBI), Pakistan Bait-ul-Mal (PBM) and Zakat Fund. The Poverty Reduction Strategy aims to strengthen the existing mechanism of cash transfers through Zakat, and the social protection system of EOBI and health care through Employees Social Security Institutions (ESSI). The safety net programs noted below use different sources of financing, different levels of benefits, methods of targeting, and program administration. The Government intends to carry out a comprehensive review of the safety nets that will provide (i) profile of poor and vulnerable; (ii) detail programs, their objectives, target groups, and financing; (iii) evaluate programs and their linkage to the poor, using household or administrative data; (iv) assess the eligibility, coverage, targeting efficiency and adequacy of program benefits; (v) evaluate administration of

programs: staffing, outreach, information provision, claim procedures/forms, verification of applicants, and monitoring of clients, management information systems; (vi) conduct beneficiary assessment of target groups to evaluate service delivery; and (vii) recommend measures to improve effectiveness of the programs.

5.186 **Zakat:** A key instrument for social rehabilitation and reducing vulnerability to exogenous shocks is the revamped system of Zakat for providing financial assistance (Guzara Allowance), educational stipends, health care, social welfare, and marriage assistance. The rate of Guzara allowance has been raised from Rs 300 to Rs 500 per month per mustahiq. About 2 million beneficiaries receive zakat and an additional 1.5 million beneficiaries will be added. Zakat Disbursement Procedures have been revised to make them simple, transparent and better targeted. Monitoring and control methods have been further strengthened and an independent measurement of zakat's impact being made. The revitalized Zakat System provides funds to the beneficiaries not only to fulfill basic needs but also to rehabilitate permanently.

5.187 Aiming at creation of job opportunities for the skilled or semi-skilled poor persons, a new program "Educational Stipends (Technical)" has been introduced with a budget of Rs 1 billion. Another initiative "Permanent Rehabilitation" has been undertaken where men and women are given money to enable them to get out of the mustahiqeen-e-zakat net. The amount of stipends for education has been increased. Besides, higher stipends have been introduced for students of Deeni Madaris to encourage them to adopt more balanced curriculum. The Central and Provincial Zakat Councils, Government Coordination and Review Committees, District Rehabilitation Monitoring Committees, District Zakat and Ushr Committees and Local Zakat and Ushr Committees supervise the entire system.

5.188 **The Food Support Program** is designed to mitigate the impact of increase in wheat prices. Initially, the coverage extended to 1.2 million poorest households with monthly income upto Rs 2,000. A cash support of Rs 2.5 billion has been allocated for disbursement on biannual basis. With the recent increase in support price for wheat from Rs 300 to Rs 350 per 40 kg, the Government has increased this amount to Rs 3.5 billion to offset the impact of likely increase in the price of flour.

5.189 The PRSP supports institutional reforms and strengthening of social assistance schemes by strengthening legal framework, organizational structure, operational systems, work process and financial position of these institutions to improve their performance. A new proposal in pension provision suggests changing to a system that has a universal coverage and privately managed with defined contribution and financed on an advance-funded basis. The Government has launched new schemes titled "Pensioners' Benefit Account" for pensioners and for widows to protect them from declining interest rate on saving schemes.

5.190 The not-for-profit voluntary sector in Pakistan has emerged as a significant force in promoting social and human development. It complements government in many ways. A study of indigenous philanthropy finds that Pakistanis give Rs 70.5 billion in charity in cash and kind. The Pakistan Center for Philanthropy (PCP) has been established since August 2001 to lead philanthropy promotion in Pakistan with the objectives of raising

broad based societal understanding of philanthropy, and creating a more enabling policy, regulatory and fiscal environment for philanthropy development.

5.191 The Government appreciates the contribution that the NGO sector can make in social development providing help to the vulnerable. This is reflected in the institutional support to NGOs through a range of government ministries including the Ministry of Women Development, Social Welfare and Special Education that is the focal point for NGOs and various projects under execution in different provinces. It also provides financial support through the National Council for Social Welfare and the National Zakat Foundation and similar bodies in Provincial Governments. The poverty reduction strategy recognizes the significant role that NGOs can play in social service delivery, advocacy, and empowerment. However, the arrangements do not exist to identify credible Not-for-Profit Organizations (NPOs) that can be trusted for contributions from corporate philanthropists towards social investment. Certification of NPOs will help bridge that gap. As a first step, the Government has authorized the PCP for such certification. Based on the consultative findings of PCP, the Government will consider promulgation of a new law, Nonprofit Public Benefit Organizations (Governance and Support) Law. The aim will be to provide a positive alternative for citizens establishing and operating nonprofit organizations for public benefit.

Pensions

5.192 Pakistan's pension system in the private sector is comprised of a number of schemes that provide old age security to workers. These include Employees Old-age Benefit Institution (EOBI) for low-income workers, provident fund, and the civil service defined benefit pension scheme. There is no coverage of non-formal sector sectors. The Government aims at reforming its formal pension system to ensure fiscal sustainability facilitate portability of pensions to promote workers mobility, and deepen capital markets. The Government of Pakistan has established an actuarial office to assess the fiscal liabilities of the existing system, to estimate the fiscal costs of alternative pension design reform, and to develop a position paper. The introduction of defined contributory schemes needs to be preceded by the creation of supervisory and regulatory institutions to ensure safekeeping of pension assets of workers. The Government is also considering the introduction of a defined contribution voluntary pension scheme, to be regulated by the SECP, to provide individuals access to old age security and to further deepen capital markets. The SECP is already working on the design and phasing of the proposal under a TA from ADB.

Regional Perspectives

5.193 The provincial governments have also initiated reform program in several areas to compliment the reform process at the national level. The major reforms are being and will be implemented in the context of devolution over the medium term to enhance the effectiveness of public expenditures, improving service delivery especially in social sectors and building capacity at local levels to plan, design development projects, implementation and monitoring. The Government has also initiated major development effort in FATA to reach inaccessible areas and expose them to the mainstream economic benefits.

Federally Administered Tribal Areas (FATA)

5.194 There is a growing recognition that the people in the tribal areas live in dehumanizing poverty, an obsolete administrative system and highly stratified social and economic structures. The causative factors are the remoteness of the Agencies, the lack of infrastructure, the paucity of farmland and population growth. Because of low farm productivity and fragmentation of land holdings, there is a pattern of male migration for wage employment down country to Punjab, Karachi, as well as to the Gulf States and a high dependence of rural families on remittances for survival. There is an increasing realization that FATA needs to be integrated into the broader national stream and benefit from the economic growth and improved services the Government is bringing about with the successful reform program launched nearly three and half years ago. A four-prong strategy has been devised to translate this objective into reality: (a) empowerment of people through the process of devolution as soon as the conditions are conducive; (b) reinvigorating public institutions that are cost effective, efficient and responsive to the people through restructuring of government departments and law enforcement agencies; (c) judicial reforms by revamping the judicial system; and (d) economic development through special development package to improve socio-economic indicators and to reduce poverty. The Government has also increased regular PSDP allocation for FATA and is implementing special development packages.

5.195 The main objectives of the proposed development package are to: (i) improve the living conditions of the rural poor, especially the women; (ii) boost agricultural production and incomes of the population living in poverty; (iii) improve the status of women by targeting them for special attention in a manner culturally acceptable and provide training and support to income generating activities; (iv) improve the resource base through the rehabilitation and extension of irrigated areas and social forestry; (v) open the inaccessible areas and to improve access and marketing of the rural communities through improvement and construction of main and feeder roads; and (vi) establish and strengthen community organizations as the institutions through which technical and social services can be provided to target groups on a sustainable basis. The overall strategy will be to enhance productivity, household income and social and economic development of vulnerable groups in the population of FATA through (i) bringing culturable area under; (ii) strengthening extension services to intensify and diversify crop and livestock production systems; (iii) increase in enrollment as well as participation rate by providing incentives specially the girls; (iv) opening the inaccessible areas in FATA; (v) improvement of access of local communities to markets, social services and rural infrastructure; (vi) provision of rural savings and credit services for on and off farm income generation activities and micro-enterprises; and (vii) improving health services in the area.

NWFP

5.196 The NWFP government started to address the multiple social and economic problems during 2000 with varying degree of success. Recognizing that many of the problems were independent and needed a more systemic approach, the GoNWFP developed a comprehensive reform program (PRP) 2001-2004, after extensive consultations to restore good governance and respect for the rule of law, enhance effectiveness of public expenditures, and reestablish the integrity of state institutions and

their accountability to the public. The implementation was slowed down because of election process and it has now picked up pace rolling it over to 2005-06. The PRP is based on four main pillars:

- Governance reforms to achieve an efficient, accountable, and service oriented civil service;
- Reforms to improve service delivery in key sectors and accelerating human development;
- Fiscal and financial management reforms to improve governance in budget and to adopt a medium term budget framework; and
- Establish an effective and transparent enabling environment for private sector development to accelerate economic growth.

5.197 Education sector reforms are the foundation of achieving long-term economic development and poverty alleviation in the province. The medium term objectives are to: (i) improve primary education (both enrollment and quality of instructions); (ii) reduce gender and rural-urban disparities; (iii) expand the capacity at secondary school level; (iv) staff and faculty rationalization and NEAS; (v) strengthening parents-teachers associations (PTAs) at primary and secondary level schools; (vi) encouraging public-private sector partnership; and (vii) establishing endowment fund for the primary education and restructuring of Frontier Education Foundation.

5.198 The health care and hospital system management reforms have been initiated. The GoNWFP's strategy in health sector is to improve the management structures; reorganize health facilities with a multi-level referral systems, focus on preventive and primary health care; remove obvious gaps in facilities; increase budgetary allocations as well as user charges; and encourage private sector with adequate regulation. The GoNWFP is also implementing rationalization of health service delivery and facilities program aimed at developing graded and referral based system with appropriate specialties and staffing norms in collaboration with the district governments. All tertiary hospitals have been given financial and administrative autonomy with the aim of achieving financial self-sufficiency over the medium term while plans are being developed to protect access of the poor through safety nets.

5.199 The GoNWFP aims at improving the business environment; enhance productivity of agriculture; reduce the role of the public sector in commercial and industrial activities; and promote public-private partnerships. Reforms to improve the efficiency of the province's infrastructure, including irrigation facilities, road and urban infrastructure and services and environmental protection will support the growth process and poverty reduction. Devolution has provided an opportunity to address key institutional and community infrastructure constraints. The Government also aims at nurturing an enabling environment for participatory development and has spearheaded community driven development initiatives throughout the province.

5.200 Notwithstanding, the serious challenges that still need to be addressed are the capacity and delivery issues at the local and capacity to formulate policies at the provincial level. Other areas that require capacity building are financial management, budgeting, planning, project design, developing integrated policy framework in line with

national and provincial objectives and priorities, and policy. The provincial PRSP has been finalized and is awaiting approval of GoNWFP.

Sindh

5.201 Recognizing the urgency to address issues of pervasive poverty especially in rural Sindh characterized by poor social services, large gender disparity, landlessness, and high dependence on public sector alongside the presence of large manufacturing, finance, and private sector as well as huge urban slums in Karachi, governance, poor fiscal and financial management till FY99, the Government of Sindh (GoS) has also initiated a reform process with overarching objective of reducing poverty by promoting growth and accelerating human development. The reform program has three main pillars:

- Fiscal and financial management reforms;
- Improving governance and public service delivery; and
- Regulatory reforms and privatization.

5.202 The GoS's fiscal reforms are geared towards (i) creating more fiscal space by raising revenues and reducing future liabilities; (ii) effective enforcement of agriculture income tax; (iii) expanding the base of Urban Immovable Property Tax; (iv) rationalizing various tax rates and duties; and (v) improving the tax administration. The fiscal decentralization has been initiated through an interim award, which will be finalized during the current financial year. The Medium Term Budgetary Framework process has also been initiated and implementation of financial management reform program is under way.

5.203 The GoS's education sector strategy focuses on teacher redeployment program, annual enrollment drives, teacher training programs, annual third party surveys, providing missing facilities to schools, and strengthening monitoring and evaluation capacity, expansion of compulsory education programs to sub-district level, improving the secondary education system, students assessment to evaluate their learning achievements, training of school management committees (SMCs) and gradually extending SMCs powers to hire and fire teachers; and launching capacity building programs for districts and sub-districts. In addition, scholarship program for girls and distribution of free textbooks will be implemented. The reforms in health sector are based on well –targeted medium term health sector strategy that focuses on preventive and communicable diseases, improving governance, and promoting private sector participation and strengthening district management capacity. Medium term measures include (i) expanding the routine immunization program with well identified targets and measures; (ii) broadening public-private partnership; (iii) strengthening local governments capacity by implementing detail plans for capacity development for district managers in management, planning, and financial management; and (iv) strengthening monitoring and evaluation system.

5.204 A substantial medium term reform agenda exists in the urban sector centering around (a) making city and district governments well functioning by ensuring that urban fiscal and financial management is strengthened to adequately support the provision of services; (b) improving urban services through the preparation of master plans and their

implementation; (c) continuing the work on the improvement of conditions of urban slums and urban poor based on the recently approved National Policy on Urban Renewal and Slum Upgradation. The reforms in regulatory environment and privatization include: (i) removing market barriers by lifting restrictions on internal movement and imports of agricultural commodities; (ii) rationalizing procurement prices; (iii) reduce public sector presence and encouraging private sector; (iv) rehabilitation of irrigation infrastructure with greater farmers' participation and public sector investments; and (v) improving tenancy and land rights through improving and computerizing land records. The major challenges are the continuity over the medium term; reducing the turnover in key departments; and establishing effective institutional mechanisms to strengthen provincial and district/city governments' relations. The provincial government has also finalized its PRSP after a due consultative process engaging the district governments, civil society, and the line departments. Soon it will be ready for approval of the provincial cabinet.

Baluchistan

5.205 The key pillars of reforms initiated by the Government of Baluchistan are:

- Engendering growth.
- Managing the scarce water resources.
- Governance reforms.
- Improving human development.
- Addressing vulnerability to shocks.

5.206 The major thrust of GoBaluchistan's reform effort is to improve human development and delivery of social services focusing on enrollment and quality of instructions, reducing rural-urban and gender disparities, strengthening teachers training programs, encouraging public-private partnerships and community involvement, increasing budgetary allocations for education, and rationalizing non-salary expenditures. There is a policy shift focusing on low cost technology and sustainable models and capacity building of districts and sub-districts in drinking water sector. The GoBaluchistan aims to improve the health management structure, reorganize the health facilities, focus on preventive and primary health care, remove obvious gaps in available facilities, increase budgetary allocations and increase reliance on the private sector with adequate regulation. The government has devised Water Conservation Strategy to develop water resource sector. Efforts are also being made to revive productive sectors in the context of Baluchistan, i.e. agriculture, livestock, and coastal marine resources. The governance reforms will focus on strengthening the devolution, improving law and order and security environment and providing enabling environment for the private sector development.

Punjab

5.207 The GoPunjab has developed a comprehensive reform program after extensive consultations to improve service delivery, fiscal and financial restructuring, enhance effectiveness of public expenditures, and poverty reduction. For this, the GoPunjab is seeking assistance of Asian Development Bank and World Bank for its Punjab Public

Resource Management Program (P-PRMP) and Punjab Education Sector Reform Program. The reform program is based on five main pillars:

- Improving governance to build an efficient, accountable and service oriented public sector including strengthening key economic institutions at provincial and local levels;
- Fiscal and Financial restructuring and management;
- Establishing an effective and transparent enabling environment for private sector development to accelerate growth;
- Reforms to improve service delivery in basic social services; and
- Addressing vulnerability to shocks.

5.208 The P-PRMP outlines the reform agenda for Punjab that includes fiscal and financial sector, civil services, social and real sectors, and development of private sector. The MTBF will focus mainly on pro-poor expenditures with a shift in expenditures from asset creation bias to consolidation and maintenance of infrastructure; providing sound fiscal and financial footings to the local government; and to enhance the effectiveness of public expenditures through improved governance and better financial management practices. Some important steps have already been taken for improving budgetary and financial procedures and towards fiscal decentralization. Realizing that enhancement in budgetary allocations for key social services on sustainable basis, provincial debt burden has to be reduced. The GoPunjab has formulated a debt management strategy including: (a) swapping high cost debt with low cost loans; (b) privatizing public sector enterprises and other properties; and (c) professional management of provident fund schemes.

5.209 The GoPunjab is implementing various initiatives in line with 'education for all' and aims to implement three complimentary modes of student assessment to evaluate the quality of student learning and education delivery: a national level assessment, class-room based continuous assessment, and annual examination. To transmit the provincial priorities, the GoPunjab will enter into contract with each district to achieve the objectives of PESRP that includes: (i) improvement in access and equity; (ii) improvement in education and quality; (c) support to public and private partnerships; and (d) removing regional and gender disparities. The education reform agenda will also focus to strengthen the capacity of district governments to improve and sustain service delivery, provide missing facilities in schools, a clear linkage to inter-governmental fiscal reforms that will ensure budgetary support following completion of program. The reforms in the health sector will focus on preventive health care and communicable diseases with priority attention to primary and secondary levels of health care and improving the governance. The tertiary hospitals have been given financial and administrative autonomy. The 'Health Care' and "Hospital System Management Reform' have been initiated.

5.210 The GoPunjab aims at further exploiting the tremendous potential in agriculture, livestock, and small and medium enterprises to accelerate growth. It also plans to distribute 2.61 million acres of state land amongst landless or small farmers thereby improving their access to assets for poverty reduction. The government is planning to (a) clear the backlog of upgrading 301 *katchi abadis* (slums) in the coming years; (b) allot

about 200,000 plots under the 5 Marla (125 sq.yards) Jinnah Abadi Scheme to homeless in rural areas; (c) extend the coverage of drinking water and sanitation from 50 and 55 percent respectively to 75 percent in the next 10 years; and (d) implementing a Gender Reform Action Plan (GRAP) with the assistance of Asian Development Bank to develop capacity of women for improved participation, financial and land management, and entrepreneurial skills; raise awareness for equal rights for girls and women, and remove barriers to reduce gender gap in employment. To reduce the cost of doing business and develop private sector, it is planned to create a non-intrusive and least regulatory regime through out-sourcing non-core functions and simplification of procedures and laws regulations.

Aligning PRSP with Millennium Development Goals

5.211 The United Nations (UN) Millennium Summit in September 2000, adopted Millennium Declaration to augment a set of targets with corresponding indicators now known as the Millennium Declaration Development Goals (MDGs) to be accomplished by 2015 with the base year of 1990. These goals center around:

- Eradicate poverty and hunger.
- Achieve universal primary education.
- Promote gender equality and empower women.
- Reduce child mortality.
- Improve maternal health.
- Combat HIV/ AIDS, malaria, and other diseases.
- Ensure environmental sustainability.
- Develop a global partnership for development.

5.212 The government has endorsed the MDGs and is committed to their achievement. The four pillars of the strategy and the regional perspectives presented above specify measures to that effect. The Government will continue to raise awareness, encourage advocacy, build alliances and renew commitment at the country level, as well as to strengthen national capacity for monitoring and reporting on the goals and targets and to focus national debate on specific priority areas. Table 5.4 reflects the tentative broad path aligning it with the PRSP, as the Steering Committee in the Planning Commission is deliberating on developing MDGs framework. The Millennium Development Goals Report (MDGR), under preparation by a Steering Committee including PRSP Secretariat, will include status and trend for each of the goals, policies and programs, the major challenges in accomplishing the goals, and priorities of development assistance and the format for reporting progress.

Conclusion

5.213 In conclusion, the government aims at pursuing three sets of economic policies that include: (a) policies that reduce public sector enterprises' losses and contingent liabilities, privatization of PSEs, improving productivity, and mobilizing external grants; (b) policies that reduce the overall cost of borrowing, both domestic and external through better debt management and effective monetary policy; and (c) continuation of economic

reforms that promote growth, exports, and revenues through increases in investment, improvement in governance, strengthen institutions, and effectiveness of public expenditure.

Table 5.4
Alignment with Millennium Development Goals

Goals and Indicators	1990-91	2000-01	2005-06	2011	2015
1. Eradicate Poverty and Hunger					
- Overall Poverty level (% of Population)	26.1	32.10	29	22	16
- Poverty Gap Ratio		4.53	6.84		
2. Achieve Universal Primary Education					
- Literacy Rate of 15-24 years old (%)	49	58	59.5	78	86
- Gross Enrolment *	73	87	104	104	100
3. Promote Gender Equality and Empower Women					
- Ratio of literate females to males of 15-24 years (%)	0.61	0.65	0.65		0.93
- Proportion of Seats held by women in the Parliament: National Assembly (%)	0.9	21			
Senate (%)	1.0	17			
Local Councils (%)		33			
4. Reduce Child Mortality					
- Infant Mortality Rate	120	77	63	50	40
- Proportion of fully immunized children 12- 23 months	25%	53%	82%	90%	> 90%
- Under five mortality rate	140	105	80	65	52
5. Improve Maternal Health					
- Maternal Mortality Rate /100,000	550	450	350	180	140
-Total Fertility Rate	5.4 %	4.1%	4.0%	2.5 %	2.1%
- LHW Coverage of target population	n/a	45%	77%	90%	100%
6. Combat HIV/AIDS, Malaria and Other Diseases					
- Incidence of TB/100,000	N/a	177	133		45
7. Ensure Environmental Sustainability					
- Sustainable access to safe water	82%	86%	90%		93%
- Population with access to sanitation		28%	51%	55%	

* A sub-Committee headed by Director PIDE is engaged in reconciling PIHS and NEMIS data

5.214 It is expected that through revenue mobilization, reduction in PSEs losses, decline in debt servicing because of lowering cost of borrowing and debt rescheduling and reprofiling under Paris Club-III, some fiscal space will become available to facilitate expansion of public development and social spending. But given the present debt burden, Pakistan will need increased level of grants and concessionary loans to increase social spending at a pace faster than GDP growth.

ADDRESSING IPRSP GAPS: Employment, Gender and Environment

6.1 Economy-wide issues such as gender mainstreaming, employment and environment cut across many sectors and policy regimes and have been addressed above at those levels. This chapter highlights aspects of these that have not been dealt with earlier..

Gender Equality and Empowerment of Women

6.2 An important finding of the Participatory Poverty Assessment carried out recently shows that women are among the poorest and most vulnerable groups in the country. Pakistan's maternal mortality rate ranks among the high. Women's access and control over productive resources is limited. Lack of skills, limited opportunities in the job market and social and cultural restrictions limit women's chances to compete for public resources. However, the nature and degree of women's vulnerability varies across classes, regions and the rural/urban divide.

6.3 The Government takes the view that poverty reduction efforts must address the gender dimension in order to deal with poverty meaningfully. The government at the Beijing Platform announced gender mainstreaming as a policy for Action. The Government realizes that gender mainstreaming will need a shift away from the traditional reliance on social welfare measures. Women need to be empowered for equitable access, and this requires removal of the social and economic constraints that have hampered their access to and use of resources.

6.4 The National Policy for Development and Empowerment of Women, 2002 lays emphasis on mainstreaming gender issues through integration into all sectors of national development. The National Plan of Action provides an update on the status of implementation and covers initiatives taken by the Government, donors, and the civil society or proposed over the medium term in 12 areas of concern viz. poverty, education and training, health, violence, armed conflict, economy, power and decision making, institutional mechanisms, human rights, media, environment, girl child, and for girls and women with disabilities. Additionally, the Government has launched various programs in the context of gender equity and equality, including: (a) The National Program for Women's Political Participation for providing leadership training to women councilors and members of the provincial assemblies; (b) National Framework for Family Protection for providing legal aid, medical and rehabilitation facilities to women; (c) Gender Reform Action Plan to facilitate restructuring of national machinery dealing with gender issues and also to engender planning and budgetary processes to narrow the gender gap in public expenditures; (d) Gender Management Information System for four selected areas: health, education, violence against women, and poverty; (e) Tawana Pakistan- a

food nutrition program for 5-12 years girls with a focus on increasing enrollment and malnutrition.

6.5 In the longer term, the government will support the use of gender responsive budgeting (GRB) in analyzing the federal, provincial, and district government budgets to determine the extent to which resources are allocated to address gender inequality and impact of budgetary expenditures on different gender groups. It, however, does not construe separate budget for women. The Government aims at launching a pilot study with the assistance of donors for post budget analysis, to begin with, of education sector at the federal, one province, and two districts (rural and urban). Gradually, the institutional mechanism is likely to be in place on successful completion of the study. This will not only facilitate in improving women's status but also will also introduce allocation efficiencies and contribute to national, social and economic development of the country. In addition, GRB can be help in measuring progress on national and international gender related commitments.

6.6 Women participation rate in the governance structure of Pakistan has improved sharply. Following the amendments in the Constitution and promulgation of Local Government Ordinance, 2001, at least 33 percent of seats in each tier of local government are women. In the National Assembly, women out of 332 seats hold more than 60 seats while women out of 728 seats hold over 128 seats in the provincial assemblies. Similarly, there are 17 women in the Senate out of 100 members. While most of these women have been elected on reserved seats, some have won on general seats. Women participation in politics as voters, candidates and political activists is increasing. Representation by women is better than in most countries of the world, including the largest democracies of the world. This provides a good opportunity to address the gender gap in the social, economic and health sectors.

6.7 The Gender Equality Matrix *infra* shows the goals, targets and instruments that will reduce gender disparity in the country and contribute to improving the status of women in Pakistan. In the absence of gender disaggregated data there is a need to initially conduct surveys for the establishment of benchmarks and then set targets for achieving the goal of gender equality. Ministry of Women Development is working on development of an MIS.

GENDER EQUALITY MATRIX

Key Instruments	Indicators	Baseline 2000-01	Frequency
Sustainable Socioeconomic and Political Empowerment of Women			
Gender Sensitive Macro Economic Policy Reforms	<ul style="list-style-type: none"> • Poverty head count by gender • % of govt. budget allocated to readdress gender inequalities 		3 years Annual
Improving Economic efficiency of women	<ul style="list-style-type: none"> • Rate of economically active women % • Proportion of women working outside agriculture • Employment rate of women in the formal sector % • Female unemployment rate 	13.7% 9.0% 21.4% 17.3 %	Bi-Annually

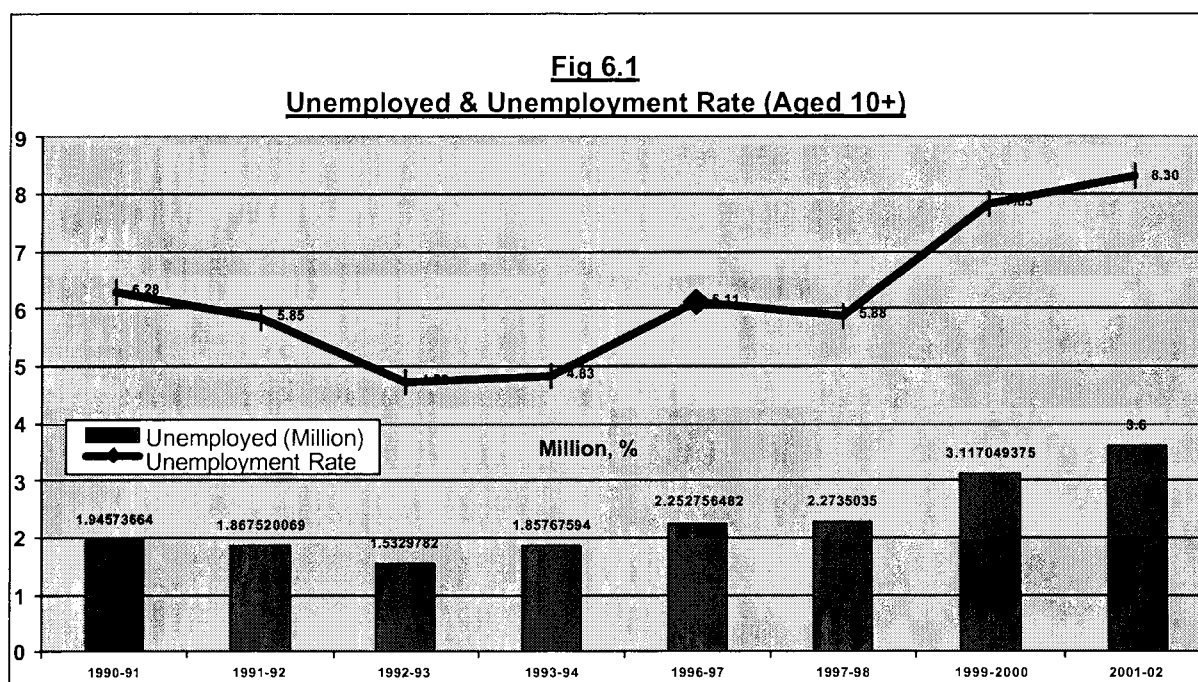
	<p>Agriculture</p> <ul style="list-style-type: none"> No of men and women with land use rights No of women and men with micro credit facility 		Occasional Annual
Improving Women Participation in leadership and decision making	<p>No of women holding positions of</p> <ul style="list-style-type: none"> Ministers Civil Service by grade Professionals & Technical posts Judiciary <p>No of seats held by women in</p> <ul style="list-style-type: none"> Senate National Assembly Provincial Assemblies Local governments 		3 years Post General Elections
Providing better social services to women	<p>Education</p> <p>Literacy rate by gender</p> <ul style="list-style-type: none"> Male Female <p>Ratio of girls to boys enrolled in</p> <ul style="list-style-type: none"> Primary Middle <p>Drop out rate by gender from</p> <ul style="list-style-type: none"> Primary <ul style="list-style-type: none"> Male Female <p>Health</p> <ul style="list-style-type: none"> Prevalence of Anemia among women Urban (NHSP-199-94) Rural (NHSP-199-94) Life expectancy of women at birth Births attended by skilled health personnel Maternal mortality (Deaths per 100,000 live births) Access to reproductive health services by gender <p>Water</p> <ul style="list-style-type: none"> Average distance to water points by community <p>Population</p> <ul style="list-style-type: none"> Total fertility rate Rate of population growth Contraceptive prevalence rate 	<p>63% 38%</p> <p>0.72 0.68</p> <p>30% 38%</p>	<p>PIHS</p> <p>PIHS</p> <p>PIHS</p> <p>PIHS</p> <p>PIHS</p>

6.9 Though women are an essential part of the country's economy, their share in economic benefits, opportunities and access to resources is not proportionate to their share in the population. In order to rectify this shortcoming, the government is taking a number of policy measures to enhance their share in economic benefits. First, the government is making efforts to provide easy access to micro-credit especially through available windows such as Pakistan Poverty Alleviation Fund (PPAF); Rural Support Programs (RSPs); First Women Bank (FWB); Agricultural Development Bank (ADB) and Khushali Bank. Second, the government will ensure that women in general and female headed households in particular, women bread earners, and women with disability in particular, have priority in accessing credit on soft terms from FWB and the Khushali Bank and other financial institutions for setting up their business, for buying properties, and for house building. Third, the government plans to increase women's capacity to earn by improving access to sources of livelihood, particularly in agriculture and livestock production. Fourth, the government will provide equal opportunities for women in remunerated employment, which also accommodate women-oriented work patterns. Fifth, measures have been taken to improve the facilities for the education, training and skills development of women, to enter and re-enter the labor force, including special arrangements, as specified in the Labor Policy for women relative of workers. The training centers set up in different sectors impart training in, rug-making, embroidery, knitting and garment-making, field assistants, livestock assistants and agricultural extension works, nurses and medical technicians, skill training in computer, telex, radio, television, social forestry, vegetable gardening, livestock farming, food processing, fruit preservation and teachers training etc. In addition, government is also promoting female labor-based industries such as ready-made garments, electronics, pharmaceutical etc. A quota of 5 percent for women's employment in government is provided for in the rules. There is a need to ensure that this quota is filled and fully enforced.

6.10 The provincial governments also aim at increasing investment in providing safe drinking water and sanitation both as a measure to improve social service and to ease time burden of women. The Government has also promulgated a law to provide assistance to women in distress and crisis centers are being set up at the district level. The PSDP allocation for women development programs has been enhanced to Rs 810 million in 2003-04 against estimated expenditure of Rs 600 million in 2002-03.

Employment Strategy to Reduce Poverty

6.11 The generation of productive employment is an important policy goal in any meaningful program of poverty reduction. The PRSP recognizes the centrality of employment generation for poverty reduction. The rate of unemployment adjusted for underemployment is little below 10 percent in Pakistan. The participation rate for females is lower than males even when allowance is made for self-employment and unpaid family work. Although no hard data for income levels of 'working poor' are available, it is generally accepted that their wages are low and have not risen much during the 1990s. The main contributory factor for the prevailing high unemployment rate has been the deceleration of economic growth during the last decade. Improvement in the growth prospects of Pakistan as described earlier in the Paper augurs well for employment generation.



6.12 Table 6.1 presents the employment situation in the country. Out of the total currently employed, 39.9 percent are employees followed by self-employed (38.5 percent), unpaid family helpers (20.8 percent), and employers (0.8 percent). It is estimated that 35.4 percent of non-agriculture workers are employed in formal sector and the remaining 64.6 percent in informal sector, which clearly indicates that it accounts for significant proportion of total employment (two-third of the employment) and income generation outside agriculture sector. The percentage of employed involved in informal sector in rural areas (68.3 percent) is higher compared to urban areas (61.1 percent). The formal sector activities are more concentrated in urban areas (38.9 percent) compared to rural areas (31.7 percent).

Table 6.1
Employment Situation in 2001-02

	Benchmark 2001-02
GDP Growth Rates (2002-03)	5.1
Population (Million)	145.80
Labour Force (Million)	43.2
Employed (Million)	39.6
Openly Unemployed (Million)	3.6
Open Unemployment Rate (%)	8.3
Unemployment including underemployment	9.7

Source: Labour Force Survey, 2001-02, Federal Bureau of Statistics .

6.13 The historical data regarding sectoral distribution of employed force (Table 6.2) reflects gradual shift in labour force from agriculture to other sectors. The changing sectoral distribution of the employed labour force shows that share of employment in agriculture has significantly declined from 66.4 percent in 1951 to 42.1 in 2001-02, though still continued to be the major sector of employment in the economy. The share of manufacturing sector after an initial increase from 9.9 percent in 1951 to 13.8 percent in 1961 has more or less stagnated around 13.5 to 13.8 percent. The gradual shift of manufacturing sector from labour intensive to technology-intensive to meet the challenges of WTO is not generating enough employment opportunities despite huge investment during the last three years. Other sector that has shown significant growth is construction. The services sector has also grown sharply during the last two decades.

6.14 The employment strategy must be embedded with an overall strategy for integrated human resource development that combines investment in human capital, the “supply side”, with the creation of productive employment, the “demand side”, to lead to fuller utilization of human resources and minimize skill mismatch in the labour market. Incidentally, Pakistan continues to be at a low level of human development, which is a fundamental reason for its present low per capita income despite periods of high growth. Therefore, any employment strategy must be integrated with human resource development. The human resource development strategy has been extensively discussed in the previous chapter to respond to this need and to improve social indicators. Output growth and job creation is intrinsically linked. However, economies that substitute capital for labour to a greater extent have less dynamic job growth and flexible labour market may create more jobs through rising demand.

Table 6.2
Sectoral Distribution of Employed Persons

Sector	1951	1961	1971-72	1982-83	1990-91	2001-02
Agriculture	66.4	60.8	58.0	55.4	51.2	42.1
Manufacturing & Mining	9.9	13.8	13.5	13.8	12.8	13.8
Transport & Communications	1.7	2.9	5.0	4.8	4.9	5.0
Construction	-	2.1	4.3	4.2	6.4	6.1
Wholesale and Retail trade	7.0	7.1	10.1	11.0	11.9	14.8
Services	15.0	13.3	9.1	10.8	12.8	18.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Labour Force Survey, 2001-02

6.15 To have a fair idea of employment absorptive capacity of different sectors, it is important to assess how these sectors have behaved in relation to growth of output. The estimates of elasticity of employment of these sectors are presented in Table 6.3. The decline in elasticity for the overall economy as well as major sectors is a cause of concern in view of high growth rate of labour force. Traditionally, manufacturing sector is considered as the main engine of economic growth and the primary source of labour absorption. The present Government considers agriculture, energy, small and medium enterprises, information technology and telecommunications, and housing and construction as the main engines of growth, which will generate employment opportunities.

Table 6.3
Employment Elasticity with respect to GDP

Sector	1961 to 1971-72	1971-72 to 1977-78	1977-78 to 1986-87	1990s to 2000s**
Overall Elasticity	0.45	0.64	0.36	0.41
Agriculture	0.48	0.91	0.41	0.37
Large Scale Manufacturing	0.28	1.10	0.21	0.02
Small Scale Manufacturing				0.85
Construction	0.47	0.81	0.61	0.87
Transport & Communication	1.26	0.45	0.48	0.45
Trade	0.92	0.51	0.45	0.57
Electricity & Gas				0.54
Others including Services				0.68

** Source: Planning Commission

6.16 Based on the project growth rate of GDP for FY04 to FY06 and employment elasticity to GDP (0.41), it is expected that about 3 million jobs will be created in the country (Table 6.4).

Table 6.4
**Employment Projections Based on Overall Growth Targets and
Employment Elasticity**

(Millions)

	2003-04	2004-05	2005-06
GDP Growth Rates	5.3	5.8	6.1
Population (Million)	148.80	151.66	154.39
Labour Force (Million)	44.04	44.89	45.70
Job created through Economic Growth	0.96	1.07	1.14
Employed (Million)	40.56	41.63	42.77
Openly Unemployed (Million)	3.48	3.26	2.93
Open Unemployment Rate (%)	7.90	7.26	6.41

Source: Planning Commission

6.17 As highlighted in Chapter three, the growth of labour force and employment generation influences the wage rates. It in turn determines the functional size and distribution of income, which along with growth rate impact changes in poverty. The increase in labour force has shifted the labour supply curve to right leading to further decline in the wage rates. Recognizing the need for increased public spending, the Government aims at diverting the fiscal space for investment in social and physical infrastructure and providing enabling environment for private sector development to increase job opportunities. The Government is focusing to boost growth in sectors that have a large impact on employment. Four types of sectoral priorities are being pursued. First, boost the construction and housing sector; second, labor-intensive export

especially high valued agriculture and garments will be increased through appropriate incentives; third, encouraging the SMEs and providing supporting infrastructure; and fourth, increasing labor based content in public sector investment, especially in infrastructure like roads, irrigation and rural development.

6.18 Similarly, realizing that non-crop agriculture sub-sectors are more labour intensive where productivity can improve with little capital, the poverty reduction strategy focuses on livestock development, upgradation of fisheries, efficiently integrating rural dairy market with urban and export markets and developing food processing industry for exports. The Government is also emphasizing value-added textiles that are labour-intensive as part of Textile Vision 2005. Additionally, light-engineering sector because of its labour-intensive activities needs to be augmented through public-private partnership to meet the skill needs of this sector. The Government has, very recently, established a Task Force to develop an employment strategy to deal with the issue of unemployment in the country. The Government is also negotiating with various countries for export of labour that will increase the flow of remittances, one of the key factors that reduces poverty. Notwithstanding, there is a need to provide training commensurating the needs of recipient countries.

6.19 Impact on labor demand can also be increased by greater integration between key components of the poverty reduction strategy—building up the physical asset base of the poor, social asset creation for the poor and social safety nets. Khushal Pakistan Program and Tameer-e-Pakistan combines the aims of increasing employment opportunities and providing essential infrastructure in rural and low-income urban areas. Micro-credit for the poor will be accompanied by a package of services to borrowers to reduce poverty. In social asset creation for the poor, the scope for employment creation is large. However, micro-finance and SMEs suffer from poor quality and lack of standardization. Towards this end, cluster approach that provides inter-linkages and scale of economies leading to improved technology and skill is proposed for SMEs restructuring under ADB loan. Human development helps in raising the productivity and skill development, which will be getting increased focus under the proposed strategy. In the case of adult literacy program, teachers recruited from among the educated unemployed from the same areas will teach the poor.

6.20 Pakistan's public sector Technical Education and Vocational Training (TEVT) is still predominantly supply driven. Some efforts have been made to involve the private sector in the system, including the establishment of center management committees and skill development councils for training for higher productivity. Most workers still pick up their skills in the private sector, formal and informal and in private training institutions, particularly in information technology.

6.21 In conclusion, the increase in demand for labour can be in three strategic sectors: (a) externally in foreign markets, (b) internally in housing and construction, (c) small and medium enterprises, (d) exports and trade, and (e) in changing the composition of government expenditure towards use of labour based technology especially in infrastructure development.

6.22 The Government aims to formulate Labour Protection Policy (LPP) by 2004 to ensure protection to workers' rights in all sectors, fair working conditions, enhancing labour productivity, encourage enterprise efficiency and competitiveness, and to meet **SA 8000**. The formulation of Labour Inspection Policy (LIP) is also under process to adopt innovative approach to labour inspection that is flexible, transparent, and fair; encourage enterprise compliance with labour policies and laws; and increased harmony and dispute prevention in enterprises between workers and managers. The LPP and LIP will reflect the Government's objective of promoting business opportunities, enhancing productivity, and improving competitiveness, consistent with the need to allow ensure that workers are adequately protected and are in a position to benefit from the nation's economic progress. Currently, there are large number of labour laws, rules and regulations that cover a variety of subjects relating to industrial relations. After a comprehensive review, the Government is consolidating and rationalizing various labour laws into six broad categories, in line with ILO conventions ratified by the Pakistan, to reduce cost of doing business that include (i) Industrial Relations Ordinance 2002; (ii) employment conditions; (iii) wages; (iv) human resource development and control of employment; (v) occupational safety and health; and (vi) labour welfare and social safety nets. The corresponding legislation is at different stages of promulgation, stakeholders consultation, and drafting. The Government has already decentralized the Workers' Welfare Fund that will be utilized to establish educational facilities in every district, provision of scholarships for higher education and stipends for the children of workers and is aiming to develop Labour Market Information System at federal and provincial levels to provide comprehensive and reliable statistics on the labour force and job market to facilitate informed decision-making.

6.23 **Child labor** in Pakistan is a socio-economic phenomenon that exists because poor families are pushed by the economic necessities to force children to enter the labor market. A nationwide survey by ILO in 1996 estimated that there are about 3.3 million or 8.3 percent of children economically active in the labor market. Although the government is committed to eliminate child labor as reflected in the National Policy and Plan of Action to Combat Child Labour, it is pursuing a policy of gradual elimination of all forms of child labor and immediate elimination of the hazardous and exploitative forms of child labor under ILO's International Program for Elimination of Child Labor. To achieve this objective, certain specified target programs have been initiated. One hundred and seventy five auto workshops have been selected by setting up workshops to impart training to needy students and working children for two years. On completion of these courses, they are provided toolboxes, which enable them to earn a livelihood through self-employment. In addition, Pakistan Baitul Mal has set up 68 centers for poor children to rehabilitate children working in hazardous occupation by imparting non-formal education. Children are given monthly stipend of Rs.150 in addition to uniforms, shoes, other clothing and meals during school hours. On the other hand, parents are paid Rs.250 for each child they send to these schools. In collaboration with ILO, the European Union is also helping the government for setting up 18 Community Education and Action Centers for combating abusive child labor through prevention, withdrawal and rehabilitation of ex bonded child laborer. The Child Care Foundation has opened 324 non-formal education centers for imparting education to carpet weaving children from where the children are mainstreamed into the formal education.

6.24 The Government has also set out targets and activities in the National Policy and Plan of Action to Combat Child Labor (May 2000) and for abolition of Bonded Labor (2001). The objectives of the Plan are progressive elimination of child labor from all economic sectors, immediate withdrawal of children from worst form of child labor, preventing entry of under-aged children into the labor market through universal primary education and family empowerment, and rehabilitation of working children through non-formal education, pre-vocational training and skill development. The Federal Bureau of Statistics will launch a follow-up of 1996 survey on child labor to assess the impact of measures taken by the Government so far.

6.25. The Government has implemented a comprehensive legal framework to eliminate bonded labor from Pakistan. Pakistan has ratified ILO Conventions Nos. 29 and 105 prohibiting **bonded labour** and the UN 1956 Supplementary Convention on the Abolition of Slavery. The Bonded Labour System (Abolition) Act has been enforced since 1992. The Government has established a Fund of Rs 100 million for education of working children and rehabilitation of freed bonded labor. The Government aims to initiate ILO's Special Program of Action to combat Forced/Bonded Labour that seeks to (i) undertake a series of purposive studies; (ii) review laws on bonded labour to make consistent with international human rights treaties; (iii) provide training to District Nazims and members of the Vigilance Committees on human rights and bonded labour concerns; and (iv) developing a partnership with the stakeholders, employers, and workers to secure a more harmonious relationship.

6.26 The Government is also collaborating with the ILO, through a Social Finance Program on "Prevention of Family Indebtedness with Microfinance and Related Services" that aims to prevent freed haris (farmers) and other vulnerable families from falling back into bondage by reducing their economic and social vulnerability principally through enabling provision of microfinance services.

Environment Poverty Nexus

6.27 Pakistan's goal of achieving sustained economic growth for poverty reduction includes environmental sustainability. The poor are most dependent on natural resources for their livelihoods and most affected by environmental degradation. The key challenge is to work towards sustained poverty reduction through better environmental management. Environmental concerns like water, air, and land pollution, degrading agricultural lands, shrinking forests, diminishing supplies of clean water, dwindling fisheries and the threat of growing social and ecological vulnerability from climatic changes and the loss of biological diversity, have implications for long-term sustainable growth, and are adding to erosion of the already unsustainable livelihoods of the poor. This process in a way is creating un-abatable sources of poverty. To reduce poverty, it is vital to understand and address the linkages between poverty and environment. If we overlook these linkages, poverty reduction programs may fail or may add to the burden on the poor.

6.28 The key linkages between poverty and the environment have been divided into three categories:

- Environment and Livelihoods: the poor depend heavily on a range of environmental 'goods' for their livelihoods including land, potable and irrigation water, fisheries and forest products. They suffer disproportionately when their access to these resources is denied or limited.
- Environment and Health: the poor suffer most when air and water are polluted. Women and children are particularly affected. Inadequate sanitation, poor hygiene practices and lack of access to safe drinking water are major causes of ill-health and death.
- Environment and Vulnerability: the poor are particularly vulnerable to environmental disasters, conflict and competition for scarce natural resources. In addition, their voices often go unheard. Recognizing these linkages helps to identify the opportunities for tackling the root causes of poverty. In this way, it provides a strategic focus for prioritizing practical solutions to poverty alleviation and sustainable development.

6.29 The Government is fully cognizant of the key poverty environment linkages in Pakistan. The poor have a limited access to safe drinking water and sanitation, and inadequate provisioning to solid waste management (and related impacts on health) and alternative energy supplies. The poor are also the most vulnerable to increasing incidence of environmental shocks such as floods and drought

6.30 In its efforts to respond to the environmental challenges facing the country, the Government during the last two decades has made significant progress towards creation of institutions and adoption of policy measures. The important initiatives taken in this regard include enactment of Environmental Protection Ordinance 1983, establishment of provincial and the federal Environmental Protection Agencies, constitution of Pakistan Environmental Protection Council, formulation of National Conservation Strategy, promulgation of National Environmental Quality Standards, enactment of Pakistan Environmental Protection Act-1997, formulation of Pakistan Forestry Sector and Biodiversity Action Plans, and adoption of National Environmental Action Plan (NEAP) with a focus on clean air; clean water; solid waste management; and eco-system management. NEAP support program proposes a wide range of technical, institutional (including the strengthening of EPAs), regulatory, social and economic interventions grouped under six major sub-programs i.e. (i) policy coordination and environmental governance; (ii) pollution control; (iii) eco-system management and natural resources conservation, (iv) energy conservation and renewable (v) dry land management and (vi) grass roots initiatives. Government is signatory to a number of major environmental management conventions and protocols.

6.31 The most significant achievement in recent years is the incorporation of environmental concerns in government policies and initiation of process of Environmental Impact Assessment (EIA) in the development schemes. National Environmental Action Plan (NEAP) was initiated to safeguard public health, promote sustainable livelihood and enhance the quality of life for the people of Pakistan. The main areas of concern are: clean air, clean water, management of solid waste, eco-system management, management of fresh water resource, marine pollution, toxic and

hazardous substances, energy conservation and management, compliance with International Treaties and Protocols.

6.32 To address the poverty-environment nexus effectively, the Government will continue to implement projects and programs aimed at achieving the objectives of NEAP, Millennium Development Goals and targets set at the World Summit on Sustainable Development and framework on WEHAB (water, energy, health, agriculture and biodiversity) through a participatory approach. Special attention will also be given to policy reforms, promulgation and enforcement of environmental legislation, enhancing coordination and collaboration amongst stakeholders, capacity building, land use planning and zoning, introduction of green accounting, development of monitoring and evaluation systems, disaster management, promotion of appropriate environmental technologies, public awareness and education and building of partnerships at the regional and global level. It is imperative that institutions responsible for handling environment related programs and enforcement of laws are strengthened. To sharpen the quality of policy formulation and decision making, there is a need for mapping and establishing a reliable database of environmental resources as well as monitoring to ascertain trends. A strong monitoring and evaluation mechanism is being developed to capture intermediate and final outcomes related to environment. The Government aims to develop a policy framework to address environmental issues such as bio-diversity, desertification, deforestation, land degradation, marine pollution, and air pollution including the development of agreed base lines and monitorable indicators.

SEVEN

EXPENDITURE MANAGEMENT AND MONITORING OF THE PRSP

7.1 The formulation of a well-structured strategy through extensive nation-wide consultations is a major milestone. Nevertheless, the real test of the PRSP strategy is the resource availability and effective implementation to deliver the expected results to the poor. In an environment where the main focus of macroeconomic stabilization program – the key to reviving growth – had been towards controlling the fiscal deficit, generating resources for poverty reduction is a formidable task. In recent years less than or about 4 percent of GDP has been allocated to poverty-focused sub-sectors. Allocations to human capital formation (education; health; population planning) have been around 2.7 percent of GDP.

7.2 Therefore, starting with existing actual allocations during the IPRSP, the strategy envisages an increase in allocations over the medium term as more and more fiscal space becomes available as a result of reduction in overall cost of borrowing, decreasing debt servicing, increased resource mobilization, and reduction in PSEs losses while containing the overall fiscal deficit within the range of 4.0-3.5 percent. The release of additional resources will be re-oriented towards increasing PRSP expenditures. It is expected that non-defense and non-interest expenditure will increase by 3.5 percent of the GDP under “base case” and by 2.9 percent of GDP under “low-case” scenario.

7.3 In view of the key assumptions made in the base case scenario, the poverty reduction targets are subject to the following risks: fresh heightening of regional tensions; (ii) decline in revenue growth and grants; (iii) increase in PSEs losses; (iv) decline in agriculture output; and (v) political instability. Nevertheless, qualitative improvements in the public spending and supporting private sector investments can still make a significant difference in terms of development and poverty reduction as the Government is under obligation to protect PRSP expenditures at around 4 percent of the GDP indicated in the Fiscal Responsibility and Debt Delimitation Law (now 5 percent with extended range of PRSP sectors).

7.4 Given the complexity in formulating a Medium Term Budgetary Framework, the strategy proposed to strengthen the on-going work include: (a) an in-depth review of the implication of Enterprise Resource Planning (ERP) based Financial Accounting and Budgeting System (FABS) under Project to Improve Financing Reporting and Auditing (PIFRA) and identify areas where supplementary initiatives can be lanced in Ministries of Finance and Planning; (b) Health and Population Welfare are views as pilot sites to introduce input costing and fostering output orientation of the core business processes of the Ministries; (c) develop a generic computerized budgeting and accounting internal control model to amplify the role of Chief Financial Officer (CFO); (d) based on (a) to (c) develop a comprehensive management model for roll-on across the government; and (e) developing revenue forecasting model.

7.5 Given the on-going evolution of PRSP and the complexity of linking public expenditures with outcomes such as improved educational and health outcomes;

acceptable nutritional status and reduced poverty incidence including reduced probability of falling into poverty through vulnerability to economic shocks (price increase; health condition; natural calamity; death of a bread earner), it is difficult and of limited reliability; to carry out detailed costing of PRSP Programs. Using illustrative simulations for estimating “the public expenditures needed to increase enrollment of specified target groups” is one possible way. But such a process can, at best, be indicative. An alternative process is to increase allocations to the (i) high probability of impact on poverty sub-sectors, (ii) Civil Service/governance reforms and judicial reforms activities to improve the delivery of service and (iii) Monitoring systems which are recursively linked to policy revisions i.e. ability to modify policies and investments if “outcomes sought” are not being achieved. This second option has been followed for allocating resources for the evolving PRSP.

Costing of Education Sector

7.6 The main objectives in the education sector set in the PRSP relate to enrolment in elementary education and the quality of teaching-learning process. DFID’s assistance was requested to estimate the costs of achieving the education targets in the education policy papers and the PRSP. The consultants have developed an Education Simulation Model, a simplified version of FTI model, that provides linking proposed changes in enrolment with changes in the public cost of education, resulting from improvements in the quality of education and in the efficiency of resource use.

7.7 The model presents two scenarios: (a) high cost version; and (b) low cost version. Teachers’ remuneration and classroom construction costs, together with costs of schemes for encouraging enrolment such as school feeding and girls stipend programs, are the largest areas of incremental costs. Taking the 2000-01 expenditures on the entire education sector as the base, the model shows a real increase of 53 percent in NWFP, 58 percent in Baluchistan, 60 percent in Punjab, and 65 percent in Sindh by 2007-08 will be required to meet the UPE targets under scenario A, assuming low pupil-teachers ratio (PTR) that remains constant over the period. The public education system will require 2.3 percent of the GDP assuming real GDP growth rate stays at 5 percent per annum against the present share of 1.8 percent of GDP under scenario A.

7.8 The study, however, needs a follow up work in as much as costing does not include Federally Administered Tribal Areas, Frontier Regions and Northern Areas, and Islamabad Capital Territory and enrolment in non-ministry schools, e.g. defense schools; lack of coverage of secondary and technical education, teacher training, mainstreaming madrassah, adult literacy, and non-formal education; inclusion of more provincial strategies; and need to develop total cost simulation for each sub-sector instead of incremental cost projections. The data sets used for simulation faces consistency and structural problems. The most critical relates to teachers’ costing as the data is not delineated in terms of teachers currently employed for teaching primary and middle stage. Another major concern is the consistency of some of the key cost parameters over time. In one province, the reported PTR jumps from 70:1 in one year to 42:1 the following year. Accurate enrolment projections rely on school age population projections and estimates of existing students flow rate (entry, repetition, and completion rates). The quality of data available is not certain. It is possible to overcome these difficulties by

conducting more data gathering exercise at the provincial level. The final national cost estimates will then be obtained by aggregating the provincial estimates. This bottom approach, although more time consuming, will add both accuracy and credibility to the cost projections and support the overall thrust of PRSP process. Ministry of Education has formally approached DFID to commission a full provincial level costing study.

Costing of Health and Population

7.9 The consultants hired to carry out the costing of Health and Population Welfare as part of the Medium Term Budgetary Framework have still not finished their work and are likely to take more time and will be available around end-June, 2004. Tentative calculations suggest that adequate financing of priority programs such as LHW, Maternal and Child Health, HIV/AIDS, Malaria, T.B. Control, health education, reproductive services, human resource development, and capacity building, enhancing the non-salary budget for existing facilities and improved allocation for population program will need an addition Rs 10-12 billion per annum. This will necessitate increase in sectoral financing from 0.6 to 0.8 percent of GDP over the medium term transiting to 1 percent of GDP. Nevertheless, the budgetary allocations will need to be balanced with absorptive capacity of the Ministry as well as departments and ensuring effectiveness of the expenditures.

PRSP Expenditures

7.10 Table 7.1 presents the projected allocations for FY04 to FY08 with the base year allocations being for 2000-01. The projected PRSP expenditures based on annual increase at the rate of 0.2 percent of GDP per annum for FY04, 0.3 percent of GDP per annum for FY05 and FY06 and 0.4 percent of GDP for FY07 and FY08, will rise from 5.2 percent in FY03 to 6.8 percent of the GDP in FY08. Non-budgetary pro-poor expenditures in the public sector are in addition to this (Table 7.2).

7.11 Recognizing that PRSP expenditures do not include a large quantum of Public Sector Development Program (PSDP) as well as current expenditures that directly or indirectly contribute to poverty alleviation, such as highways, power, higher education commission, agriculture, information technology and telecommunication, women development, environment, railways, oil and gas, and works, etc., the size of pro-poor expenditures will be much higher than projected at Table 7.1, given the substantial increase in the PSDP during next four years as reflected in Table 5.2. Approximately 1.4 percent of the PSDP is included in the PRSP expenditures. Therefore, any analysis of pro-expenditures in the country must not restrict itself to PRSP expenditures alone. Additionally, a large amount is expensed for alleviating the poor through NGOs, donors, and philanthropy, which is not captured in for in the PRSP budgetary or non-budgetary expenditures.

MONITORING AND EVALUATION

7.12 Well-targeted anti-poverty outlays and social transfers are essential ingredients of a comprehensive poverty reduction strategy but the real test of public expenditures lies in their impact. The success of Pakistan's PRSP will depend upon the institutionalization of implementation mechanisms that not only track poverty related

expenditures but also monitor key intermediate indicators, and outcomes, as well as monitoring long-term impact that is intrinsically related to welfare implications of policies and programs and milestones towards achieving the MDGs.

7.13 The IPRSP developed an elaborate framework for tracking pro-poor public expenditure and poverty monitoring in a coordinated way. A tentative set of indicators was identified to track progress on important aspects of poverty. Building upon this, one of the central components of the PRSP is the strengthening of the system to monitor both the implementation and outcome of poverty reduction policies. The PRSP monitoring framework includes a set of indicators that track policy inputs, their outputs and progress towards intended policy outcomes. The PRSP monitoring provides the means for all stakeholders (government, civil society, donors etc.) to assess the success of the PRSP policies in attaining the desired outcomes, and provides a basis to review and modify these policies as necessary. It is concerned with monitoring inputs (policy actions, particularly public spending), the immediate (intermediate) outputs of these policies, and the outcomes and final impacts they are designed to achieve. It is important that inputs and intermediate outputs of public actions are connected, in a logical, causal sequence, to outcomes in terms of an improved life for the poor.

The monitoring framework for the PRSP includes:

- Institutional arrangements that are needed to make this monitoring system work;
- Framework of indicators as well as intermediate indicators to be monitored;
- Process of identifying and implementing steps necessary to strengthen or develop existing information sources; and
- Arrangements that need to be put in place for interpreting the monitored indicators and feeding conclusions back into management and policy change.

Expenditure Tracking

7.14 It needs to be appreciated that there is an implementation lag between expenditures incurred and outcomes achieved that makes it difficult to assess policy performance immediately. For instance, even though public expenditures on primary schools may be increased, higher gross/ net primary enrolment rates will take place only after a time lag, and it will take even more time before higher literacy rates are achieved. The government has identified a set of intermediate indicators that will depict the effect of policy interventions over a relatively shorter period of time, on an annual basis. This expenditure tracking exercise has been linked with the achievement of certain key IPRSP (outcome) targets.

7.15 PRSP Secretariat is tracking budgetary and non-budgetary expenditures on various aspects of poverty based on the civil accounts provided by the office of Controller General of Accounts and Provincial Accountants General, on quarterly basis with a lag of three months. Beginning FY 04, PRSP spending will also include expenditures on law and order, administration of justice, and rural electrification. The proposed PRSP expenditures reflected in Table 7.1 are in aggregate form. However, the reporting of these expenditures is done in detail, e.g. education expenditure is split into 6

categories, health is split into 4 categories. The sample reporting format is at Annex-III. The PRSP non-budgetary expenditures are indicated at Table 7.2.

7.16 PRSP input process (pro-poor expenditures) has been clearly defined in PRSP and a system to monitor these expenditures on a quarterly basis is in place. To monitor outcome and impact in human development, the Government has established in conjunction with the provinces and line Ministries, a preliminary set of indicators that can be tracked on a short/medium term and long term basis, linking public expenditures with results on the ground been.

Development and Monitoring of Intermediate Indicators

7.17 The Government in collaboration with its development partners organized four national level workshops beginning in March 2002 and culminating in February 2003, reaching a consensus on intermediate and final outcome indicators in Education, Health and Population Planning sectors. Each workshop was participated by key stakeholders from the federal and provincial governments, donors, NGOs and civil society. These indicators are shown at Annexure-III. Indicators on Health and Population Welfare are being monitored effective from July 1, 2003 and a first set of results was made available in September 2003 for those indicators with quarterly frequency. The remaining will be reported in accordance with frequency reflected against each indicator. The available data will be compared with the respective baselines (of the year 2000-01) and an analysis of the amelioration/ deterioration will be reported in PRSP quarterly reports. National Health MIS has established more than 100 peripheral computer centers at the District level for the data entry and processing of information. The Ministries of Health and Education aim at improving the Health Management Information System (HMIS) and National Education Management Information System (NEMIS) to provide reliable and authentic data. In this regard, both the Ministries are holding regular inter-provincial meetings to address issues relating to effective monitoring and evaluation of policy interventions and programs.

7.18 Regular information on intermediate indicators is a valuable guide for evaluating the efficiency of public policies and the use of public funds. Nevertheless, information/ data sources for intermediate indicators in Pakistan are not readily available and reporting systems are not tuned for quick reporting in some cases. However, as part of the government's anti-poverty efforts, information systems are being developed/strengthened to track intermediate indicators, their measurement methodologies, definitions, and sources for timely and accurate review of policy interventions through a comprehensive consultative process as detailed above. This process is being pushed further as the baseline information/ data on education and health sector intermediate indicators has been finalized. In this context, to monitor implementation effectiveness and impact of the programs on living conditions, the Core Welfare Indicators Questionnaire (CWIQ) Survey is underway.

Table: 7.1
Projected PRSP Budgetary Expenditures (2002-2008)

PRSP EXPENDITURES	BASELINE (Actual)		PROJECTIONS (Based upon FY 2001-02 actual expenditures)											
	FY 2001-02		FY 2002-03 (Actual)		FY 2003-04 (Budget)		FY 2004-05 (Projected)		FY 2005-06 (Projected)		FY 2006-07 (Projected)		FY 2007-08 (Projected)	
	Rs. In Millions	% GDP	Rs. In Millions	% GDP	Rs. In Millions	% GDP	Rs. In Millions	% GDP	Rs. In Millions	% GDP	Rs. In Millions	% GDP	Rs. in Millions	% GDP
Development	37,636	1.00	44,316	1.10	64,000	1.45	85,000	1.74	108,000	2.00	138,200	2.30	166,700	2.50
Current	129,614	3.49	164,560	4.10	174,795	3.95	193,023	3.96	215,878	4.00	245,419	4.10	286,587	4.30
TOTAL	133,495	4.48	208,840	5.20	238,795	5.40	278,023	5.70	323,878	6.00	383,620	6.40	453,287	6.80
MARKET ACCESS AND COMMUNITY SERVICES														
Roads, Highways & Buildings (SAP)	6,340	0.17	13,145	0.33	14,586	0.33	16,575	0.34	18,890	0.35	21,568	0.36	24,672	0.37
Water Supply and Sanitation	4,644	0.12	3,421	0.08	3,978	0.09	4,875	0.10	5,937	0.11	7,189	0.12	8,668	0.13
HUMAN DEVELOPMENT														
Education	66,290	1.78	78,613	1.96	88,842	2.01	102,375	2.10	116,036	2.15	135,049	2.25	156,698	2.35
Health	19,211	0.52	22,368	0.56	29,172	0.66	36,075	0.74	44,313	0.82	55,117	0.92	66,680	1.00
Population Planning	1,331	0.04	3,120	0.07	4,601	0.10	4,875	0.10	5,397	0.10	5,991	0.10	6,668	0.10
Social Security & Welfare	3,664	0.10	1,301	0.03	3,682	0.08	3,900	0.08	4,318	0.08	4,793	0.08	5,334	0.08
Natural Calamities	189	0.01	410	0.01	265	0.01	488	0.01	540	0.01	597	0.01	667	0.01
RURAL DEVELOPMENT EXPENDITURES														
Irrigation	10,133	0.27	15,535	0.39	25,194	0.57	32,370	0.66	43,176	0.80	56,315	0.94	73,348	1.10
Land Reclamation	1,838	0.05	1,759	0.04	1,768	0.04	2,438	0.05	2,699	0.05	2,996	0.05	3,334	0.05
Rural Development	12,325	0.33	16,883	0.42	6,188	0.14	7,228	0.15	8,635	0.16	10,185	0.17	12,002	0.18
Rural Electrification					1,000	0.02	1,000	0.02	1,079	0.02	1,198	0.02	1,334	0.02
SAFETY NETS														
Food Subsidies	5,513	0.14	10,859	0.27	13,260	0.30	14,625	0.30	16,191	0.30	17,973	0.30	20,004	0.30
Food Support Program	2,017	0.05	2,236	0.05	3,536	0.08	3,900	0.08	3,778	0.07	4,194	0.07	4,668	0.07
Tawana Pakistan	800	0.02	590	0.01	700	0.02	500	0.01	540	0.01	545	0.01	669	0.18
Low Cost Housing			60		165									
GOVERNANCE														
Administration of Justice	1,981	0.05	2,247	0.06	2,652	0.06	3,413	0.07	4,318	0.08	5,392	0.09	7,196	0.11
Law and Order	31,004	0.80	36,293	0.90	39,205	0.89	43,388	0.89	48,033	0.89	54,518	0.91	61,346	0.92
TOTAL	167,260	4.49	208,840	5.20	238,795	5.40	278,023	5.70	323,878	6.00	383,620	6.40	453,287	6.80
I-PRSP Target		3.60		3.80		4.00	4.20	4.40	4.60	4.80	5.00	5.20	5.40	5.60

Core Welfare Indicators Questionnaire (CWIQ) Survey

7.19 With devolution effectively in place, there is a need to provide the decision-makers at that level regular feed-back on effectiveness of public spending, measure quality, and improvement in service delivery for making timely policy adjustments. There is no instrument available to capture data on intermediate indicators and to validate the findings of NEMIS and HMIS. In this context, the government has decided to launch CWIQ survey to capture facility and household based district level data relating to all intermediate indicators. It will also track some health output indicators, like satisfaction/usage of health facilities and quality indicators for the basic health facilities. The PIHS questionnaire is also being reviewed to ensure capturing all information needed in relation to the outcome of the PRSP process.

Table: 7.2

PRSP Non-Budgetary Expenditures (2002-2006)

PRSP EXPENDITURES	BASELINE (Actuals)		PROJECTIONS (Based upon FY 2001-02 actual expenditures)							
	FY 2001-02		FY 2002-03		FY 2003-04		FY 2004-05		FY 2005-06	
	Rs. Mill	% GDP	Rs. Mill	% GDP	Rs. Mill	% GDP	Rs. Mill	% GDP	Rs. Mill	% GDP
Zakat System	5,169	0.13%	9,545	0.23%	9,650	0.21%	9,258	0.19%	5,401	0.10%
Social Security (EOBI)	1,366	0.03%	1,489	0.03%	1,608	0.03%	1,753	0.03%	1,894	0.03%
Micro credit	1,588	0.04%	3,354	0.08%	5,823	0.13%	9,288	0.19%	13,858	0.26%
TOTAL	8123	0.21	14,389	0.22%	17,081	0.42%	20,299	0.48%	21,153	0.40%

SOURCE: Zakat: Ministry of Religious Affairs; Social Security: Employees Old Age Benefit Institution; Housing Finance: State Bank of Pakistan; Micro credit: Khushali Bank, PPAF, ZTBL

7.20 The CWIQ is an integrated system and is a fusion of ideas and practices drawn from a number of countries and survey methodologies. The emphasis is as much on high standards of enumeration and good data quality as it is on the technology and speed of data processing. The intermediate indicators will be captured through CWIQ and the final outcome indicators would be monitored through the PIHS, which will be conducted every three years. CWIQ will be conducted on an annual basis except the year in which a PIHS is undertaken. CWIQ will provide quick results as well as third party validation to the HMIS and NEMIS data relating to above intermediate indicators, basis essential for feedback into the planning and budgeting of poverty/social programs. FBS has also proposed to conduct PIHS/HIES on alternate year which is under consideration of the Government.

7.21 During the pre-pilot phase, a number of concerns have been expressed in terms of capacity of Federal Bureau of Statistics (FBS) to conduct this survey and the key processes of (i) sample design and construction, (ii) data collection, (iii) data processing, and (iv) analysis and interpretation of the results. To address these concerns, a Technical Committee was constituted drawing on the skills of a panel of independent academic statisticians. The Committee has adapted the CWIQ and has finalized the questionnaire format. PC-I allocating resources have been approved. The pilot survey has been launched after training the master trainers, in-depth training of enumerators and supervisors, and simultaneous training on the data processing side, which will

provide sustainable solutions towards ensuring quality and timely tabulation of results, for which the World Bank has provided the Technical assistance. The objective of the pilot is to assess suitability of the CWIQ, testing of the modified system to ensure that it operates correctly, capacity building in the FBS, to assess capacity of the FBS to conduct a full-scale survey and additional support needed, and providing real world data for planning.

7.22 The successful pilot will lead to commencement of full-scale survey and we expect finalization of the report based on CWIQ survey by September 2004. The start of the survey is later than its original schedule of April 2003 because of delays in securing the necessary technical assistance from abroad. The launching of a CWIQ Survey presents enormous challenges in collecting district level data for the FBS and will need to engage the Provincial Statistics Bureaus in the process and simultaneous training and building their capacity. This will need a comprehensive training program and focused upgrading and restructuring of these institutions.

7.23 The pilot survey took place during November beginning with a training course in Islamabad (3-6 November) followed by fieldwork in eight locations in all four provinces. In total, data on 960 households (comprising 6,367 people) were collected between 7-15 November. The data processing (scanning validating and cleaning) was completed by November 19, 2003 and a selection of tables was generated to be presented at the workshop held on November 21. This workshop was used to provide stakeholders with an overview of the pilot phase, with initial views on operational aspects, and demonstrate some of the CWIQ outputs. During December 2003, there will a thorough review and evaluation of the pilot survey by FBS in order to prepare for the full-scale survey. This review will include debriefing enumerators, supervisors, and data processing staff, a thorough, stepwise appraisal of the questionnaire and associated instructions, training course, fieldwork procedures and data processing system. This period will also allow time for stakeholders to review the CWIQ output and provide their comments. In parallel with this review, work will begin on other preparations for the national survey. These include assignment of additional staff, procurement of hardware, and software, revision of the plan and budget using operational data gathered during the pilot survey. The FBS is currently planning to start the full national CWIQ survey on March 1, 2004 and next round of PIHS/HIES from July 1, 2004.

7.24 While the monitoring framework can help identify efficiency of the policies, additional work will be needed to understand *why* policies could not yield the desired output. Making these judgments will typically necessitate more in-depth studies, focused on specific questions and using a different approach (such as detailed analysis at district level particularly when primary health care is now the responsibility of the district governments).

Institutional Roles in PRSP Monitoring:

7.25 The Federal PRSP Secretariat in the Ministry of Finance headed by Joint Secretary (Policy) is the Government's coordinating interface since the work on IPRSP was initiated in early 2001 and will be the lead agency to collaborate with provincial monitoring units, FBS, Center for Research on Poverty Reduction and Income

Distribution (CRPRID), and the Planning Commission for all poverty assessment, outcomes, and impact analysis studies apart from tracking budgetary and non-budgetary pro-poor expenditures and MDGs progress. After the finalization and endorsement of I-PRSP by the Joint Staff Assessment of the World Bank and the IMF and subsequent extension of Poverty Reduction and Growth Facility by the IMF, the PRSP Secretariat has been preparing quarterly reports on pro-poor expenditures. In terms of evaluating progress on the PRSP indicators, provinces have identified focal points within their respective Planning and Development Departments. The Federal PRSP Secretariat will produce analytical progress reports on the PRSP indicators on periodic basis. To ensure the success of this system, the Federal PRSP Secretariat has to be strengthened and streamlined. In this regard, an IDF grant for the capacity building of PRSP Secretariat is under process of realization for creating this capacity.

7.26 Evidently, instituting a comprehensive mechanism for preparation and monitoring of PRSP calls for creation of significant capacities at various government levels and in different departments. Four key areas where this need is particularly pressing are PRSP preparation (dialogue with civil society, poverty assessment), monitoring (data collection, impact assessment), statistics (covering all PRSP indicators) and special studies and surveys (deeper and continuous analysis of poverty profile in selected areas). These needs cut across all governments, federal, provincial and district. Over time, it is expected that the PRSP Secretariat needs to be well linked to and coordinated with existing monitoring and evaluation capacities in social service delivery departments at federal, provincial and district levels, which need to be further strengthened to enable them to assess outcomes of policies and programs and make adjustments as needed.

TABLE 7.3: PRSP MONITORING TARGETS**A. MACROECONOMIC TARGETS**

Indicator	Baseline Year	Projections for FY 2003-04 to FY 2005-06			
	FY 2001-02 Actual	2002-03 Actual	2003-04 Budget	2004-05	2005-06
Real GDP Growth	3.6%	5.1%	5.3%	5.8%	6.1%
Inflation	3.5%	3.3%	4.0%	4.0%	4.0%
Nominal GDP (Rs in bn)	3,727	4,018	4,420	4,875	5,397
Total Revenue (Rs in bn)	617.0	721.1	756.0	837.1	930.3
Dev Expenditure (Rs in bn)	128.0	129.2	160.0	200.0	240.3
Total Expenditures (Rs bn)	806.1	906.0	938.0	1027.2	1135.3
PRSP Expenditure (Rs bn)	167.3	208.8	238.8	278.0	323.8
PRSP Expenditure (% of GDP)	4.49%	5.20%	5.40%	5.70%	6.00%

Source: Ministry of Finance and Economic Advisor Wing

B. Poverty Target

	2000-01 HEIS	2005-06	2015
Head Count Ratio (% -caloric approach)	32.1	28	
Urban	22.67		
Rural	38.98		

Source: Planning Commission and FBS

Frequency: Three years

C. EDUCATION SECTOR INTERMEDIATE TARGETS

Indicator	Baseline Year	Projections for FY 2001-02 to FY 2005-06				
	FY 2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
No. of functional schools	145,056	147,957	150,916	151,584	153,824	156,379
Primary	132,527	135,178	137,881	138,147	139,912	141,856
Middle	12,529	12,780	13,035	13,437	13,912	14,523
% of Trained Teachers	98%	98.0%	98.1%	98.3%	98.5%	98.6%
Primary	98%	98%	98%	98.2%	98.3%	98.5%
Male	97%	97%	98.2%	98.3%	98.5%	98.7%
Female	97%	98%	97.1%	97.2%	97.4%	97.5%
Middle	98%	98%	98.6%	98.7%	98.8%	98.9%
Male	98%	98%	99.0%	99.1%	99.2%	99.2%
Female	98%	98%	98.1%	98.1%	98.1%	98.3%
Teacher Absenteeism	To be developed through Core Welfare Indicators Questionnaire (CWIQ)					
% of sanctioned staff strength filled	Date Awaited from Ministry of Education					
% of Schools with basic facilities						
Water	53.0%	53.0%	53.0%	54.0%	55.0%	56.0%
Primary	51.0%	51.0%	51.0%	53.0%	54.0%	55.0%
Middle	72.0%	72.0%	72.0%	63.0%	64.0%	66.0%
Electricity	22.0%	22.0%	22.0%	23.0%	23.0%	23.0%

Primary	19.0%	19.0%	19.0%	20.0%	21.0%	21.0%
Middle	53.0%	53.0%	53.0%	47.0%	47.0%	48.0%
Sanitary	37.0%	38.0%	39.0%	39.0%	40.0%	41.0%
Primary	36.0%	37.0%	38.0%	39.0%	39.0%	40.0%
Middle	46.0%	46.0%	47.0%	48.0%	49.0%	50.0%
Boundary Wall	41.0%	42.0%	43.0%	44.0%	45.0%	46.0%
Primary	41.0%	42.0%	43.0%	43.0%	44.0%	45.0%
Middle	47.0%	48.0%	49.0%	50.0%	51.0%	52.0%

Source: Ministry of Education. Frequency: Annual, except Teacher Absenteeism which is periodic

EDUCATION SECTOR FINAL OUTCOME TARGETS

Indicator	Baseline Year	Projections for FY 2001-02 to FY 2005-06				
	FY 2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Gross Primary Enrolment Rate	83	87**	92	96	100	104
Male	94	99	103	108	111	114
Female	68	75	81	84	89	94
Gross Middle Enrolment Rate ⓪	40	41	43	46	49.5	53
Male	48	45	47	50	53	56
Female	32	35	39	42	46	50
Net Primary Enrolment Rate		42				58
Literacy Rate ♦	49	50.5	51.6	53.5	56	59.5
Male	61.3	63	64	65	67	70
Female	36.8	38	39.2	42	45	49
Student dropout rates (Primary) ⊗	34	31.38	29	27	24	21
Male	30	28	25.5	23	20.5	18
Female	38	35	32.5	30	27.5	24

Source: Ministry of Education. Frequency: Annual

- ⓪ Gross Middle Enrolment Projections made on the basis of PIHS data Round 3 & 4.
- ♦ Literacy Rates based on Population Census 1998
- ⊗ Dropout rate for the year 2001-02 has been arrived at by taking average of 2001-2002 PIHS Dropout Rates of all the five quintiles/ income groups, for the Cohort Aged 15-19 years (which reflects over-all picture of both public and private sectors).
- ** A Sub-Committee headed by Director PIDE with representatives from Ministry of Education, Federal Bureau of Statistics, and PRSP Secretariat is looking at the National Education Information Management System data (reporting GER 89% and NER 67%) and PIHS data (reporting GER 72 % and NER 42 %) and reconciling the two sets of data and will finalize its report soon.

D. HEALTH & POPULATION SECTOR INTERMEDIATE TARGETS

Indicator	Baseline Year	Projections for FY 2001-02 to FY 2005-06				
	FY 2000-01	2001-02 (Actual)	2002-03 (Actual)	2003-04	2004-05	2005-06
Utilization Rate of First Level Care Facilities/ Day (Curative only)	34	37	36	40	44	48
Population covered by Lady Health Workers.	30%	41%	44%	65%	75%	85%

Poverty Reduction Strategy Paper

Immunization coverage of children/ Pregnant Mothers	DPT-III: 76%	76%	69%	79%	79%	79%
	TT-II: 51%	51%	48%	54%	54%	53%
Percentage of births attended by skilled birth attendants.	13%	13%	14%	18%	19%	21%
Number of skilled female birth attendants. (MCH) (WMO, LHV, FMT, FHT, Mid-Wife)	96,254	101,823	110,376	117,500	124,000	131,000
The percentage of FLCFs not experiencing stock-outs of any one of five key supplies during the past month.	26%	28%	35%	35%	38%	38%
Number of FLCFs meeting staffing norms. MO, WMO, LHV/ FMT/ FHT	30%	34%	38%	42%	45%	50%
Availability of contraceptives from FLCFs	68%	83%	85%	85%	87%	90%
Contraceptives Prevalence Rate (CPR)			34.9%	37.2%	39.4%	41.7%

Source: Ministry of Health. Frequency: Annual

HEALTH & POPULATION SECTOR FINAL OUTCOME TARGETS

Indicator	Baseline Year	Projections for FY 2001-02 to FY 2005-06				
	FY 2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Population Growth Rate (%)	2.22	2.16	2.06	1.99	1.92	1.85
Total Fertility Rate per woman	4.31	4.20	4.09	3.98	3.87	3.76
Infant Mortality Rate (per 1,000 births)	85	82	77	70	65	63
Under five Mortality Rate (per 1,000 live births)		105	100	95	88	80
Child Mortality Rate (per 1,000)	20	19	18	16	17	15
Maternal Mortality Rate / 100,000		350-400				300-350
Proportion of children under five who are under weight for their age (%)		37				34
Proportion of population in malaria risk areas using effective malaria prevention treatment		20 %				25 %
Incidence of TB /100,000		177				133
%age of TB Cases detected and cured under TB DOTS		25				70

Source: Ministry of Health and Ministry of Population. Frequency: Annual

E. WATER SUPPLY AND SANITATION INTERMEDIATE INDICATORS

Indicator	Baseline Year	Projections for FY 2002-03 to FY 2005-06			
	FY 2001-02	2002-03	2003-04	2004-05	2005-06
Population with access to clean drinking water	86%	87%	88%	89%	90%
Urban	95%	95%	96%	96%	97%
Rural	80%	81%	82%	83%	84%
Population with access to sanitation	51%	52%	53%	54%	55%
Urban	90%	91%	92%	93%	94%
Rural	34%	35%	36%	37%	38%

Source: Pakistan Integrated Household Survey (PIHS)

F. HOUSING SECTOR INDICATORS

Indicator	Baseline Year	Projections for FY 2002-03 to FY 2005-06			
	FY 2001-02	2002-03	2003-04	2004-05	2005-06
Number of Katchi Abadis (Slum Settlements) Regularized	28				
Number of houses within Katchi Abadis regularized	9,293				

Source: Ministry of Rural Development

G. RURAL DEVELOPMENT INDICATORS

Indicator	Baseline Year	Projections for FY 2002-03 to FY 2005-06			
	FY 2001-02	2002-03 (actual)	2003-04	2004-05	2005-06
Temporary employment (KPP/ Tameer-e-Pakistan)	270,333	80,758			
DERA Beneficiaries					
Farm to Market Roads* (Km)	2,000	2,000	2,000	2,000	2,000
Acres of State lands made available for distribution	49,980	7,501			

Source: Ministry of Rural Development. Federal Land Commission. *Planning Commission

H. ENVIRONMENT INDICATORS

Indicator	Baseline Year	Projections for FY 2002-03 to FY 2005-06			
	FY 2001-02	2002-03	2003-04	2004-05	2005-06
Percentage of land area covered by forests	4.8% of total land area	4.8 %	5.0 %	5.0 %	5.0%
Protected area as percentage of total area	11.19 %	11.19 %	11.6 %	12.0 %	12.0 %
Land Area affected by desertification	43.9 million hectares	43.9 million hectares	43.9 m ha	43.9 m ha	43.0 m ha
Area under reclamation	1 million hectares	2.0 m ha	4.45m ha	5.5 m ha	5.5 m ha
Energy Efficiency	70 %	73 %	74 %	75 %	75 %

Source: Ministry of Environment, Provincial Forest departments

I. GENDER INDICATORS

Indicator	Baseline Year	Projections for FY 2002-03 to FY 2005-06			
	FY 2001-02	2002-03 (actual)	2003-04	2004-05	2005-06
% of Micro credit to women	49.0	43.0			
% of Zakat funds to women	40.4	41.8			
No of women in civil service	9,818				
Ratio of literate females to males of 15-24 years	0.65				0.70
Share of women in wage employment in the non-agriculture sector	Urban = 8 % Rural = 17 %				Urban = 9% Rural =16%
Proportion of Seats held by women in Parliament: National Assembly Senate	72/342 21% 17/100 17%				

Source: Ministry of Religious Affairs, PPAF, Khushali Bank, Establishment Division, Ministry of Women Development

J. EMPLOYMENT INDICATORS

Indicator	Baseline Year	Projections for FY 2002-03 to FY 2005-06			
	FY 2001-02	2002-03	2003-04	2004-05	2005-06
Rate of Unemployment (%)	8.30*				
Total Employment (Mill)			39.09	41.15	42.34

Source: Labor Force Survey. Planning Division. Frequency: Annual

* Planning Commission is preparing the projections

K. FOOD SUPPORT PROGRAM

Indicator	Baseline Year	Projections for FY 2002-03 to FY 2005-06			
	FY 2001-02	2002-03 (actual)	2003-04	2004-05	2005-06
Punjab beneficiaries	544,868	563,508	563,508	563,508	563,508
Sindh beneficiaries	239,454	232,907	232,907	232,907	232,907
NWFP beneficiaries	227,753	215,245	215,245	215,245	215,245
Balochistan beneficiaries	45,475	44,816	44,816	44,816	44,816
ICT/NA/AJK beneficiaries	58,048	60,796	60,796	60,796	60,796
TOTAL	1,115,598	1,117,272	1,117,272	1,117,272	1,117,272

Source: Pakistan Bait-ul-Maal, Frequency Quarterly

L. GOVERNANCE INDICATORS

Indicator	Baseline Year	Projections for FY 2003-04 to FY 2005-06		
	No. of cases pending at end of year 2002	No. of Cases Instituted during the year 2003	No. of Cases disposed of during the year 2003	No. of Cases Pending at the end of year 2003
Superior Judiciary				
Supreme Court of Pakistan				
High Court Lahore				
High Court Sindh				

High Court Peshawar				
High Court Baluchistan				
Subordinate Judiciary including Special Courts				
Punjab				
Sindh				
NWFP				
Baluchistan				

Source: Pakistan Law and Justice Commission.

Frequency: Annual

M. CHILDREN SPECIFIC INDICATORS

Indicator	Baseline Year	Projections for FY 2003-04 to FY 2005-06			
	FY 2001-02	2002-03	2003-04	2004-05	2005-06
Number of Children withdrawn from worst form of child labour					
Number of under trial children in Jails					
Number of cases of violence against children registered with Police					
No of cases of HIV/AIDS in adolescents					

Source: Ministry of Women Development, Social Welfare, and Special Education.

Frequency: Annual

Note: Work on developing baselines and indicators not quantified in the table is in progress.

Table 7.3: PRSP-Monitoring Targets (Contd.)

N. ZAKAT DISBURSEMENTS

	Projections upon FY 2001-02 benchmark					
	2001-02 Beneficiaries	2001-02 (Rs. M)	2002-03 (Rs. M)	2003-04 (Rs. M)	2004-05 (Rs. M)	2005-06 (Rs. M)
Total Disbursements	1,700,189	5,169	9,545	9,650	9,258	5,401
Punjab	828,002	3,190	5,408	5,468	5,245	3,047
Sindh	424,818	983	2,235	2,259	2,168	1,259
NWFP	313,178	664	1,308	1,322	1,269	737
Balochistan	103,739	288	486	491	471	273
Islamabad Capital Territory	7,142	16	44	45	43	33
Northern Areas	23,310	28	64	65	62	52
Total Disbursements - Guzara Allowance	811,332	2,517	2,148	2,211	2,276	2,341
Punjab	516,861	1,498	1,210	1,246	1,282	1,319
Sindh	149,395	609	500	515	530	545
NWFP	105,457	273	293	301	310	319
Balochistan	30,712	106	109	112	115	118
Islamabad Capital Territory	5,307	13	13	14	15	15
Northern Areas	3,600	18	23	23	24	25
Total Disbursements - Education Stipends	560,626	518	645	663	682	701
Punjab	165,981	294	363	374	385	396
Sindh	192,398	116	150	154	159	163
NWFP	152,863	65	88	90	93	96
Balochistan	35,026	37	33	34	34	35
Islamabad Capital Territory	1,792	2	4	4	4	4
Northern Areas	12,566	5	7	7	7	7
Total Disbursements - Religious Students	37,762	196	286	295	303	313
Punjab	7,982	48	161	166	171	176

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Sindh	1,474	126	67	69	71	73
NWFP	14,168	10	39	40	41	43
Balochistan	10,406	10	14	15	15	16
Islamabad Capital Territory	0	0	2	2	2	2
Northern Areas	3,732	2	3	3	3	3
Total Disbursements - Health Care	144,087	93	214	220	227	234
Punjab	47,358	33	121	125	128	132
Sindh	52,412	27	50	51	53	55
NWFP	23,225	15	29	30	31	32
Balochistan	18,092	15	11	11	12	12
Islamabad Capital Territory	0	1	1	1	1	1
Northern Areas	3,000	2	2	2	2	2
Total Disbursements - Social Welfare/Rehab	36,193	137	142	146.5	151.5	155.5
Punjab	17,731	89	81	83	85	88
Sindh	9,607	23	33	34	35	36
NWFP	4,846	14	19	20	21	21
Balochistan	3,721	11	7	7	8	8
Islamabad Capital Territory	0	0	1	1	1	1
Northern Areas	288	1	1	1.5	1.5	1.5
Total Disbursements - Marriage assistance	17,519	129	142	146.5	151.5	155.5
Punjab	8,863	88	81	83	85	88
Sindh	5,103	13	33	34	35	36
NWFP	2,386	18	19	20	21	21
Balochistan	1,027	7	7	7	8	8
Islamabad Capital Territory	43	0.5	1	1	1	1
Northern Areas	124	1.2	1	1.5	1.5	1.5
Total Disbursements - Rehabilitation Grants	92,670	1,579	4,967	4,967	4,967	1,001
Punjab	63,253	1,139	2,826	2,826	2,826	565
Sindh	14,429	69	1,168	1,168	1,168	234
NWFP	10,233	269	684	684	684	137
Balochistan	4,755	102	254	254	254	51
Islamabad Capital Territory	0	0	16	16	16	6
Northern Areas	0	0	19	19	19	8
Total Disbursements - Education Stipends (Tech)	-	-	1,001	1,001	500	500
Punjab	NA	NA	565	565	283	283
Sindh	NA	NA	234	234	117	117
NWFP	NA	NA	137	137	68	68
	2001-02	2001-02	2002-03	2003-04	2004-05	2005-06
	Beneficiaries	(Rs. M)	(Rs. M)	(Rs. M)	(Rs. M)	(Rs. M)
Balochistan	NA	NA	51	51	25	25
Islamabad Capital Territory	NA	NA	6	6	3	3
Northern Areas	NA	NA	8	8	4	4

Source: Ministry of Religious Affairs, Zakat and Ushr

O. MICROFINANCE

PAKISTAN POVERTY ALLEVIATION FUND	2001-02	2002-03	2003-04	2004-05	2005-06
Micro credit disbursements (Rs. Millions)	Actual	Projections			
Sindh		200	177	195	224
Punjab		370	416	458	526
Balochistan		20	23	25	29
NWFP		173	186	205	235
AJK		14	16	18	20
Nas		126	131	144	166
Total	655	864	950	1,044	1,200

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Number of borrowers					
Sindh		16,837	19,218	21,140	24,311
Punjab		30,890	35,784	39,362	45,267
Balochistan		1,492	1,825	2,008	2,309
NWFP		12,944	14,343	15,777	18,144
AJK		1,173	1,399	1,539	1,770
NA		19,469	20,743	22,817	26,240
Total	99,011	82,805	93,313	102,643	118,040
Districts with micro-finance coverage					
Sindh		11	12	15	17
Punjab		14	16	18	19
Balochistan		7	8	10	12
NWFP		15	17	17	17
AJK		5	5	5	5
Nas		5	5	5	5
Total		57	63	70	75
Number of Community infrastructure projects		3,800	5,000	6,500	7,000
Number of capacity development trainings		200	150	250	300
Recovery Rates (%)	90-95	90-95	90-95	90-95	90-95
Lending cost	6-8%	6-8%	6-8%	6-8%	6-8%

KHUSHALI BANK	2001-02	2002-03	2003-04	2004-05	2005-06
Micro credit disbursements (Rs. Millions)	Actual	Projections			
Male		954.9	2038.8	4084.2	6712.7
Female		335.5	735.0	1510.6	2546.2
Punjab	151	541.9	1165	2349.8	3888.7
Sindh	229	451.6	970.8	1958.1	3240.6
NWFP	45	141.9	305.1	615.4	1018.4
Balochistan	46	103.2	221.9	447.5	740.7
AJK	6	51.6	110.9	223.7	370.3
Total Disbursement	477	1290.4	2773.9	5594.8	9258.9
Number of loans					
Male		85,325	158,780	303,175	461,670
Female		38,335	74,720	149,325	237,830
Punjab	20,654	51,937	98,070	190,050	293,790
Sindh	14,564	43,281	81,725	158,375	244,825
NWFP	5,180	13,603	25,685	49,775	76,945
Balochistan	5,104	9,893	18,680	36,200	55,960
AJK	648	4,946	9,340	18,100	27,980
Total Loans (End-Of-Period)	46,150	123,660	233,500	452,500	699,500
Districts with micro-finance coverage					
Punjab		21	34	34	34
Sindh		10	16	16	16
NWFP		15	24	24	24
Balochistan		14	22	22	22
AJK		1	2	2	2
Districts covered		60	96	96	96
Number of clients					
Male		70,472	130,220	233,495	348,480
	Actual	Projections			
Female		31,661	61,280	115,005	179,520

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Punjab		42,896	80,430	146,370	221,760
Sindh		35,747	67,025	121,975	184,800
NWFP		11,235	21,065	38,335	58,080
Balochistan		8,171	15,320	27,880	42,240
AJK		4,085	7,660	13,940	21,120
Total Borrowers (End-Of-Period)					
Repayments rates (Assumes 4% loan loss provisioning)		96	96	96	96
Lending cost (Rs. Millions)		105	215		

ZARAI TARAQIATI BANK OF PAKISTAN	2001-02	2002-03	2003-04	2004-05	2005-06
Micro credit disbursements (Rs. Millions)					
Sindh	6	5	10	15	20
Punjab	28	20	40	60	80
Balochistan	9	5	10	15	20
NWFP	23	14	28	42	56
AJK	.5	1	2	3	4
Gilgit	18	5	10	15	20
Total	83	50	100	150	200
Number of borrowers					
Sindh	299	244	488	732	976
Punjab	1343	975	1951	2927	3902
Balochistan	389	244	488	732	976
NWFP	979	682	1366	2049	2732
AJK	8	49	98	146	195
Gilgit	722	244	488	732	976
Total	3740	2438	4879	7318	9757
Number of districts					
Sindh	20	20	20	20	20
Punjab	35	35	35	35	35
Balochistan	23	23	23	23	23
NWFP	21	21	21	21	21
AJK	5	5	5	5	5
Gilgit	4	4	4	4	4
Total	108	108	108	108	108
Repayments rates (%)	77	80	85	90	90
Lending cost (%)					
Data from ZTBL is awaited					

SME BANK LIMITED	2001-02	2002-03	2003-04	2004-05	2005-06
Micro credit disbursements (Rs. Millions)	Actual	Projections			
Punjab	119.75	450	850	1,050	1,350
Sindh	193.25	450	760	950	1,250
NWFP	39	170	280	385	450
Balochistan	8.15	40	50	50	70
Northern Areas	11.88	30	40	40	50
AJK	0.45	10	20	25	30
TOTAL	372.48	1,150	2,000	2,500	3,200
Number of Beneficiaries					
Punjab	249	900	1,700	2,100	2,700
Male	232	837	1,581	1,953	2,511
Female	17	63	119	147	189

Poverty Reduction Strategy Paper

Sindh	300	900	1,520	1,900	2,500
Male	279	837	1,414	1,767	2,325
Female	21	63	106	133	175
NWFP	134	340	560	770	900
Male	125	316	521	716	837
Female	9	24	39	54	63
Balochistan	30	80	100	100	140
Male	28	74	93	93	130
Female	2	6	7	7	10
	2001-02 Actual	2002-03 Projections	2003-04	2004-05	2005-06
Northern Areas			80	80	100
Male	41	56	74	74	93
Female	3	4	6	6	7
AJK	4	20	40	50	60
Male	4	19	37	47	56
Female	0	1	3	3	4
TOTAL	761	2,300	2,470	5,000	6,400
Employment Generated					
Punjab	368	1,351	2,479	3,151	4,051
Male	343	1,256	2,300	2,930	3,767
Female	25	95	179	221	284
Sindh	394	1,351	2,280	2,821	3,851
Male	359	1,256	2,121	2,651	3,488
Female	35	95	159	200	363
NWFP	173	510	840	1,155	1,351
Male	161	474	781	1,074	1,256
Female	12	36	59	81	95
Balochistan	39	120	151	151	210
Male	36	111	140	140	195
Female	3	9	11	11	15
Northern Areas	56	90	120	120	151
Male	52	84	111	111	140
Female	4	6	9	9	11
AJK	4	30	60	75	90
Male	4	28	56	70	84
Female	0	2	4	5	6
TOTAL	1,037	3,452	5,930	7,473	9,704

Annex-I

METHODOLOGY OF POVERTY LINE ESTIMATION

It was noted that studies on poverty in Pakistan had used the following three definitions:

- i. Calorific requirement approach wherein all those households (or individuals) are classified as poor who do not have income sufficient to allow a consumption pattern consistent with minimum calorie requirements. It is also assumed that the households earning incomes equivalent to poverty line not only have sufficient food to meet the minimum nutrition requirements but also the non-food requirements.
- ii. Basic needs approach wherein the basic needs of the households or individuals may be identified, on the basis of a survey or interviews of knowledgeable persons, and then ascertain the income required to meet the basic needs. Since the perception of various individuals regarding basic needs may differ significantly, subjective elements enter in this definition of poverty.
- iii. Poverty of opportunity index, a composite of deprivation in three vital areas viz. health, education, and income, attempts to capture the causes of human suffering. Mahbub-ul-Haq Human Development Center in Pakistan has used this definition.

The Planning Commission has used the definition (i) for estimating the poverty line.

Data Source:

Household Income and Expenditure Survey (HIES) 2000-2001.

Poverty Line:

The national poverty line on the basis of 2350 calories per adult equivalent per day for the year 2000-2001 is estimated to be **Rs. 748.565344/-** per capita per month at the prices of 2000-2001.

Constructing Consumption Aggregate

The Aggregate Consumption Function (ACF) is constructed as follows:

- a. Aggregate the various sub-components
- b. Adjust for cost of living differences
- c. Adjust for household composition

The Sub-components of ACF can be classified into four categories:

- i. Food items
- ii. Non-food items
- iii. Consumer durables

iv. Housing

(i) Food Items

It includes food consumed from all sources and needs data on the total values along with the quantity of various food items consumed in the reference period:

- Food purchased in market place
 - Home produce food
 - Food items received from the employer as payment in kind for services rendered
 - Food items received from other household as gift or remittances
- ** Tobacco is not a food item

The whole of food consumption is transformed into a uniform reference period:

- 1 month = 2.71 * fortnights
- 1 year = 12 months

There are some households that report zero quantities consumption but non-zero values of the expenditure on few items. In such cases, prices for the data from other households are constructed and median price paid by other households in the same cluster is used to come up with the quantities.

(ii) Non-Food Items

The non-food items are heterogeneous in nature and hence data on values is available only; quantities data is absent except in case of fuels. Following non-food expenditures have been excluded from the non-food sub-aggregate:

- Expenditure on taxes/levies
- Purchases on financial assets, interest payments, and debts
- Lumpy expenditures such as marriages/funerals

(iii) Consumer Durables

Appropriate measure of consumption of durable goods is the value of services that the household receives from all the durable goods in its possession over the relevant time period. It is a tedious process and requires a lot of data which is not captured by HIES. Therefore, all durable goods are excluded from ACF except Services and Repair Charges of household effect, etc.

(iv) Housing

It is the most problematic of all sub-aggregations. It includes utilities (electricity, gas, water) and the value of rent paid by the household. The rental value is not always reported, especially in the rural areas. In such cases, implicit or imputed rental value is calculated by using "Hedonic Housing Regression".

For regression purpose, consider all the households that report a payment/benefit from the rent. Regress this variable on some of the household characteristics that can affect the value of rent such as:

- Number of rooms, if missing use median number of rooms
- Availability of electricity; dummy variable : 1 if yes, 0 if not
- Availability of gas; dummy variable : 1 if yes, 0 if not

- Availability of telephone; dummy variable : 1 if yes, 0 if not
- Availability of water; dummy variable : 1 if yes, 0 if not
- Availability of toilet; dummy variable : 1 if yes, 0 if not
- Availability of garbage collection; dummy variable : 1 if yes, 0 if not
- Location: dummy for strata in the survey: urban, rural, and provinces

Take logarithm of the dependant as well as the independent variables for regression. Parameter estimates from this model are used to calculate rent for the other segment of population.

Adult Equivalence Scale

Age Bracket	Energy Per Person Daily Requirement	Equivalent Factor
CHILDREN		
<1	1010	0.4297872
01-04	1304	0.554893617
05-09	1768	0.752340426
MALES		
10-14	2816	1.198297872
15-19	3087	1.313617021
20-39	2760	1.174468085
40-49	2640	1.123404255
50-59	2460	1.046808511
60+	2146	0.913191489
FEMALES		
10-14	2464	1.048510638
15-19	2322	0.988085106
20-39	2080	0.885106383
40-49	1976	0.840851064
50-59	1872	0.796595745
60+	1632	0.694468085
National Average	2350	1

Methodology of Poverty Line Estimation:

The estimation of the poverty line is done through the use of 'Food Energy Intake' Method of 'Z' estimation. This method estimates that level of consumption expenditure that is enough to meet the minimum energy requirement through the consumption of food along with the non-food items. The non-food items are taken into consideration as well because even the poor consume some clothing & shelter; implying that at margin, these needs must be as valuable as the additional food. Thus, a 'Calorie- Expenditure Function' depicting that with the increase of income or expenditure, though not at the same rate, the food energy intake also rises.

Model

Given an adequate level of energy intake 'K', it can be easily stated that:

$$K = f(y) \dots\dots\dots(i)$$

$$\square y = f^{-1}(K) \dots\dots\dots(ii)$$

Since:

$$y = p \cdot q \dots\dots\dots(iii)$$

this implies:

$$p \cdot q = f^{-1}(K) \dots\dots\dots(iv)$$

Thus, extending eq (iv) further, given 'K_{min}' as the minimum level of adequate energy requirement, and 'Z' as the minimum expense required to achieve it,:

$$Z = f^{-1}(K_{min}) \dots\dots\dots(v)$$

Regression Equation Form

The functional form used for the estimation of the national poverty line is

$$\ln Z = \alpha + \hat{\alpha} * K_{min} \dots\dots\dots(iv)$$

where:

- Z = Total per adult equivalent monthly Expenditure
- K_{min} = Total per adult equivalent minimum monthly Calorie Requirement

Results

- α = 6.115
- β = 7.137 * 10⁻⁶
- K_{min} = 2350
- Z = 748.565344
- R = 0.502
- R² = 0.252
- Standard Error of Estimate = 0.2388
- Z^f = 361.36755, Food Share = 48.30 %

Assumptions:

- There exists specifically defined amount of calories that is considered essential. Here, this per adult equivalent minimum calorie requirement (K_{min}) is 2350 calories per adult equivalent per month.
- In case the minimum calorie requirement is achieved, then implicitly, the non-food essential items are also achieved.
- Same goods basket is consumed in all the provinces.
- The first three per adult equivalent consumption expenditure quintiles are used so that the consumption pattern of the rich does not affect the determination of the poverty line.

Methodology of Poverty Indices Estimation

(a) **Head Count Index:** It measures the proportion of population that is poor.

Mathematical Formula:

The Head Count Index is denoted by P_0 . Formally, it is given by:

$$P_0 = 1/N * [\sum I (y_i \leq z)] = N_p / N$$

Where:

- N = Total Population.
- Z = Poverty Line.
- I (...) = Indicator value that takes the value of 1 if the bracketed expression is true: i.e.: household income is less than the poverty line, other wise 0.

(b) **Poverty Gap Index:**

It gives the extent to which individuals fall below the poverty line as a percentage of the poverty line.

Mathematical Formula:

The Poverty Gap Index is denoted by P_1 . Formally, it is given by:

$$P_1 = 1/N [\sum \{(z-y_i) * I(y_i \leq z)\} / z]$$

Where:

- N = Total Population.
- Z = Poverty Line.
- I (...) = Indicator value that takes the value of 1 if the bracketed expression is true: i.e.: household income is less than the poverty line, other wise 0.

(c) **Squared Poverty Gap Index:**

It is the weighted sum of the poverty gaps (as a proportion of poverty lines), where the weights are the proportionate poverty gaps themselves. Hence, implicitly, it gives more weight to observations that fall well below the poverty line.

Mathematical Formula:

The Squared Poverty Gap Index is denoted by P_2 . Formally, it is given by:

$$P_2 = 1/N [\sum \{(z-y_i) * I(y_i \leq z)\}^2 / z^2]$$

Where:

- N = Total Population.
- Z = Poverty Line.
- I (...) = Indicator value that takes the value of 1 if the bracketed expression is true: i.e.: household income is less than the poverty line, other wise 0.

Millennium Development Goals (MDGs)	
Goals and Targets	Indicators
Goal 1: Eradicate Extreme Poverty and Hunger	
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	1. Proportion of population below \$ 1 per day (PPP- values). 2. Poverty gap ratio (incidence x depth of poverty). 3. Share of poorest quintile in national consumption
Target 2: Halve between 1990 and 2015, the proportion of people who suffer from hunger	4. Prevalence of underweight children (under-five years of age) 5. Proportion of population below minimum level of dietary energy consumption
Goal 2: Achieve Universal Primary Education	
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	6. Net enrolment ratio in primary education. 7. Proportion of pupils starting grade 1 who reach grade 5. 8. Literacy rate of 15-24 years olds.
Goal 3: Promote Gender Equality and Empower Women	
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.	9. Ratio of girls to boys in primary, secondary and tertiary education. 10. Ratio of literate females to males of 15-24 year olds. 11. Share of women in wage employment in the non-agricultural sector. 12. Proportion of seats held by women in national parliament
Goal 4: Reduce Child Mortality	
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	13. Under-five mortality rate. 14. Infant mortality rate. 15. Proportion of 1 year old children immunized against measles.
Goal 5: Improve Maternal Health	
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	16. Maternal mortality ratio. 17. Proportion of births attended by skilled health personnel.
Goal 6: Combat HIV/AIDS, Malaria and Other Diseases	
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.	18. HIV prevalence among 15-24 year old pregnant women. 19. Contraceptive prevalence rate. 20. Number of children orphaned by HIV/AIDS.
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.	21. Prevalence and death rates associated with malaria. 22. Proportion of population in malaria risk areas using effective malaria prevention and treatment measures. 23. Prevalence and death rates associated with tuberculosis. 24. Proportion of TB cases detected and cured under DOTS (Directly Observed Treatment Short Course).
Goal 7: Ensure Environmental Sustainability	
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.	25. Proportion of land area covered by forest. 26. Land area protected to maintain biological diversity. 27. GDP per unit of energy use (as proxy for energy efficiency) 28. Carbon dioxide emissions (per capita)
Target 10: Halve, by 2015, the	29. Proportion of population with sustainable access to an improved

proportion of people without sustainable access to safe drinking water	water source
Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	30. Proportion of people with access to improved sanitation. 31. Proportion of people with access to secure tenure. (Urban/rural desegregation of several of the above indicators may be relevant for monitoring improvement in the lives of slum dwellers).
Goal 8: Develop a Global Partnership for Development	
<p>Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance, development, and poverty reduction-both nationally and internationally.</p> <p>Target 13: Address the Special Needs of the Least Developed Countries Includes: tariff and quota free access for LDC exports; enhanced program of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction.</p> <p>Target 14: Address the Special Needs of landlocked countries and small island developing states (through Barbados Programme and 22nd General Assembly provisions).</p> <p>Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.</p>	<p style="text-align: center;">Official Development Assistance</p> <p>32. Net ODA as percentage of DAC donors' GNI (targets of 0.7% in total and 0.15% for LDCs). 33. Proportion of ODA to basic social services (basic education, primary health care, nutrition, safe water and sanitation). 34. Proportion of ODA that is untied. 35. Proportion of ODA for environment in small island developing states. 36. Proportion of ODA for transport sector in land-locked countries.</p> <p style="text-align: center;">Market Access</p> <p>37. Proportion of exports (by value and excluding arms) admitted free of duties and quotas. 38. Average tariffs and quotas on agricultural products and textiles and clothing. 39. Domestic and export agricultural subsidies in OECD countries. 40. Proportion of ODA provided to help build trade capacity.</p> <p style="text-align: center;">Debt sustainability</p> <p>41. Proportion of official bilateral HIPC debt cancelled. 42. Debt service as a percentage of exports of goods and services. 43. Proportion of ODA provided as debt relief. 44. Number of countries reaching HIPC decision and completion points.</p>
Target 16: In co-operation with developing countries, develop and implement strategies for decent and productive work for youth.	45. Unemployment rate of 15-24 year olds.
Target 17: In-co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries.	46. Proportion of population with access to affordable essential drugs on a sustainable basis.
Target 18: In co-operation with the private sector, make available the benefits of new technologies, especially information and communications.	47. Telephone lines per 1000 people. 48. Personal computers per 1000 people.

Annex – III**PRSP EXPENDITURE REPORTING FORMAT****

PRSP Expenditure Heads	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Highways, Roads, & bridge (SAP)					
Current					
Development					
Water Supply & Sanitation					
Current					
Development					
Education					
Current (Gross)					
Development (Gross)					
Primary Education					
Current					
Development					
Secondary Education					
Current					
Development					
General Universities, Colleges & Institutes					
Current					
Development					
Professional & Technical Universities, Colleges & Institutes					
Current					
Development					
Teacher & Vocational Training					
Current					
Development					
Others					
Current					
Development					
Health					
Current					
Development					
General Hospital & Clinics					
Current					
Development					

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Mother & Child Health					
Current					
Development					
Health Facilities and Preventive Measures					
Current					
Development					
Others					
Current					
Development					
Population Planning					
Current					
Development					
Social Security and Social Welfare					
Current					
Development					
Natural calamities and Disasters					
Irrigation					
Current					
Development					
Land Reclamation					
Rural Development					
Current					
Development					
Food Subsidies					
Food Support Program					
Tawana Pakistan					
Rural Electrification					
Administration of Justice					
Current					
Development					
Law and Order					
Current					
Development					
TOTAL					

** Baseline actual PRSP expenditures for FY02 and FY03 as well as projections for FY04 to FY08 are at Table 7.1

Annex – IV**Definitions – Intermediate and Outcome Indicators**

	Pakistan Integrated Household Survey	Others
EDUCATION		
Gross primary enrolment rate	The number of children attending primary level classes (1-5) divided by the number of children aged 5-9 years, multiplied by 100. However, enrolment in katchi is excluded.	The number of students enrolled in primary education, regardless of age, divided by the population of the official primary school age group (5-9 years), multiplied by 100. National Education Management Information System (NEMIS)
Gross middle enrolment rate	The number of children attending middle level classes (6-8) divided by the number of children aged 10-12 years, multiplied by 100.	The number of students admitted in grades VI-VIII, divided by the population of 10-12 years age group, multiplied by 100 Pakistan Education Policy, 1998-2010
Literacy rate	Percent of population aged 10 years and older that is literate. Literacy, in turn, is defined as the ability to read a newspaper, write a simple letter, and perform a simple sum.	Percent of population aged 10 years and older that is literate. Literacy is defined as the ability to read a newspaper, and write a simple letter. Ministry of Education (EFA)
Drop-out rate	The cohort here is that of children aged 15-19 years old that have ever attended primary school. Taking this cohort to be 100% the figure shows the % of this cohort who dropped out of school before completing Class 5. Those children in this cohort that are still attending school but have not completed primary school as yet have been excluded here.	Withdrawal of children from school at any stage before completion of primary education (grade 5) divided by the number of students enrolled in primary education level, multiplied by 100. Ministry of Education (EFA)
Number of functional public schools		A school is functional if at the minimum it has a teacher and students and learning is taking place. The number of primary plus mosque schools National Education Management Information System (NEMIS)
Percentage of trained teachers		A teacher with a minimum qualification of a Primary Teacher Certificate or Matric for the primary level and a teacher with a minimum qualification of CT or an FA/F.Sc. for the middle level. Ministry of Education (EFA)
Teacher absenteeism		A teacher would be considered absent from school if he/she was away from the school regardless of the reason for absence on the day the survey on absenteeism was conducted. This definition would not only be used in the endeavor to measure the quantum and quality of learning in government schools and not for any administrative action Ministry of Education (EFA)
Sanctioned Staff strength		The definition of sanctioned strength for the purposes of this indicator would simply be the strength of each school as indicated in the SNE and the number of teachers actually working. The information on staff should include only teaching staff and not administrative or support staff Ministry of Education (EFA)
HEALTH AND POPULATION WELFARE		
Infant mortality rate	Proportion of children who die before they reach their first birthday	The probability of dying before the first birthday Pakistan Reproductive Health & Family Planning Survey
Child mortality	-	The probability of dying between the first and fifth birthday, having survived the first year Pakistan Reproductive Health & Family Planning Survey
% of births attended by	Percentage of women that were assisted by a doctor, nurse, or LHV's during delivery	Percentage of women whose last delivery took place in a government or private health facility

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trained personnel		Pakistan Reproductive Health & Family Planning Survey
Immunization coverage of children	Percentage of children between ages 12-23 months, fully immunized against all six diseases: BCG, DPT-1, DPT-2, DPT-3, Polio-1, Polio-2, Polio -3, & Measles. This number is based on recall and record.	
Coverage of pre-natal care	Percent of pregnant women visiting health facilities for pre-natal consultation	
Contraceptive prevalence rate	Total number of women in the relevant category currently using family planning, expressed as a percent of all currently married women in the 15-49 years, the relevant category	
First level care facilities		First Level Care Facilities comprise Basic Health Units and Rural Health Centers Ministry of Health (MIS)
Percentage of births attended by skilled birth attendants		Skilled birth attendants include doctors, LHVs and nurses Ministry of Health (MIS)
Number of FLCFs meeting staffing norms		Doctors & LHVs are the key staff to monitor Ministry of Health (MIS)
% Of population with access to safe water	Percent of population with access to tap in house, tap outside house, hand pump, and motor pump.	Planning Commission
% Of population with access to sanitation	Percent of population with access to flush facilities.	Planning Commission
Food support program - number of beneficiaries	-	Number of beneficiaries who have "drawn amount" from the food support program <i>Pakistan Bait-ul-Maal</i>
Head Count Ratio (% -caloric approach)	The ratio counts the number of poor below the poverty line estimated on the basis of calorie-based approach. The calorie approach assumes that there is a defined caloric intake (2,350 calories per day) that is essential. The ratio estimates the level of expenditure - poverty line - required to attain that level of caloric intake.	
Katchi Abadis		Those Slum Settlements within the metropolitan areas that have been officially declared and recognized by provincial governments
Unemployment Rate		Number of persons who are jobless and are searching for job in the total work force

PRSP Tracking/Monitoring Matrix

Input Indicators	Output/ Intermediate Indicators	Outcome Indicators
BUDGETARY POVERTY RELATED EXPENDITURES AND OUTCOMES		
I. Assets Creation and Infrastructure-Related Expenditure		
<p style="text-align: center;">Housing</p> <ul style="list-style-type: none"> Expenditure on low cost housing (as a % of total expenditure). <p style="text-align: center;">Rural Development</p> <ul style="list-style-type: none"> Expenditure on rural development (from normal departmental budgets) as a percent of total expenditure. Expenditure from Khushal Pakistan Program (by functional/sectoral classification, if possible). Expenditure on highways, roads, and bridges as a percent of total expenditure <p style="text-align: right;">Source: Ministry of Finance</p> <p><i>Frequency: Quarterly</i> <i>Disaggregation: Federal, provincial, and district</i></p>	<ul style="list-style-type: none"> Number of additional low cost housing Kilometers of farm -to-market roads by quality category. Additional (temporary) employment generated through small civil works schemes, especially under KPP. <p><i>Source: Ministry of Housing and Works, Provincial governments</i> <i>Frequency: Annual/ bi-annually</i> <i>Disaggregation: Federal, provincial, and district</i></p>	<ul style="list-style-type: none"> Poverty Head Count Ratio <p><i>Source: PIHS/ HIES Survey, FBS</i> <i>Frequency: Annual</i> <i>Disaggregation: Federal, prov. & district</i> <i>Note: Capability for developing district level indicators will be developed at FBS</i></p>
II. Expenditure on Social Services		
<p>Education</p> <ul style="list-style-type: none"> Education exp. (as a % of total exp. and GDP) Primary education exp. (as a % of total edu. exp.) Secondary education exp. (as a % of total edu. exp.) Exp. on general universities/ colleges/institutes education (as a % of total edu. exp.) Exp. on professional/ technical universities/ colleges/ institutes (as a % of total edu. exp.) Exp. on teacher & vocational training 	<ul style="list-style-type: none"> Number of functional schools % of trained teachers (primary levels) Percentage of trained teachers Absenteeism of teachers Percentage of sanctioned staff strength filled Percentage of schools with four basic facilities (Water, Electricity, Sanitary, Boundary Wall) 	<ul style="list-style-type: none"> Gross enrollment rates (primary and middle schools) with gender break-up Student dropout rates (primary level) with gender break-up. Literacy Rate with gender break-up <p>(All these by exp./income deciles, rural/urban, and provincial desegregation)</p>

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<p>Source: Ministry of Finance</p> <p>Frequency: Quarterly Disaggregation: Federal, provincial, and district</p>	<p>Source: EMIS, Ministry of Education, CWIQ Frequency: Annual Disaggregation: Federal, provincial, and district Note: Qualitative community surveys will be conducted</p>	<p>Source: PIHS Survey; FBS Frequency: Annual Disaggregation: Federal, prov., & district Note: Capability for developing district level indicators will be developed at FBS</p>
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Input Indicators	Output/ Intermediate Indicators	Outcome Indicators
<p>Health</p> <ul style="list-style-type: none"> Health exp. (as a % of total and GDP) General hospitals & clinics exp. (as a % of total health exp.) Mother & child exp. (as a % of total health exp.) <p>Source: Ministry of Finance Frequency: Quarterly Disaggregation: Federal, provincial, and district</p>	<ul style="list-style-type: none"> Utilization rate of First Level Care Facilities (BHUs/RHCs) Proportion of population covered by LHWs (lady health workers) Immunization coverage of children (% between ages 12-23 months who are fully immunized) and pregnant mothers. Percentage of births attended by skilled birth attendants. Number of skilled female birth attendants (MCH, WMO, LHV, FMT, FHT, Mid-wife) Percentage of FLCFs not experiencing stock outs of any of five key supplies during the past month. Number of FLCFs meeting staffing norms: MO, WMO, LHV/FMT/FHT Availability of contraceptives from FLCFs <p>Source: HIMS; Ministry of Health; Ministry of Population Welfare; and PIHS Survey, CWIQ.FBS Frequency: Annual Disaggregation: Federal, provincial, and district Note: Qualitative community surveys will be conducted;</p>	<ul style="list-style-type: none"> Infant mortality rates Child mortality rates <p>(All these by exp./ income deciles, rural/urban, male/female and provincial disaggregating)</p> <p>Source: PIHS Survey, FBS Frequency: Annual Disaggregation: Federal, provincial, and district Note: Capability for developing district level indicators will be developed at FBS</p>
<ul style="list-style-type: none"> Population Welfare Population welfare exp. (as a % of total exp. and GDP) <p>Source: Ministry of Finance Frequency: Quarterly Disaggregation: Federal, provincial, and district</p>	<ul style="list-style-type: none"> Contraceptive prevalence rate (among women of age 15-49) <p>Source: Core Welfare Indicators Questionnaire (CWIQ), Pakistan Reproductive Health and Family Planning Survey (PRHFPS); Ministry of Population Welfare Frequency: Annual Disaggregation: Federal, provincial, and district Note: Qualitative community surveys will be conducted; Capability for</p>	<ul style="list-style-type: none"> Total fertility rate (among women of age 15-49). Population growth rate <p>Source: PIHS Survey, FBS; Pakistan Reproductive Health and Family Planning Survey (PRHFPS), Ministry of Population Welfare Frequency: Annual Disaggregation: Federal, provincial, and district Note: Capability for developing district level indicators will be developed</p>

	developing district level indicators will have to be developed	
<ul style="list-style-type: none"> Water supply and sanitation Exp. on water supply and sanitation (as a % of total exp.) <p><i>Source:</i> Ministry of Finance <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>		<ul style="list-style-type: none"> % of population with access to safe water and sanitation (Disaggregated by rural/ urban, provinces, income/exp deciles) <p><i>Source:</i> Planning Commission, PIHS Survey, FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>
ENVIRONMENT		
Expenditure in the environment sector % of GDP	<ul style="list-style-type: none"> Number of industries and municipalities complying with NEQS/environmental laws (% of total) Number of development projects having IEE/EIA Area brought under afforestation in hectares Number of new saplings planted 	<ul style="list-style-type: none"> Percentage reduction in emissions of pollutants to air, water and land. Percentage of arable land. Percentage change in forest cover.
<p><i>Source:</i> Ministry of Finance <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<p><i>Ministry of Environment is in process of developing an MIS system. Baselines will be provided on these indicators by the Ministry of Environment.</i></p>	<p><i>Intermediate and output indicators have been provided by the Ministry of Environment through a consultative process of dialogue.</i></p>
EMPLOYMENT		
<ul style="list-style-type: none"> Funds allocated in PSDP 	<ul style="list-style-type: none"> Total employment created Unemployment rate 	<ul style="list-style-type: none"> Percentage of population above poverty line
<p><i>Source:</i> Ministry of Finance <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<p><i>Center for Research on Poverty Reduction and Income Generation</i></p>	<p><i>Planning Commission</i></p>
III. Expenditure on Safety Nets		
<p style="text-align: center;">Food Support Program</p> <ul style="list-style-type: none"> Food Support Program disbursement (as a % of total exp.) <p style="text-align: center;">Source: Pakistan Bait-ul-Maal</p> <p><i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Number of beneficiaries by province (rural/urban) <p><i>Source:</i> Pakistan Bait-ul-Maal <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Impact in reducing variability of consumption of the poorest households, in response to food (wheat) price increases. <p><i>Source:</i> PIHS Survey, FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>

NON-BUDGETARY POVERTY RELATED EXPENDITURES AND OUTCOMES		
I. Assets Creation and Infrastructure-Related Expenditure		
<p style="text-align: center;">Housing</p> <ul style="list-style-type: none"> Number of katchi Abadis (slum settlements) regularized <p style="text-align: center;">Land</p> <p>Number of acres of available state land distributed</p> <p><i>Source:</i> Ministry of Housing & Works; Ministry of Environment, local government, & rural development; and Federal Land Commission <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Number of houses and beneficiaries within katchi Abadis regularized Land distributed with number of beneficiaries <p><i>Source:</i> Ministry of Housing and Works; Ministry of Environment, local government, & rural development Federal Land Commission <i>Frequency:</i> Annual/ bi-annually <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> % of rural households with different land holdings <p><i>Source:</i> FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>
II. Expenditure on Safety Nets		
<p style="text-align: center;">Zakat</p> <ul style="list-style-type: none"> Zakat disbursement (as a % of total exp.) Rehabilitation grants as a % of Zakat allocations <p><i>Source:</i> Ministry of Religious Affairs, Zakat & Ushr <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Number of beneficiaries by type of assistance by province <p><i>Source:</i> Ministry of Religious Affairs, Zakat & Ushr <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Impact in reducing variability of consumption of the poorest households, in response to shocks e.g. food (wheat) price increases. <p><i>Source:</i> PIHS Survey, FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>
<p>Credit</p> <ul style="list-style-type: none"> Micro-credit disbursements (as a % of total exp.) <ul style="list-style-type: none"> PPAF Khushali Bank ZTBL SME Bank First Women Bank <p><i>Source:</i> Ministry of Finance, PPAF & Khushali Bank, SME Bank, ZTBL, and First Women Bank Limited. <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Number of borrowers and size of credit Districts, within each province, with micro-credit coverage Number and composition of small infrastructure projects and trainings supported by micro-credit. <p><i>Source:</i> PPAF, ADBP, & Khushali Bank <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Repayment rates Lending costs <p><i>Source:</i> PPAF, ADBP, & Khushali Bank <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>