

Pakistan: Poverty Reduction Strategy Paper Preparation Status Report

Poverty Reduction Strategy Papers (PRSPs) are prepared by member countries in broad consultation with stakeholders and development partners, including the staffs of the World Bank and the IMF. Updated every three years with annual progress reports, they describe the country's macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing. This country document for **Pakistan**, dated **January 30, 2003**, is being made available on the IMF website by agreement with the member country as a service to users of the IMF website.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund
Washington, D.C.**

**Government of Pakistan
Finance Division
Policy wing
(PRSP Secretariat)**

30.1.2003

PREPARATION OF Full PRSP—PROGRESS REPORT

1. The Government of Pakistan outlined its policy objectives for promoting pro-poor economic growth and reducing poverty in the Interim-Poverty Reduction Strategy Paper (I-PRSP) in November 2001, after a thorough consultative process and discussions, from October 1999 to October 2001, with a diverse set of stakeholders that included the federal and provincial ministries/departments, academia, NGOs and the general public. The I-PRSP was approved in Joint Staff Assessment of the World Bank and the IMF in December 2001.

The core principles of comprehensive poverty reduction strategy (PRS) included:

- a. Engendering Growth through
 - i. Macroeconomic Stabilization
 - ii. Tax Reforms
 - iii. Expenditure Management
 - iv. Prudent Monetary Policy
 - v. Debt Management
- b. Enabling Investment Environment
- c. Implementation of broad based governance reforms
- d. Improving social sector outcomes
- e. Reducing vulnerability to shocks

2. PRSP is a technique to develop a Comprehensive Development Framework (CDF). The process is pretty dynamic which would get institutionalized through an evolving process at all levels of government, i.e. national, provincial and districts. It needs capacity building particularly at sub-national level. PRSP will need a mechanism for periodical updating, either on annual or medium term basis, to reconcile it with emerging socio-economic realities and

improvements in service delivery as the data from various surveys and agencies keeps pouring in. Eventually, it may become a rolling CDF. This progress report as well as full PRSP ought to be evaluated in this context.

3. In contrast to the approaches adopted in the past where poverty reduction was considered as a by-product of growth process, poverty alleviation in fact has taken the center-stage of the country's macroeconomic policy framework. The macroeconomic policies for the last three years have been geared towards poverty alleviation and improving the living conditions of vulnerable segment of society. The Government of Pakistan has launched a credible program for poverty reduction. Our development partners are helping in our efforts to reduce poverty and improve social indicators. The Government is raising its pro-poor budgetary expenditures by at least 0.2 percent of GDP per annum. This reflects a significant shift from past budgetary performance when pro-poor public expenditures declined by an average of 0.25 percent of GDP per annum during 1995–2000.

4. The government constituted a high-level National PRSP Implementation Committee headed by the Secretary General of Finance to oversee I-PRSP implementation initially. It has now been substituted by a National Steering Committee headed by the Finance Secretary comprising heads of relevant Ministries, Institutions and Additional Chief Secretaries of the Provinces with the following mandate:

- a. To oversee implementation of I-PRSP policy reforms, evaluate its impact and suggest appropriate adjustments in the policy regime
- b. To review poverty related expenditures, monitor intermediate indicators outcomes and take appropriate measures
- c. To build national consensus by engaging all stakeholders including the civil society as well as the Provincial Governments to formulate full Poverty Reduction Strategy Paper
- d. To strengthen capacity of the PRSP partner agencies
- e. To engage with the donor agencies
- f. To hire consultants/manpower to support PRSP Secretariat in finalizing PRSP
- g. Any other item related to above

The Committee may co-opt any member from private and public sector to achieve its goals.

5. The Government is also maintaining continuity and is moving forward to developing full PRSP. Joint Secretary (Policy and EF-IFR) has been designated as focal person and PRSP Secretariat is functioning in Finance Division, which has been mandated to coordinate, monitor, evaluate, track implementation of the PRSP; and report progress on pro-poor public expenditures, intermediate social indicators, and final outcomes. The PRSP Secretariat is being strengthened by hiring Consulting Economists and Financial Analyst to institutionalize capacity.

6. The PRSP Secretariat is tracking the following on quarterly basis:

a. Pro-Poor budgetary expenditures that include current and development expenditures on

- i. Roads, Highways, and Bridges
- ii. Water Supply and Sanitation
- iii. Education
- iv. Health
- v. Population Planning
- vi. Social Welfare
- vii. Natural Calamities and other Disasters
- viii. Irrigation
- ix. Land Reclamation
- x. Rural Development
- xi. Food Subsidies
- xii. Food Support Program

b. Non-budgetary pro-poor expenditures on

- i. Zakat
- ii. Employees Old-age Benefit Institution,
- iii. Micro-Credit Disbursement
- iv. Allotment of state land
- v. Regularization of Katchi Abadis

c. Intermediate indicators

- i. Lady Health Workers Program
- ii. utilization of health care facilities
- iii. number of functional schools
- iv. number of functional schools with basic facilities

The tracking mechanism has been institutionalized with the Controller General of Accounts. The PRSP Secretariat in the Ministry of Finance is reporting pro-poor expenditures on a quarterly basis from Q1 of FY 2001–02. These pro-poor expenditures are compared with the

expenditures of corresponding categories of the previous year's quarter, trends are analyzed and reported on Ministry of Finance web site.

7. The Government plans to spend Rs 161 billion during the current financial year (2002–03), an increase of Rs 27.5 billion (20.6 percent) over the last financial year (2001–02). The most promising feature of Q1 of FY 2002–03 pro-poor expenditures is that spending registered an increase in the critical areas of water supply and sanitation (by 16 percent), education (by 26 percent), health (by 44 percent), population planning (by 223 percent), natural calamities (by 542 percent), irrigation (by 38 percent), land reclamation, rural development (by 37 percent), and food subsidies (nine out of twelve sectors). Overall PRSP expenditures registered a growth of 39 percent in first quarter (July–September) of the current financial year over corresponding period of last financial year—rising from Rs 21.044 billion to Rs 29.312 billion in absolute terms. The Province wise increase in pro-poor spending during Q1 of 2002–03 over corresponding period of 2001–02 is 27 percent in Punjab and 110 percent in NWFP whereas Baluchistan and Sindh showed a decline of 13 percent and 8 percent respectively which is expected to be picked up during the course of the financial year.

8. The government has also established a broad compensating cash transfer mechanism to provide social protection to vulnerable segments of the society. The details are reflected at para. 6 supra and details of expenditures are on the Web.

9. The consultative process with various stakeholders is continuing through various Workshops and Seminars to get their input for full PRSP, the details thereof are as follow:

- a. Three Workshops to finalize intermediate indicators for Health (7) and Education (5)
- b. Three Workshops to develop mechanism for timely collection of data for monitoring indicators in Education Sector (NEMIS)
- c. Three Workshops to develop mechanism for timely collection of data for monitoring indicators in Health Sector (HEMIS)
- d. Seminar to develop Employment- Poverty Reduction nexus
- e. Two Workshops on Gender Issues (World Bank)

- f. Workshop to determine Poverty Line (World Bank)
- g. Three Seminars on Pakistan Poverty Assessment (World Bank)
- h. Seminar on Population and Poverty Reduction (UNFP-World Bank)
- i. Seminars on Provincial Dialogue (Sindh and Baluchistan)
- j. Provincial Consultation with Districts and civil society

10. During the on-going consultative process with the Ministeries, donors, and the civil society on full PRSP, following gaps have been identified in the I-PRSP:

- a. Employment (Growth-Employment-Poverty nexus) and allied issues
- b. Gender
- c. Environment
- d. Provincial PRSPs including service delivery mechanism
- e. Costing of reforms and pro-poor programs
- f. Financing and Resource Gap

Efforts are in hand to address these gaps while developing full PRSP. On some of these issues, various donors have commissioned studies that would be useful inputs for the PRSP. To begin with, full PRSP is most likely to contain costing of health and education sector over the medium term.

11. The efforts of donors would generate inputs for PRSP, as follows:

- DFID**
 - Participatory Poverty Assessment (Report Awaited)
 - Environment-Poverty Nexus
 - I-PRSP Dissemination/Communication Strategy
 - PRSP Cell in Punjab
- ILO**
 - Employment-Poverty nexus
 - Country Employment Review
- UNICEF**
 - Multi-Indicators Clusters Survey NWFP (Done)
 - Multi-Indicators Clusters Surveys for Punjab, Sindh (work in progress). UNICEF has also indicated interest to carryout similar exercise in Baluchistan.
- UNDP/EDCG**
 - Environment
- INGAD/CIDA/**
- NORAD**
 - Gender
- JICA**
 - Support to HMIS for finalization of baseline projections for agreed intermediate indicators

12. The Provincial Governments have also been provided a tentative outline by the PRSP Secretariat to develop their PRSPs and dialogue is scheduled in NWFP as well as Punjab to finalize first round of consultation. It is also being planned to visit all the four provinces to facilitate them in developing and finalizing their PRSPs. Sindh and Baluchistan have provided their initial drafts whereas NWFP is discussing its first draft with District governments and civil society. The concerned Ministeries are also updating their inputs.

13. Through a series of interactive consultation with line Ministeries and statistics organizations, a set of intermediate indicators has been determined. DFID provided necessary support for this purpose. The indicators were selected on the basis of their ability to convey effective information about quality of service and its usefulness. Availability of data and need for strengthening statistical efforts were the key focus of the work. Based on this exercise, a proposal has been formulated to undertake CWIQ (Core Welfare Indicators Questionnaire) Survey— a sort of mini-PIHS. Federal Bureau of Statistics has already been requested to undertake this survey on annual basis. The requisite documentation is currently under consideration for approval process. Survey design and related preparatory work is expected to be completed by mid-April 2003. This would include: establishment of a technical committee to adapt the CWIQ to Pakistan context; piloting and subsequent refinement of the questionnaire design and data entry system and finalizing the sampling frame of the survey. The findings of the survey would facilitate in determining baselines and monitoring of the intermediate indicators. The agreed intermediate indicators for Health (7) and Education (5) are as under:

Health

- i. Utilization of First Level Care Facilities (BHUs and RHCs)
- ii. Lady Health Workers Coverage
- iii. Immunization Coverage of Children
- iv. Percentage of births attended by skilled birth attendants
- v. Number of skilled female birth attendants
- vi. Number of skilled female health workers
- vii. Number of First Level Care Facilities staffing norms

Education

- i. Number of functional schools (Primary and Secondary)
- ii. Percentage of trained teachers
- iii. Teachers Absenteeism
- iv. Percentage of sanctioned staff strength filled
- v. Percentage of schools with sanitary facilities, water supply, electricity, and boundary wall

14. Presently, expenditures on four out of twelve intermediate indicators are being tracked. NEMIS and HMIS are being strengthened to streamline reporting mechanism to ensure availability of authentic data once baselines of these indicators are determined. It will provide a fair assessment for timely and accurate policy interventions for human development. It would also facilitate in determining the efficacy of PRSP expenditures.

15. **Devolution** is taking roots and it will get institutionalized gradually. The initial teething problems have largely been resolved. The devolution of political and functional responsibilities have been fully backed up by administrative authority and financial support. The mechanism for resource transfer to districts, tehsils, and Union Councils has been institutionalized by establishing Provincial Finance Commission in each Province having due representation of stakeholders from Province, district, and tehsils. Provincial Finance Awards have been notified on the recommendations of the Provincial Finance Commissions starting from financial year 2002–03 except in case of Punjab. Though the resource transfer is taking place in Punjab but formal award is awaited. The details of these awards would be covered at length in full PRSP. The Provincial Finance Commissions have statutory protection.

16. For prompt and regular transfers to districts and sub-district levels, a separate account has been established in each Province and under that account each district has been allotted a subsidiary account number. Likewise, each Tehsil has its own account in National Bank of Pakistan. Under the Provincial Finance Award, the Provincial Governments are required to transfer revenues to the districts and sub-district levels as per notified revenue sharing formulae on monthly basis. Special transfers made by the Federal Government or Provincial Government are in addition to this. Each level of local governments has also been

empowered to raise its revenues through various levies under the Local Government Ordinance.

17. As regards resource transfer from the Federation to the Provinces, the mechanism is already institutionalized under the Constitution in the form of National Finance Commission that is required to give award for revenue sharing after every five years. The discussions for the new Award (2003–04 to 2007–08) are already in process.

18. Provincial Governments have taken initiatives for rural development. NWFP is executing various foreign assisted area development projects, such as Barani Area Development Project, Malakand Rural Support Project, FATA Development Program, Dir Area Development Project, for rural uplift and developing community participation. Sindh is also implementing Sindh Rural Development Project and so are other Provinces. In addition, GOP initiated income-employment generation Khushal Pakistan Program and micro-credit programs. It may be appreciated that rural development is primarily a provincial subject. The sector will be dealt in full PRSP incorporating input from Provincial PRSPs.

19. The PIHS data has already been made public and HIES numbers may become available soon that may further facilitate the work of PRSP

20. The formulation of I-PRSP was a first step in the direction of preparing a comprehensive national anti-poverty strategy which encompassed the economic, structural, and social initiatives undertaken and planned to be taken over the medium term by the federal, provincial, and district governments for targeting multidimensional nature of poverty and human development in Pakistan. The full PRSP, in addition to provincial programs, would reflect an updated status of existing policy programs as well as new initiatives taken by the Federal Government since November 2001. The gaps highlighted supra will be addressed through consultative process. The tentative schedule of activities planned for the next four months is as under:

a.	Update Ministeries' input	31.1.2003
b.	Completion of Provincial Dialogue	31.1.2003
c.	Consultation with all stakeholder by the Provinces	31.1.2003
d.	Consulting the Communities through Rural Support Program Network	15.2.2003

e.	Finalization of Reports for Gaps Identified	15.2.2003
f.	Costing of reforms and programs (Health & Edu)	15.2.2003
g.	Finalization of Provincial PRSPs	22.2.2003
h.	First Draft of full PRSP	15.3.2003
i.	Dissemination of first Draft PRSP	15.3.2003
j.	Final Draft of full PRSP	15.4.2003

Above timelines seem very ambitious but these have been kept deliberately to maintain pressure on the line ministries as well as the Provincial Governments to provide their inputs for full PRSP and to have cushion for any slippage due to unexpected circumstances.

21. It is felt that the following inputs are quite essential for finalizing PRSP:

- Completion of costing exercise in Health and Education sectors
- Completion of Employment-Poverty nexus report by ILO
- Completion of Gender Report by INGAD
- Macro-Economic Framework Projections for the next three years and sources of growth in Pakistan by Economic Advisor Wing
- Completion of Environment and Poverty nexus study by DFID
- Clearance of PC-II for IDF Grant by the Planning Commission

22. The draft full PRSP would be posted on the web and would be widely distributed for constructive feedback from all tiers of governments, private sector, civil society, academia and other stakeholders. This feedback after due sensitization would become part of full PRSP. The overall objective of PRSP would be to focus on poverty reduction structural policies/measures without compromising macroeconomic stability.