June 2010
IMF Country Report No. 10/183

Pakistan: Poverty Reduction Strategy Paper

This paper was prepared based on the information available at the time it was completed on February 19, 2009. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Pakistan or the Executive Board of the IMF.

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International Monetary Fund
Washington, D.C.

Poverty Reduction Strategy Paper (PRSP) - II

Government of Pakistan
Finance Division

FOREWORD

ACKNOWLEDGEMENTS

LIST OF ABBREVIATIONS AND ACRONYMS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ACP	Automated Clearance Procedures
ADB	Asian Development Bank
ADP	Annual Development Plan
AEDB	Alternative Energy Development Board
AHAN	Aik Hunar Aik Nagar
AJK	Azad Jammu Kashmir
ANC	Anti Natal Care
API	Agricultural Policy Institute
APO	Asian Productivity Organization
ASF	Agribusiness Support Fund
ATMs	Automated Teller Machines
ATOM	Activity to Output Based Monitoring
BCC	Budget Call Circular
BCG	Bacille Calmette-Guerin
BCO	Banking Companies Ordinance
BDS	Business Development Services
BHUs	Basic Health Units
BISP	Benazir Income Support Programme
BMR	Balancing, Modernization and Replacement
BOD	Burden Of Disease
BOTs	Build Operate and Transfers
B-PfA	Beijing Platform for Action
BTU	British Thermal Unit
Cab. Div.	Cabinet Division
CAD	Computer Assisted Design
CAM	Computer Assisted Manufacturing
CCBs	Citizens Community Boards
CCP	Competition Commission of Pakistan
CCSSC	Cabinet Committee for Social Sector Coordination
CCT	Conditional Cash Transfer
CDC	Central Depositary Company
CDNS	Central Directorate of National Saving
CDWA	Clean Drinking Water for All
CDWI	Clean Drinking Water Initiative
CDWP	Central Development Working Party
CED	Central Excise Duty
CEDAW	Convention on Elimination of all form of Discrimination Against Women
CFIs	Commercial Financial Institutions
CFCs	Common Facility Centres
CFC	Chloro-Flouro-Carbon
CFS	Continuous Funding System
CGA	Controller General of Accounts
CGE	Computable General Equilibrium
CIET	Community Information, Empowerment and Transparency
CIDA	Canadian International Development Agency
CIRC	Corporate & Industrial Restructuring Corporation
CLIS	Crop Loan Insurance Scheme
CLTS	Community Led Total Sanitation
CMP	Crop Maximization Project
CNG	Compressed Natural Gas
COT	Carry-Over Trade
CPAR	Country Procurement Assessment Report
CPPA	Central Power Purchase Agency

CPR	Contraceptive Prevalence Rate
CPRSPD	Centre for Poverty Reduction and Social Policy Development
CPS	Contraceptive Prevalence Survey
CrPc	Code of Criminal Procedure
CSF	Competitiveness Support Fund
CSP	Child Support Programme
CSR	Corporate Social Responsibility
CWIQ	Core Welfare Indicators Questionnaire
CYP	Couple Year Protection
DAK	Dera Adam Khel
DAMEN	Development Action for Mobilization and Emancipation
DAP	Di-Ammonium Phosphate
DDMAs	District Disaster Management Authorities
DFIs	Development Financial Institutions
DFID	Department For International Development
DFSD	Development Finance Support Department
DGPC	Directorate General of Petroleum Concession
DHIS	District Health Information System
DHQs	District Headquarters
DISCOs	Distribution Companies
DOH	Department Of health
DOTS	Directly Observed Treatment, Short-course (for TB)
DPS	Deposit Protection Scheme
DPT	Diphtheria, Pertussis and tetanus
DSP	Decentralization Support Program
DTCE	Devolution Trust for Community Empowerment
ECIB	Electronic Credit Information Bureau
ECNEC	Executive Committee of National Economic Council
ECP	Election Commission of Pakistan
EEF	Elementary Education Foundation
EFA	Education For All
EFR	Environmental Fiscal Reform
EIA	Environmental Impact Analysis
EMC	Energy Management and Conservation
EMIS	Education Management Information System
EmOC	Emergency Obstetric Care
ENERCON	National Energy Conservation Centre
EOBI	Employees' Old Age Benefit Institution
E&P	Exploration and Production
EPA	Environmental Protection Agency
EPI	Expanded Program on Immunization
EPZs	Export Processing Zones
ERC	Emergency Relief Cell
ERRA	Earthquake Reconstruction and Rehabilitation Authority
ES	Economic Survey
Est.Div.	Establishment Division
ESP	Energy Security Plan
EU	European Union
FANA	Federally Administered Northern Areas
FAO	Food and Agriculture Organization
FATA	Federally Administrated Tribal Area
FBR	Federal Board of Revenue
FBS	Federal Bureau of Statistics
FDI	Foreign Direct Investment
FED	Federal Excise Duty
FEPB	Federal Export Promotion Board
FESCO	Faisalabad Electric Supply Company

FI	Financial Institution
FIA	Federal Investigation Agency
FIP	Financial Inclusion Program
FOs	Farmers' Organizations
FOB	Freight on Board/Free on Board
FP	Family Planning
FP/RH	Family Planning / Rural Health
FPI	Foreign Portfolio Investment
FRDLA	Fiscal Responsibility and Debt Limitation Act
FSPMS	Food Support Programme Management System
FSP	Food Support Programme
FWC	Family Welfare Centre
FY	Fiscal Year
GAP	Good Agricultural Practices
GBG	Gender Based Governance
GCI	Global Competitiveness Index
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GEF	Global Environmental Facility
GENCOs	Generation Companies
GEPCO	Gujranwala Electric Power Company
GER	Gross Enrolment Rate
GhG	Greenhouse Gas
GIS	Geographical Information System
GMP	Good Manufacturing Practices
GNP	Gross National Product
GRAP	Gender Reform Action Plan
GRB	Gender Responsive Budgeting
GRBI	Gender Responsive Budgeting Initiative
GST	General Sales Tax
GTZ	Duetsche Gesellschaft fur Technische Zusammenabeit/German Technical Cooperation
HBFC	House Building Finance Corporation
HBL	Habib Bank Limited
HCES	Household Consumption Expenditure Survey
HDIP	Hydrocarbon Development Institute of Pakistan
HEC	Higher Education Commission
HESCO	Hyderabad Electric Supply Company
HIES	Household Income and Expenditure Survey
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HMIS	Health Management Information System
HRD	Human Resource Development
IBBs	Islamic Banking Branches
IBIs	Islamic Banking Institutions
IBP	Institute of Bankers Pakistan
ICAO	International Civil Aviation Organization
ICAP	Institute of Chartered Accountants Pakistan
ICPD	International Conference on Population and Development
ICT	Islamabad Capital Territory
IDBP	Industrial Development Bank of Pakistan
IEC	Information Education and Communication
IESCO	Islamabad Electric Supply Company
IFC	International Finance Corporation
IFSB	Islamic Financial Services Board
IIFM	International Islamic Financial Market
ILO	International Labour Organization
IMF	International Monetary Fund

IMR	Infant Mortality Rate
INGOs	International Non-Governmental Organizations
INGAD	Inter-agency Gender and Development Group
IPCC	Intergovernmental Panel on Climate Change
IPDF	Infrastructure Project Development Facility
IPEM	Inter-Provincial Education Ministers
IPFF	Infrastructure Project Financing Facility
IPI	Iran-Pakistan-India
IPO	Initial Public Offer
IPP	Independent Power Project
IRAF	Institutional Risk Assessment Framework
IT	Information Technology
ITNs	Insecticide Treated Nets
ITS	Intelligent Transport System
IPR	Intellectual Property Rights
IUCN	International Union for Conservation of Nature
IWARSI	International Water logging and Salinity Research Institute
IYS	International Year of Sanitation
JICA	Japan International Cooperation Agency
KB	Khushali Bank
KESC	Karachi Electric Supply Company
KMI	KSE-Meezan Index
KPF	Khushal Pakistan Fund
KSE	Karachi Stock Exchange
kWh	Kilowatt-hours
LARMIS	Land Administration & Revenue Management Information System
LDDB	Livestock and Dairy Development Board
LEAD	Leadership for Environment and Development
LESCO	Lahore Electric Supply Company
LEWs	Livestock Extension Workers
LFA	Literacy For All
LFS	Labour Force Survey
LGO	Local Government Ordinance
LHV/Nurse	Lady Health Visitor/Nurse
LHW	Lady Health Worker
LITMIS	Literacy Management Information System
L&J Div.	Law and Justice Division
LLWs	Lady Livestock Workers
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LSCG	Livelihood Support Cash Grant Program
LUMS	Lahore University of Management Sciences
LZC	Local Zakat Committees
MACP	Mountain Areas Conservancy Project
MAF	Million Acre Feet
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
MEPCO	Multan Electric Power Company
MFB	Microfinance Bank
MFIs	Microfinance Institutions
MINFAL	Ministry of Food Agriculture and Livestock
MIS	Management Information System
MNA	Members National Assembly
MNCs	Multinational Corporations
MNCH	Maternal and Child Health
MoCom	Ministry of Commerce
MoEnv.	Ministry of Environment

MoE	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
MoIPSI	Ministry of Industries, Production and Special Initiatives
MoLGRD	Ministry of Local Government and Rural Development
MoLM	Ministry of Labour and Manpower
MoPW	Ministry of Population Welfare
MoPet	Ministry of Petroleum
MoRA	Ministry of Religious Affairs
MOUs	Memorandum of Understandings
MoWD	Ministry of Women Development
MoWP	Ministry of Water and Power
MSU	Mobile Service Unit
MTBF	Medium Term Budgetary Framework
MTDF	Medium Term Development Framework
MTEF	Medium Term Expenditure Framework
MTOE	Million Tons Oil Equivalent
MW	Mega Watt
NAB	National Accountability Bureau
NADRA	National Database and Registration Authority
NAP-NCD	National Action Plan-Non-Communicable Diseases
NARC	National Agriculture Research Council
NAVTEC	National Vocational and Technical Education Commission
NBFC	Non-Bank Finance Corporation
NBFIs	Non-Bank Financial Institutions
NCBs	Nationalized Commercial Banks
NCCPL	National Clearing Company of Pakistan limited
NCDs	Non-Communicable Diseases
NCHD	National Commission for Human Development
NCSA	National Capacity Self Assessment
NCSW	National Commission on the Status of Women
NDMA	National Disaster Management Authority
NDMC	National Disaster Management Commission
NEAS	National Education Assessment System
NEIMS	National Environmental Information Management System
NEMIS	National Education Management Information System
NEP	National Environmental Policy
NEPRA	National Electric Power Regulatory Authority
NEQS	National Environmental Quality Standards
NER	Net Enrolment Rate
NFLC	National Freight and Logistics Chamber
NGOs	Non-Governmental Organizations
NHA	National Highway Authority
NHIP	National Highway Improvement Programme
NHIRC	National Health Information Centre
NIB	National Investment Bank
NIBAF	National Institute of Banking And Finance
NIDs	National Immunization Days
NIDA	National Institute of Design and Analysis
NIPS	National Institute of Population Studies
NIPs	National Industrial Parks
NIPDMC	National Industrial Parks Development and Management Company
NIRM	National Institute of Rehabilitation Medicine
NLC	National Logistic Cell
NMTPF	National Medium-Term Policy Framework
NORAD	Norwegian Royal Agency for Development
NPA	National Plan of Action

NPFP&PHC	National Programme on Family Planning and Primary Health Care
NPO	National Productivity Organization
NRB	National Reconstruction Bureau
NRSP	National Rural Support Programme
N-S	North-South
NSPS	National Social Protection Strategy
NTC	National Trade Corridor
NTCIP	National Trade Corridor Improvement Programme
NTDC	National Transmission and Dispatch Company
NTMP	National Transport Master Plan
NWC	National Water Council
NWFP	North West Frontier Province
NWP	National Water Policy
ODF	Open Defecation Free
OGDCL	Oil and Gas Development Company Limited
OGDCL-SPO	Oil and Gas Development Company Limited-Secondary Public Offering
OGRA	Oil and Gas Regulatory Authority
OPP	Orangi Pilot Project
ORS	Oral Rehydration Salt
PAMCO	Punjab Agri-Marketing Company
PAMP	Protected Areas Management Project
PARC	Pakistan Agricultural Research Council
PASDEC	Pakistan Stone Development Company
PBA	Pakistan Banks' Association
PBM	Pakistan Bait-ul-Mal
PCA	Prevention of Corruption Act
PCAP	Pakistan Clean Air Programme
PCP	Pakistan Centre for Philanthropy
PCRET	Pakistan Council of Renewable Energy Technologies
PDMAs	Provincial Disaster Management Authorities
PDMCs	Provincial Disaster Management Commissions
PDS	Pakistan Demographic Survey
PDHS	Pakistan Demographic & Health Survey
PEC	Pakistan Engineering Council
PEPA	Pakistan Environmental Protection Act
PEPCO	Pakistan Electric Power Company
PERN	Pakistan Educational Research Network
PESCO	Peshawar Electric Supply Company
PESR	President Education Sector Reform
PFC	Provincial Finance Commission
PFD	Provincial Forest Department
PFIs	Participating Financial Institutions
PFM	Public Financial Management
PFSS	Punjab Food Support Scheme
PGJDC	Pakistan Gems and Jewellery Development Company
PHA	Pakistan Housing Authority
PHC	Primary Health Care
PHC	People's Housing Cell
PHSADC	Pakistan Hunting and Sporting Arms Development Company
PIA	Pakistan International Airlines
PICG	Pakistan Institute of Corporate Governance
PICIC	Pakistan Industrial Credit and Investment Corporation
PIFRA	Project for Improvement in Financial Reporting and Auditing
PIHS	Pakistan Integrated Household Survey
PM25	Particular Matter 25
PMHP	Prime Minister's Housing Programme
PMIU	Project Management Implementation Unit

PMN	Pakistan Microfinance Network
PMU	Project Management Unit
PNC	Post Natal Care
PO	Post Office
PPAF	Pakistan Poverty Alleviation Fund
PPHI	Peoples' Primary Healthcare Initiative
PPIB	Private Power and Infrastructure Board
PPP	Public Private Partnership
PPR	Public Procurement Rules
PPRA	Public Procurement Regulatory Authority
PPSOs	Public Private Sector Organizations
PR	Pakistan Railways
PRs	Prudential Regulations
PRP	People's Rozgar Programme
PRS	Poverty Reduction Strategy
PSCBP	Public Sector Capacity Building Project
PSDP	Public Sector Development Programme
PSIA	Poverty and Social Impact Analysis
PSIC	Punjab Small Industries Corporation
PSLM	Pakistan Social and Living Standards Measurement Survey
PSO	Pakistan State Oil
PSPE	Pakistan Special Police Establishment
PTCL	Pakistan Telecommunications Corporation Ltd
PWD	Population Welfare Department
PWP	People's Works Programme
QESCO	Quetta Electric Supply Company
QoC	Quality of Care
RBM&E	Results-Based Monitoring and Evaluation
R&D	Research and Development
RE	Renewable Energy
REITs	Real Estate Investment Trusts
RFI	Road Freight Industry
RHC	Rural Health Centre
RHSC	Reproductive Health Services Centre
RSP	Rural Support Programme
RSPN	Rural Support Programme Network
RTGS	Real Time Gross Settlement
RTIs	Regional Training Institutes
SACOSAN	South Asian Conference on Sanitation
SAFWCO	Sindh Agricultural and Forestry Workers Coordination Organization
SBBCW	Shaheed Benazir Bhutto Centres for Women
SBP	State Bank of Pakistan
SBP-BSC	State Bank of Pakistan Banking Services Corporation
SBSF	Small Business Support Fund
SCB	Standard Chartered Bank
SDCs	Skill Development Centres
SDP	Sustainable Development Plan
SEC	Securities and Exchange Commission
SECP	Securities and Exchange Commission of Pakistan
SEZs	Special Economic Zones
S&GAD	Services and General Administration Department
SLTS	School-Led Total Sanitation
SMCs	School Management Councils
SME	Small and Medium Enterprises
SMEDA	Small and Medium Enterprise Development Authority
SNGPL	Sui Northern Gas Pipelines Limited
SPEIP	Support to Private Education Institutes Programme

SPS	Sanitary and Phyto-Sanitary
SRSP	Sarhad Rural Support Programme
SSGCL	Sui Southern Gas Company Limited
SSHE	School Sanitation and Hygiene Education
STEP	Strengthening Teacher Education in Pakistan
STIs	Sexually Transmitted Infections
SWCs	Social Welfare Complexes
SWD	Social Welfare Department
TBA	Trained Birth Attendant
TB	Tuberculosis
TB DOTS	Tuberculosis Directly Observed Treatment, Short-course
TDAP	Trade Development Authority of Pakistan
TDM	Tools, Dies and Mould
TFP	Total Factor Productivity
THQs	Tehsil Headquarters
TLP	Total Literacy Programme
TORs	Terms Of Reference
TPR	Trade Policy Review
TRDP	Thardeep Rural Development Programme
TUSDEC	Technology Up-gradation and Skill Development Company
TVET	Technical and Vocational Education and Training
TVS	Targeted Vulnerability Survey
TWGs	Technical Working Groups
UAE	United Arab Emirates
UBL	United Bank Limited
UBL-GDR	United Bank Limited-Global Depositary Receipt
U5MR	Under Five Mortality Rate
UGS	Underground Gas Storages
UIN	Universal Identification Number
UN	United Nation
UNDHR	United Nations Universal Declaration on Human Rights
UNDP	United Nation Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children Emergency Fund
UNIDO	United Nations Industrial Development Organization
UPE	Universalization of Primary Education
USAID	United States Agency for International Development
VAT	Value-Added Tax
WAPDA	Water and Power Development Authority
WB	World Bank
WBIC	Women Business Incubation Centre
WDCs	Women Development Centres
WEs	Women Entrepreneurs
WHO	World Health Organization
WSDCG	Water and Sanitation Sector Donor Coordination Group
WSP-SA	Water and Sanitation Programme-South Asia
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization
WWF	Workers Welfare Fund
ZTBL	Zarai Taraqiyati Bank Limited

LIST OF TABLES

LIST OF FIGURES

Table of Contents

Chapter 1 - Introduction: Challenges, opportunities and strategy

1.1 The new Poverty Reduction Strategy Paper (PRSP–II) draws upon lessons learnt from PRSP-I[1] and takes into account recent political, economic and social events, both domestic and international, which have adverse impacts for Pakistan. To steer Pakistan back on the path of sustained and broad-based economic growth and to create jobs and reduce poverty, Pakistan requires a prolonged period of macroeconomic stability, financial discipline and consistently transparent policies that place poverty reduction at the centre of the country's overall economic policies. Linking the economic growth-poverty reduction nexus are the very elements that the new PRSP focuses on, which has been extensively chalked out in the entire document. Meanwhile, this chapter aims primarily to set the stage for the subsequent discussion by presenting a broad overview of the programme and underscores the main points that underpin the Strategy.

1.2 Setting the Stage for the Strategy

1.2.1 **Economic Environment:** During the five years ending in FY 2006/07, Pakistan's economy more than doubled in size with an annual GDP growth rate averaging 7 percent. With relative price stability, the debt burden had reduced to one-half, foreign exchange reserves were sufficient to provide import cover for almost six months, stock market was one of the best performing in emerging markets; foreign direct investment touched close to 6 percent of GDP, and Pakistan successfully launched sovereign bonds of maturity ranging from 5-30 years in the international capital market with manifold oversubscription reflecting strong vote of confidence of global investors. However, the last fiscal year, i.e. 2007/08 has caused turmoil for Pakistan's economy with several political and economic events, both on domestic and external fronts, occurring unexpectedly. The country suffered a series of shocks since the eruption of the judicial crisis in March, 2007. The then government went into policy inaction, delaying important decisions that were needed to face these challenges. Root causes of macroeconomic instability included delay in passing the effect of the oil price hike to the consumers, resulting in a very high budget deficit which was financed by excessive borrowing from the State Bank of Pakistan (SBP). For this reason, monetary growth is projected at close to 19 percent during the first half of the PRSP-II term, further fueling the already high inflation. Domestic political and economic instability has led to GDP growth plummeting from as high as 7.5 percent to barely 5.8 percent in FY 2007/08 and an expected growth of 3.4 percent in the current fiscal year (2008/09).

1.2.2 Three main structural weaknesses can be identified for the current economic difficulty: (i) government spending in excess of revenue (fiscal deficit); (ii) imports in excess of exports (trade deficit); and (iii) inadequate social services to allow the poor and the vulnerable to fully participate in times of economic stability and prosperity and be protected during

[1] Performance during the PRSP-I period is reviewed in Chapter 2.

shocks. More recent reasons for the prevailing macroeconomic instability include domestic law and order situation, an unprecedented global increase in prices of oil, food and other essential commodities, instability in international financial markets and, most importantly, bearing the direct and indirect costs being a frontline state in the ‘War on Terror’. As a result of these issues, Pakistan is currently facing major challenges including growing fiscal and current account deficits; rising inflation; growth deterioration; and depleting foreign exchange reserves.

1.2.3 **Pakistan’s Role in the Universal War on Terror:** One important aspect that has severely dented development in Pakistan is its role in the ‘War on Terror’. Pakistan has sustained immense socio-economic costs of being a partner in the international counter terrorism campaign. The anti-terrorist campaign, which followed the 9/11 event in the United States in 2001, over-strained Pakistan’s budget as allocations for law enforcement agencies had to be increased significantly which meant erosion of resources for development all over Pakistan, particularly in FATA and nearby NWFP areas in addition to human sufferings and resettlement costs. Several development projects, started earlier in the affected areas are afflicted with delays which would ultimately result in large cost over-runs. Since the start of the anti-terrorism campaign, an overall sense of uncertainty has contributed to capital flight, as well as, slowed down domestic economic activity making foreign investors jittery. It is apprehended that Foreign Direct Investment, which witnessed a steep rise over the past several years may be adversely affected by the on-going anti-terrorism campaign in FATA and other areas of NWFP in addition to an excessive increase in the country’s credit risk, which has made borrowing from the market extremely expensive. Pakistan’s sovereign bonds have alos under-performed owing to similar reasons.

1.2.4 Above all, Pakistan’s participation in the anti-terrorism campaign has led to massive unemployment in the affected regions. Frequent bombings, worsening law and order situation and displacement of the local population have taken a toll on the socio-economic fabric of the country. The costs to the economy, both direct and indirect, have been estimated in Table 1.1. The estimated cost of the ‘War on Terror’ to Pakistan was around Rs 484 billion during FY 2007/08. This cost is projected to increase to Rs 678 billion during FY 2008/09.The government is in the process of devising a strategic policy to overcome the menace of terrorism which has captured the entire country.

Table 1.1: Cost of ‘War on Terror’ to Pakistan **(Rs billion)**

	2004/05	2005/06	2006/07	2007/08	2008/09
Direct Cost	67.103	78.060	82.499	108.527	114.033
Indirect Cost*	192.000	222.720	278.400	375.840	563.760
Total	259.103	300.780	360.899	484.367	677.793

* On account of loss of exports, foreign investment, privatization, industrial output, tax collection, etc.
Source: Finance Division, Government of Pakistan, September, 2008.

1.2.5 **Global Food Inflation:** Global food crisis has adversely impacted Pakistan in the form of price hike of food items. This includes over 100 percent increase in the price of oil in the international market since April 2007; over 200 percent increase in the price of palm oil;

and an increase of 150 percent in wheat prices. A review of price trends of essential items in Pakistan during FY 2007/08, indicates that the major portion of food inflation during this period stemmed from hike in the prices of wheat, flour, rice, edible oil, fruits, vegetables, pulses, poultry and milk, etc. However, prices of other important food items like sugar, potatoes and *moong* pulse have decreased owing to improved availability of these items in the market.[2]

1.2.6 **Social Protection:** Despite all efforts at job creation, training, and so on, there will always be individuals who for one reason or another are unable to benefit from the country's economic growth. In March, 2008 the Prime Minister laid out a series of future commitments (100 Days' Agenda) to benefit the poor during the PRSP-II period and beyond. The coming of a new era of democracy in Pakistan has thus immediately resulted in promising opportunities for people belonging to the lower middle class and poor segments of society. Salient initiatives pledged by the government include: increased employment generation with the help of a new Employment Commission planned to facilitate creation of jobs in the public and private sectors and to provide employment to one member of every poor family from 50 percent of the districts in the country, revision of labour laws as per the requirements of the International Labour Organization (ILO) (minimum wage of labourers will be fixed at Rs 6000 per month: see chapter 8), amendments in the Civil Service Regulations (June, 2008), 'Article 474 B Public' for eligibility of public servants who become disabled during service to get full benefits of retirement, with ten years service condition being lifted immediately; development at union council level; low cost housing; provision of medical insurance of Rs 15,000 – 20,000 per year to the poor; cases of political prisoners in the country to be reviewed under the National Reconciliation Ordinance (2007) by a Committee headed by the Attorney General of Pakistan; poor people to be provided free national identity cards; and provision of financial assistance/scholarships to widows and children of innocent victims who lost their lives in terrorist attacks. In context with the last commitment, an aid agenda has been issued to all Provincial Governments and Finance Division with the approval of the Prime Minister for implementation. The Government of Sindh in this regard allocated an amount of Rs 50 million in budget estimates for FY 2008/09. The government has also launched the "Benazir Income Support Programme (BISP)" to provide direct cash transfers to the poor, details of which are covered later in the discussion.

1.2.7 The overall vision of PRSP-II is thus to regain macroeconomic stability and Pakistan's growth of 5-7 percent per annum over the next five years; create adequate employment opportunities; improve income distribution and global economic competitiveness through economic liberalization; deregulation; and transparent privatization. To ensure that macroeconomic difficulties do not further slow down the pace of job creation and hence, ultimately adversely effect poverty reduction, the government has taken and will continue to undertake a series of fiscal, monetary and exchange rate measures to stabilize the economy. In this light, Pakistan has recently reached an agreement with IMF for a US $7.6

[2] Economic Adviser's Wing, Finance Division, Government of Pakistan, 2008

billion package with interest rate varying from 3.51 to 4.51 percent spread out over a period of 23 months. For the first time, IMF has accepted Pakistan's own proposals/programmes which have two main objectives: (i) to restore the confidence of domestic and external investors by addressing macroeconomic imbalances through tightening of fiscal and monetary policies; and (ii) to protect the poor and preserve social stability through a well-targeted and adequately funded social safety nets.

1.2.4.1 In this light, the PRSP-II endeavours not only to address growth per se but pro-poor growth, which is essential for improving the life of the common man. It is in this perspective that PRSP-II emphasizes commodity producing sectors namely, agriculture and manufacturing, alongside services. High employment intensity sectors such as housing & construction; and Small & Medium Enterprises (SMEs) will also receive greater attention, as will skill development and higher education. Tackling the energy crisis to avoid stifling of growth by rapidly adding more power while simultaneously conserving energy will be another top priority. Ensuring the implementation of policies and reform programmes to achieve the desired results as set out in PRSP-II is a critical task. Support from bilateral and multilateral institutions will play an important role in achieving these targets.

1.2.4.2 The Poverty Reduction Strategy covers the three-year PRSP-II period of FY 2008/09–2010/11 but also provides a framework for thinking well beyond this timeframe. It should, therefore, be viewed as an approach to a long-term national economic strategy that has its main focus on reduction of poverty.

1.2 Building up the Strategy

1.3.1 Pakistan's PRSP is a fully participative process, incorporating the views and suggestions of all stakeholders – parliamentarians, line ministries, development partners, civil society, media and the poor communities. Consultations are an integral element of the PRSP process. PRSP welcomes participation at various stages of the overall process enabling it to become representative of all stakeholder interests increasing the transparency of the formulation process, ultimately, ensuring sustained ownership and successful implementation of the Strategy. The PRSP-II has been compiled incorporating all such feedback. Comprehensive consultations for PRSP-II started towards the end of the year 2005 and have continued till the launch of the Paper in late 2008. This participatory process has included national stakeholder workshops, regular meetings with all partners and informal sharing of the draft for review/feedback. The PRSP-II Draft Summary was launched at the platform of the Pakistan Development Forum, Islamabad in April, 2007. The Draft Summary and the periodic PRSP expenditure reports are available at the Ministry of Finance's website.[3] Details of the entire consultative process are discussed in the next chapter.

[3] For further details please visit: www.finance.gov.pk

1.4 The Strategy for Poverty Reduction

1.4.1 The Strategy consists of the following nine pillars: (i) Macroeconomic Stability and Real Sector Growth; (ii) Protecting the Poor and the Vulnerable; (iii) Increasing Productivity and Value Addition in Agriculture; (iv) Integrated Energy Development Programme; (v) Making Industry Internationally Competitive; (vi) Human Development for the 21st Century; (vii) Removing Infrastructure Bottlenecks through Public Private Partnerships; (viii) Capital and Finance for Development; and (ix) Governance for a Just and Fair System. In addition, the government is putting in place a stringent results-based system to monitor and evaluate the progress of the Poverty Reduction Strategy. Moreover, the government is continuouslly determined to empower women and to reduce gender disparities. This, in addition to environmental sustainability, is a cross-cutting theme and is regarded as an integral part of the programme which is woven throughout the PRSP-II. The following discussion gives a broad overview of the pillars.

1.4.2 Pillar I: Macroeconomic Stability and Real Sector Growth

1.4.2.1 First and foremost, the government's top priority is regaining macroeconomic stability, which will act as an umbrella over all other government policies. It is on the basis of the macroeconomic framework that assumptions and targets of all policies will be set. The government's new broad-based programme for economic stabilization has already ensuring adjustment in petroleum prices to reduce burden on the budget; significant cuts in expenditures to curb the rising burden of subsidies; tight monetary policy to fight inflation; and further cuts in development spending, etc. Details are discussed in chapter 4.

1.4.3 Pillar II: Protecting the Poor and the Vulnerable

1.4.3.1 Social safety nets that provide at least minimal safeguard for the poor and the vulnerable which must form an essential element of any poverty reduction strategy. Pakistan has a fairly elaborate network of direct and indirect social protection mechanisms. Direct provisions include employment based guarantees (such as Employees' Old Age Benefit Institution, Workers' Welfare Fund and provincial social security benefits), direct transfers (Zakat and Pakistan Bait-ul-Mal) and market based interventions (microfinance). Indirect provisions include the provision of the minimum wage, lifeline tariff on electricity, subsidy on the price of flour and food subsidies through the Utility Stores Corporation of Pakistan.

1.4.3.2 Funding of specific safety net programmes has traditionally been insufficient given programme objectives and target populations. As a result, safety net programmes are fragmented and often duplicative; have limited coverage and are poorly targeted with small benefit levels relative to household income and the poverty gap; payments are infrequent and irregular; administrative arrangements are inadequate; and Monitoring and Evaluation (M&E) capacity is not up to the mark, which negatively impact programme efficiency and quality of service delivery. Consequently, these programmes have limited impact on poverty and vulnerability.

1.4.3.3 In response to these challenges a National Social Protection Strategy (NSPS)[4] was drafted in 2007, building upon a detailed sectoral review and upon inputs provided by all relevant actors in the sector, both at the federal and provincial levels. The NSPS aims to develop an integrated and comprehensive protection system, covering the entire population especially the poorest and the most vulnerable. The NSPS comprises a range of programmes and policies such as social insurance and assistance; income transfers to the very poor; support to vulnerable households to manage risks; and investment in human capital and physical assets to strengthen their resilience.

1.4.3.4 With the aim to provide relief to the economically stressed segments of the society in the face of spiraling prices of the essential commodities, the government has launched "Benazir Income Support Programme (BISP)" with an initial allocation of Rs 34 billion to be disbursed amongst the target households. The programme envisages cash grant of Rs 1000 per month to each qualifying household through banks/post offices. The vision of BISP is to ensure the government's role in amelioratating the conditions of the poorest of the poor by directly accessing them through supplementing their sources of income.

1.4.3.5 Similarly, the Government of Punjab has announced a Punjab Food Support Scheme (PFSS), originally designed to provide food stamps to the poorest households, now converted into a cash grant programme of Rs 1000 per household per month. The scheme covers both, rural and urban areas with total subsidy in the scheme amounting to Rs 21.60 billion (at Rs 1.8 billion per month) for 1.8 million families (at 6 persons per family).

1.4.4 Pillar III: Increasing Productivity and Value Addition in Agriculture

1.4.4.1 Agriculture contributes the largest share in the country's GDP. Agriculture will receive high priority in the PRSP-II as the bulk of the poor are concentrated in rural areas. Self-reliance in commodities, food security through improved productivity of crops as well as development of livestock and dairy are being supported through: (i) development of new technologies; (ii) more productive use of water through precision land leveling and high efficiency irrigation systems; (iii) promoting production and export of high value crops; (iv) accelerating the move towards high-value activities, such as livestock rearing, dairy production, fisheries, and horticulture; (v) creating necessary infrastructure; and (vi) ensuring availability of agricultural credit.

1.4.5 Pillar IV: Integrated Energy Development Programme

1.4.5.1 Ensuring energy security and energy efficiency will be amongst the government's top priorities in order to tackle the current energy crisis and enable sufficient supply of energy for domestic as well as commercial use. Rapid urbanization in Pakistan has brought tremendous challenges as cities absorb higher populations. Promoting energy efficiency, fuel diversity and interventions that take climate change into consideration transcend the boundaries of energy policy and have a direct impact on the poor. Policies concerning the development and sustenance of transportation, technology, environment, finance,

[4] Prepared by Planning Commission, now transferred to Ministry of Social Welfare, Government of Pakistan, 2008.

competition, and investment have an important role to play.[5] It must be noted, however, that unless the power sector is put on a financially sound footing, sustainable development of the sector will not happen. Pakistan projects annual growth in energy at 7.2 percent by 2010 and 8.8 percent thereafter, whereas, the demand for power is expected to increase by 8.5 percent for the period 2008-10 and 7.7 percent for the period 2010-15.[6] Pakistan's total energy requirements by 2030 will be 361 MTOE (Million Tons Oil Equivalent) compared with 60.4 MTOE in FY 2006/07.[7] The links between sustainable development and energy requires even greater efforts for long term energy security. The government approved the Energy Security Plan (ESP) 2005-15 in February 2005. Salient features of ESP include: increasing exploratory efforts to significantly enhance annual production levels of gas and oil; diversifying the energy mix by expanding the share of coal, nuclear and renewable energy (such as wind and solar); and promoting energy conservation and demand management measures.

1.4.6 **Pillar V: Making Industry Internationally Competitive**

1.4.6.1 The government realizes the need to improve the general business environment to provide a conducive platform for efficient economic activity. Largely as a result of the inward-looking trade policies that Pakistan followed until the 1990s, the country's share of world trade remained less than 1 percent. The progressive liberalization of world trade and the country's shift to a more outward-looking trade strategy has created opportunities for Pakistan to become integrated into the global trading system and to fully exploit its comparative advantages. Pakistan will have to upgrade its technological capacity and increase the focus on skills development. Studies by international agencies have found that policy changes since 2000 have improved the business climate in several respects but many business-unfriendly legacies remain. Key policy related areas will include raising investment levels; attraction of Foreign Direct Investment (FDI); and encouraging private sector involvement in all spheres of the economy coupled with improvement in education and health sectors to create a skilled and healthy labour force. This will ultimately lead to improvements in the business environment through increasing competition, firm level productivity and expansion and diversification of exports.

1.4.7 **Pillar VI: Human Development for the 21st Century**

1.4.7.1 The overarching philosophy informing the government's growth strategy is that the country's productive structure must be responsive to the market, which is the most effective means of ensuring that the country is able to meet fierce international competition to which it will increasingly be exposed. Pakistan must seek to employ its entire labour force, both male and female as income generation from employment constitutes the most effective weapon in tackling poverty. Labour market dynamics reflect that with no major change over the years in the overall labour force participation rate, it has grown rapidly because of large cohorts of new entrants joining the market. The gender gap of more than 50

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[5] ADB & DFID, Energy Efficiency and Climate Change Considerations for On-road Transportation in Asia, (Philippines, 2006).
[6] Ministry of Water and Power, Power Wing, Government of Pakistan, Islamabad, 2008.
[7] Ministry of Petroleum and Natural Resources, Government of Pakistan, Islamabad, 2008.

percentage points in the labour force participation rate in Pakistan is much higher than the average gap of 35 percentage points in South Asia. In this context, it will be important to ensure gender equality in accessing social service and labour markets since neglecting provision of equal access to women would forego the potential contribution of half of its human resources.

1.4.7.2 The demographic transition, commonly referred to as the 'demographic dividend', results in a smaller population at young dependent ages and relatively more people in the adult age groups, who comprise the productive labour force. The period of the dividend is not infinite but will come to an end as the working-age population grows older ultimately expanding the number of dependants. Moreover, the dividend will not be repeated. However, the event is a unique opportunity, which can, however, easily turn into a 'demographic liability' if appropriate policy measures are not taken to fully utilize the expanding labour force. This will depend crucially upon putting in place market-driven policies (including open trade policies and incentives to generate capital formation and higher savings) that will expand the number of meaningful jobs and increase economic efficiency to produce more and also provide the wherewithal to care for the elderly as the population inevitably ages.

1.4.7.3 The government has, therefore, adopted human resource development as a priority area. In this light, the country's Poverty Reduction Strategy envisages massive investment in strengthening its human resource base to produce a skilled and competent workforce that can respond to the increasing demands of a steadily growing economy. To achieve these outcomes, the National Education Policy emphasizes the need for educational reforms addressing financing for the sector, which despite increasing, falls short of the requirements. Significant reforms include: strengthening the planning and implementation capacity of the government improved utilization of resources by educational institutions; improving governance for greater accountability of education service providers to the community; capacity building of district and local level institutions; and strengthening the role of communities through school committees. The health strategy has been constructed on the key principles of equity, universal access to essential health care, timeliness, results, accountability, strong leadership and strategic coordination of the overall effort. The Strategy envisages addressing special needs of the vulnerable population, especially women and children particularly in the rural areas of Pakistan. Simultaneously, the programme under the umbrella of Population Policy 2002 is striving hard to achieve universal access to safe family planning methods by 2010. The Policy also aims to achieve population stabilization by 2020 with the aim to reduce population growth rate from 1.9 to 1.3 percent per annum.

1.4.8 **Pillar VII: Removing Infrastructure Bottlenecks through Public-Private Partnerships**

1.4.8.1 The government's vision for economic growth and poverty reduction sets ambitious targets, which will require massive investment in quality and affordable infrastructure (roads and highways, dams, energy, transport) to sustain high rates of private sector led growth, enhance economic competitiveness and optimize Pakistan's locational advantage.

This will be a primary objective during the PRSP-II period and beyond. The magnitude of the investment is such that this will only partially be funded from the Budget. The large part of financing will be leveraged through Public Private Partnerships. The government, with the assistance of mainly the World Bank and the Asian Development Bank (ADB), launched a major strategic initiative in 2005 to improve the trade and transport logistics chain along the north-south corridor linking Pakistan's major ports with its main industrial centres and neighbouring countries. With a disbursement of US $6 billion envisaged over the MTDF period (2005-2010), the major focus areas of the 'National Trade Corridor Initiative Project' (NTCIP) include: (i) Ports & Shipping (ii) Trade Facilitation (iii) Highways Modernization (iv) Trucking Modernization (v) Railways Restructuring and Modernization (vi) Energy Logistics; and (vii) Aviation and Air Transport Modernization.

1.4.8.2 The Housing sector is recognized as a hugely productive economic activity. This sector contributes to inter-sectoral linkages which specify development in the construction industry. Huge employment potential in construction and housing industry provides a rationale for the government to establish it as one of the key policy sectors in the PRSP-II. Affordable housing for low-income groups also contributes to poverty alleviation, income redistribution and promotes individual productivity and household savings. The strategy for Housing aspires institutional strengthening in support of the development of a commercially based system of housing finance for land and house purchase; upgrading existing towns and cities with better city planning through improvement of infrastructure; creation of employment opportunities; and affordable housing under a phased programme for the low-income population through community participation and squatter-settlement regulation.

1.4.9 Pillar VIII: Capital and Finance for Development

1.4.9.1 Financial institutions allocate resources to the most efficient utilization ensuing rapid accumulation of physical and human capital and technological progress, which in turn leads to higher economic growth - a prerequisite for poverty alleviation. Financial sector development has helped meet growing financing requirements of productive sectors, while generating consumption demand. Key financial sector strategies include: focus on development finance to serve the underserved markets; introduction of new products while increasing the geographical spread of existing ones; further strengthening of the supervisory regime & strengthening risk management; managing volatility and encouraging greater depth and breadth in equity markets; and expansion of the financial sector through SME financing, Islamic banking and microfinance.

1.4.10 Pillar IX: Governance for a Just and Fair System

1.4.10.1 Governance is the manner in which public institutions and officials acquire and exercise authority to shape public policy and provide public goods and services. It is a critical pillar of Pakistan's Poverty Reduction Strategy, because it is the poor that especially suffer from lack of security, empowerment, and opportunities. In this connection, devolution reforms were designed to move from a system managed by bureaucracy to a system where decisions are made through a political hierarchy. This has put political representatives incharge of service delivery at local levels. The functioning of local governments has been kept under review and studies indicate that three broad issues must be addressed: (a) resources of local governments are poorly aligned with their responsibilities; (b) power regarding personnel matters remains fragmented; and (c) respective roles of the provincial and local governments in development matters must be further clarified. The efficient working of Provincial Finance Commissions, Local Government Commissions, Offices of the *Zila Mohtasib,*[8] *Zila Mushawarat*[9] Committees, Accounts Committees, and Monitoring Committees is an important pre-requisite for strengthening the decentralization process. The Federal Government has also constituted a Committee to examine the Local Government Ordinance in view of the performance of this system.

1.4.10.2 According to the Global Competitiveness Report prepared by the World Economic Forum, 2008, consistent military coups, political instability, corruption, volatile law and order situation, and inadequate infrastructure also have an adverse impact on Pakistan's business environment. The report also identifies crime and theft, tax and foreign currency regulations, inadequately trained workforce and poor public health as having adverse impacts on the global economic standing of Pakistan.

1.4.10.3 The Poverty Reduction Strategy recognizes the importance of strengthening institutions. To this end, police reforms were introduced to protect the rights of citizens especially of the poor and the vulnerable. The promulgation of Police Order, 2002 was a major step towards transforming police into a professionally competent, politically neutral, non-authoritarian, and publicly accountable organization. In cooperation with international agencies, the government commenced a review of the legal system under the "Access to Justice Programme" in 2002. Taking into consideration the useful findings of this extensive reform project, the objective of legal reforms will continue to include cutting down the caseload of judges, lessening the time spent on deciding each case (particularly in the commercial judicial system), and reducing the costs of accessing justice. Institutions that have received greater government attention over the years with a view to reform include the system of taxation; regulations to facilitate fair and competitive business behaviour; fiscal decentralization for transfer of funds; and transfer procedures with a view to making them simpler and transparent. Further improvement will continue in on-going, as well as, new initiatives.

1.4.10.4 Closely allied is further strengthening of the tax administration, public procurement and public financial management reforms. The implementation of the Medium Term Budgetary Framework is an important development which concentrates on government spending, within the available resources in defined priority areas to achieve national goals and to improve the quality of public spending.

[8] District Ombudsman
[9] District Consultation

1.5 Monitoring and Evaluation (M&E) of PRSP-II

1.5.1 Success in poverty reduction depends on the availability of resources, effective implementation of the strategy, continuous Monitoring & Evaluation (M&E) of its impact and regular feedback to policymakers for appropriate adjustment in policies. The PRSP M&E framework aims to ensure improved capacity to formulate and implement pro-poor policies, efficient and effective spending aimed at poverty reduction and an integrated system, which will enable precise comparison of past achievements with future objectives. The PRSP constitutes a set of input, intermediate and output indicators in seventeen pro-poor sectors formulated through extensive consultations. These indicators have been refined over the years with continued interaction with all stakeholders. To measure the progress of implementation of the PRSP-II an M&E system has been designed, the purpose of which is to put in place a sustainable system to deliver timely and reliable data against a set of well-defined indicators, which feeds into the policy process and engages national and sub-national levels.

1.5.2 A new project 'Strengthening Poverty Reduction Strategy Monitoring', a joint initiative of the Ministry of Finance and UNDP, with a total budget of US $6.487 million covering the period 2008-12 is the right step in this direction. The PRS Monitoring Project has revised the M&E framework identified during the PRSP-I term (2003-06). Being the most current feature of the consultative process, six Technical Working Groups (TWGs) were formed to identify monitorable indicators so as to regularly keep track of the progress of PRSP initiatives well beyond the PRSP-II timeframe. It includes focus group discussions on six key areas of PRSP-II, including health, education, labour/employment, environment/water & sanitation, gender and social safety programmes from August, 2008 onwards to enhance monitorable indicators from the relevant policy-makers.

1.6 Medium Term Expenditure Framework (MTEF) of PRSP-II

1.6.1 Given the significant resources required for its funding, the government will prioritize the Poverty Reduction Strategy through the Medium Term Expenditure Framework (MTEF), which provides the 'linking framework' that allows projected expenditures to be driven by policy priorities reflected in the pillars laid out above and disciplined by budget realities. Still a rather recent phenomenon, conceptually the MTEF can be an ideal tool for translating PRSPs into public expenditure programmes within a coherent multi-year macroeconomic and fiscal framework. This expenditure framework will adhere to the Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005 and will list projections in the shape of seventeen medium term budgetary pro-poor expenditures, initiated in PRSP-I (2003) and refined for PRSP-II. These cover: **Market access and community services:** (i) roads, highways and buildings; (ii) water supply and sanitation; **Human development:** (iii) education; (iv) health; (v) population planning; (vi) natural calamities, **Rural development:** (vii) agriculture; (viii) land reclamation; (ix) rural development; (x) rural electrification (People's Works Programme-II); **Safety nets:** (xi) subsidies; (xii) social security and welfare including Benazir Income Support Programme; (xiii) food support programme including Pakistan Bait-ul-Mal and Punjab Food Support Scheme; (xiv) Peoples' Works Programme; (xv) low cost housing; **Governance:** (xvi) administration of justice; and (xvii) law and order. Non-budgetary PRSP expenditures include: Zakat, Pakistan Bait-ul-Mal, Employees' Old Age Benefit Initiative (EOBI) and micro-credit disbursement. During FY 2007/08, budgetary expenditure on pro-poor sectors amounted to Rs 573 billion, representing 5.46 percent of the GDP.

1.7 **Costing**

1.7.1 The costing framework of PRSP-II has largely been based on the Millennium Development Goals (MDGs) Costing Report, resulting from the findings of a study jointly undertaken by Ministry of Finance and UNDP (2007). The MDG costing exercise in Pakistan went through an intensive process of training on costing techniques, which was provided during December 2005. Three social sectors, education, health and water and sanitation were selected to project the cost of achieving the proposed goals. The United Nations MDGs, agreed at the Millennium Summit held in New York in September 2000, are linked to Pakistan's MTEF, while the key focus of PRSP-II is also intertwined with the achievement of MDGs.

1.8 Pakistan is a rich country in terms of both natural and human resources. However, it is unfortunate that the country continues to find itself as a borderline case in terms of human development as well as economic growth indicators: Over one half of the population is unemployed and a little less than half of it remains illiterate. Clearly, Pakistan has not fully exploited its potential. In the light of this scenario, the PRSP-II will pick up from where PRSP-I left to ensure that clear cut priorities and pro-poor sectoral programmes are in place that will provide the government an appropriate strategic framework to effectively reduce poverty. The PRSP-II attempts to bring related challenges and opportunities together within an integrated and holistic strategy to achieve the vision of a prosperous and poverty free Pakistan.

Chapter 2 - Outcomes of the PRSP-I

2.1 The Poverty Reduction Strategy Paper-I provided a broad policy framework outlining the road map for accelerating economic growth and poverty reduction in Pakistan. The strategy was woven around four pillars, including (i) accelerating economic growth while maintaining macroeconomic stability; (ii) improving governance; (iii) investing in human capital; and (iv) targeting the poor and vulnerable. The Strategy launched a multifaceted attack on poverty that combined macroeconomic stabilization, reduction in debt burden, fundamental structural reforms and improved governance.

2.2 An exhaustive review of the outcomes of the PRSP-I specifically in sectors intrinsically linked with poverty reduction is presented below in order to highlight the economic and social sector policies behind improved outcomes on the one hand and to build the PRSP-II around the lessons learnt from implementation of PRSP-I, on the other.

2.3 The chapter is divided into two parts where first portion presents evidence on improvements in the economic environment of the country during PRSP-I period and the progress made in achieving social sector outcomes. The second part contains lessons distilled from consultations with various stakeholders including line ministries, provincial departments, international development partners, civil society, and incorporates an assessment of the perceptions of common people collected during a series of workshops in the community about issues of social sector service delivery and economic well-being.

Section - I

2.4 Macroeconomic Outcomes

2.4.1 The broad macroeconomic framework formulated under PRSP-I put Pakistan on a high growth trajectory. A comprehensive reforms agenda revamped considerable parts of the financial sector; capital market, reform of the tax administration; fiscal transparency; reforms in the privatization programme; governance reforms particularly with respect to devolution and capacity building; and agricultural reforms mainly with regard to agriculture pricing, movement of commodities and introducing private sector in wheat operations. Most importantly, the Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005 passed unanimously by both houses of the Parliament increased the transparency of fiscal operations and injected firmer discipline into the government's borrowing and debt strategies.

2.4.2 These reforms led to improved economic indicators, moving real GDP growth from 3.1 percent in FY 2001/02 to 9.0 percent in FY 2004/05 surpassing PRSP targets for the said years and maintaining a striking average growth rate of 7.0 percent over the five years period (2004-07). Table 2.1 shows the performance of key economic indicators against the figures as projected in PRSP-I. The performance remained on track in almost all sectors and exceeded targets for growth in GDP in the Manufacturing and Services sectors; and investment, etc till FY 2006/07. This growth momentum, however, witnessed disturbances in FY 2007/08 due to several reasons including a judicial crisis, productivity shocks, in addition to external factors such as the War on Terror and rising oil, food and other commodity prices. However, the GDP still registered a robust growth of 5.8 percent in FY 2007/08 as against 6.8 percent in the previous year. A point of concern though was the rate of inflation which has remained higher than projected since FY 2004/05.

2.4.3 An overall sustained macroeconomic environment led to improvements in the living standards of the people in Pakistan during the PRSP-I period which shows a steady progress in outcome indicators for sectors like education, health, access to drinking water, housing and labour markets. As a result, the crucial figure of the Poverty Headcount in Pakistan fell from 34.46 percent of the population in FY 2000/01 to 23.9 percent in FY 2004/05. This decline was in marked contrast to the rapid increase during the 1990s until the turn of the century. Table 2.1 elaborates this sharp fall.

Table 2.1: Performance of key economic indicators

Items	**FY 2003/04**		**FY 2004/05**		**FY 2005/06**		**FY 2006/07**		**FY 2007/08**	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
Agriculture	4	2.4	4.3	6.5	4.4	6.3	4.5	3.7	4.5	1.5
Manufacturing	7.8	14.0	7.6	15.5	7.6	8.7	7.6	8.2	7.6	5.4
Large Scale Manufacturing	8.8	18.1	8.5	19.9	8.5	8.3	8.5	8.6	8.8	4.8
Small Scale Manufacturing	5.3	-20.0	5.3	7.5	5.3	8.7	5.3	8.1	5.3	7.5
Services	5.0	5.8	5.8	8.5	6.1	6.5	6.2	7.6	6.3	8.2
Real GDP Growth	5.3	7.5	5.8	9.0	6.0	5.8	6.2	6.8	6.3	5.8
Inflation (GDP Deflator)	4.0	7.7	4.0	7.0	4.0	10.5	4.0	7.8	4.0	13.4
GDP current (mp) Rs billion	4,420	5,640	4,875	6,499	5,397	7,623	5,991	8,723	6,668	10,478
As % of GDP										
Investment	16.5	16.6	17.0	19.1	17.5	22.1	18.0	22.9	18.5	21.6
- Fixed Investment	14.5	15.0	15.5	17.5	16.0	20.5	16.5	21.3	17.0	20.0
- Public Investment	5.5	4.0	6.0	4.3	6.3	4.8	6.5	5.7	6.7	5.7
- Private Investment	9.0	10.9	9.5	13.1	9.7	15.7	10.0	15.6	10.3	14.2
National Savings	20.0	17.9	19.5	17.5	19.0	18.2	18.5	17.8	18.0	13.9
Foreign Savings (incl. Official Transfers)	3.5	-1.3	2.5	1.6	1.5	4.5	0.5	5.1	-0.5	7.6
Memo Items										
ICOR	2.7		2.7		2.7		2.7		2.7	

Source: Economic Survey of Pakistan, FY 2007/08, Finance Division, Government of Pakistan.

2.4.4 The decline occurred in both rural and urban areas of the country. Rural poverty dropped faster than urban (although it still remained proportionately higher) thus narrowing the difference between the two. The Planning Commission's computation of the poverty line takes into account both food and non-food expenditures, such as health, education, housing, transport, and recreation, amongst others. The results of the Pakistan Social and Living Standards Measurement (PSLM) Survey[10] FY 2004/05 show that between FY 2001/02 and FY 2004/05, household and per capita expenditures increased in real terms by 15 and 19 percent respectively. The increase in consumption expenditure by rich households was relatively higher than among the poor but the poorest households (lowest 40 percent) also increased their consumption expenditures significantly.

Table 2.2: Decline in the poverty headcount FY 2000/01–2004/05 (percent)

Region	FY 2000/01	FY 2004/05	Difference
Overall	34.5	23.9	10.6
Urban	22.7	14.9	7.8
Rural	39.3	28.1	11.2

Source: Planning Commission, Government of Pakistan.

2.5 Social Sector Outcomes

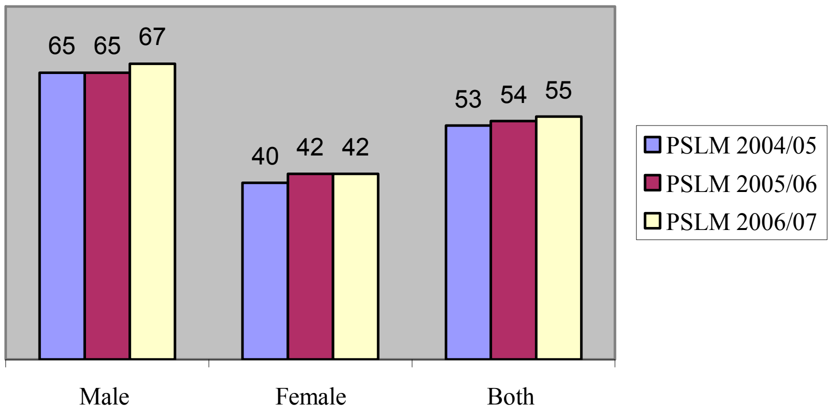
2.5.1 The PSLM Survey enables an in-depth assessment of the performance of the social sectors for the PRSP-I since its inception. Sector wise analysis of outcomes and intermediate variables is presented below. The analysis is limited to the sectors where data for indicators is available without many gaps.

2.5.2 (1) Education

2.5.2.1 **Literacy:** Between FY 2001/02 and FY 2006/07, overall literacy increased from 45 to 55 percent while missing the target of 59.5 percent set in PRSP-I for the same year. As shown in Figure 2.1, Male literacy increased from 65 percent in FY 2004/05 to 67 percent in FY 2006/07, while the corresponding marginal increase in female literacy was from 40 to 42 percent.

[10] The PSLM, a new data series of the Federal Bureau of Statistics (FBS), has two integrated but standalone components. The first is the Core Welfare Indicator Questionnaire (CWIQ) methodology based PSLM, with a large sample of more than 70,000 households, representative at the district level. This component, named hereafter as CWIQ-PSLM, has collected data on a relatively small (selected) number of social sector indicators, covering education, health, water-supply and housing sectors, and also the utilization of basic services. The second component of the PSLM is designed to provide data on household consumption expenditures, commonly used for poverty estimation. It is representative at the national and province levels, and its results are likely to be available at the end of this year. This section has used data from the CWIQ-PSLM component to assess the progress in the social sector, with a special reference to the PRSP and MDG targets. The CWIQ-PSLM results have been compared with the PIHS FY 2001/02. In terms of representativeness as well as definition of different indicators, the PIHS is comparable with the CWIQ-PSLM. However, for employment this section has used the data from the last two labour force surveys carried out in FY 2001/02 and FY 2003/04.

Figure 2.1: Literacy rate (FY 2004/05 – FY 2006/07) (percent)



Source: Pakistan Social and Living Standards Measurement (PSLM) Survey, various editions, Federal Bureau of Statistics, Government of Pakistan.

2.5.2.2 Female literacy rates vary widely between provinces, ranging from a low of 17 percent in Balochistan to 43 percent in Punjab. Moreover, female literacy rate is only improving steadily in Punjab while witnessing fluctuations in the rest of the country as shown in Table 2.3. This encouraging performance by Punjab can be conveniently attributed to enhanced focus on Girl Education and to overall efforts being made by the provincial government under a comprehensive Education Sector Reform Programme.

Table 2.3: Adult literacy rate (aged 15 years and above) (percent)

Regions and Provinces	PSLM FY 2004/05			PSLM FY 2005/06			PSLM FY 2006/05		
	Male	Female	Both	Male	Female	Both	Male	Female	Both
Overall	63	36	50	64	38	51	65	38	52
Punjab	63	40	52	63	42	52	65	43	54
Sindh	68	38	54	67	40	54	66	39	54
NWFP	61	22	40	62	26	43	63	22	42
Balochistan	49	14	33	52	15	35	54	17	37

Source: PSLM Survey, various editions, Federal Bureau of Statistics, Government of Pakistan.

2.5.2.3 **Primary, Middle and Secondary Education:** The two commonly used indicators for measuring changes in primary and middle schooling are the Gross Enrolment Rate (GER)[11] and Net Enrolment Rate (NER).[12] The primary-level GER for children 5-9 years old, excluding *katchi*[13] class, according to the PIHS, was 72 percent in FY 2001/02. Sound

[11] Total enrolment in primary education regardless of age, expressed as a percentage of the eligible official primary school-age population in a given school-year.
[12] Net primary enrolment rate in primary education is the number of children of official primary school age (according to ISCED971) who are enrolled in primary education as a percentage of the total children of the official school age population. Total net primary enrolment rate also includes children of primary school age enrolled in secondary education.
[13] Katchi class is un-admitted class, which is considered as Early Childhood Education.

progress has been made so far in improving both GER and NER and is evident when the comparison is made between 2000-2001 and FY 2006/07 based on PSLM. The PSLM results are encouraging in many aspects. The overall increase in primary school GER is impressive in PRSP period, from 72 percent in FY 2001/02 to 91 percent in FY 2006/07.

2.5.2.4 The second most important indicator for measuring improvements at primary level is NER. The PRSP target was 58 percent for FY 2005/06. A long term target of 100 percent NER by 2015 has been set by the Pakistan MDG Report 2004. Pakistan seems to have made good progress in order to achieve the MDG target as the NER at the primary level (age 5-9) has increased from 42 percent in FY 2001/02 to 56 in FY 2006/07.

2.5.2.5 The PRSP projected target for the middle-level GER of 53 percent in FY 2005/06 was missed by a small margin. The middle-level GER increased from 46 percent in FY 2004/05 to 51 percent in FY 2006/07. The increase for males was 57 percent compared to females at 44 percent. The middle-level NER has remained constant at 18 percent since FY 2004/05. At the matriculation level, the GER was 48 percent in FY 2006/07 registering an increase of 4 percent from FY 2005/06. Provincial disaggregated analysis of GER and NER for Primary and Middle schooling is given in Annex I.

2.5.2.6 **Gender Disparities in Education:** Gender disparity in education is a major challenge. The disparity increased to 28 percent by FY 1998/99, as literacy among males grew much faster than among females. Since then, however, the gap has begun to shrink, albeit very slowly. The only available data on gender disparity[14] is for FY 2004/05 based on PSLM survey.

2.5.2.7 There has also been good progress in closing the gender gap in urban enrolments at primary, middle and secondary levels. The data regarding gender disparities is only available from PSLM FY 2004/05 and shows an overall decline in the gender gap in the GER at the primary level, from 22 percent in FY 2001/02 to 17 percent in FY 2004/05. This decline resulted from the relatively greater increase in the female GER compared to the male GER between FY 2001/02 and FY 2004/05.

2.5.2.8 The gender gap[15] in NER at the primary level remained unchanged at the country level between FY 2001/02 and FY 2004/05. The gender gap in GER at the primary level declined during the same period (as discussed above) implying thereby that the number of overage children attending primary school is quite substantial. The gender gap in the NER at the primary level is low in urban areas. However, it remained unchanged between FY 2001/02 and FY 2004/05. Provincial disaggregated analysis of gender gap is given in Annex I.

[14] Since PSLM FY 2005/06 & FY 2006/07 does not contain the data on Gender Gap in GER. Also, the data on Gender Gap in Literacy is not available in PSLM FY 2005/06 and FY 2006/07 therefore it is not being reported.

[15] This section has been taken from PRSP Annual Progress Report FY 2004/05, since PSLM FY 2005/06 & FY 2006/07 does not contain the data on Gender Gap in NER. Also, the data on Gender Gap in Literacy is not available in PSLM FY 2005/06 and FY 2006/07 therefore, it is not being reported.

2.5.2.9 **Increasing Role of the Private Sector in Primary Education:** The role of the private sector in primary education has increased overtime. Of the total primary level GER of 87 percent in FY 2005/06, the government school GER was 57 percent and private school GER 30 percent. The government school GER increased by 15 percent between FY 2001/02 and FY 2005/06 period while the private school GER increased by 33 percent during this period. It suggested, on the one hand, that new enrolment has taken place in both public and private schools. On the other hand, the relatively higher increase in private school GER suggested some shifting of children from public to private schools. However the PSLM shows that the coverage of the public school system increased to 69 percent in FY 2006/07 compared to 65 percent in FY 2005/06 but witnessed an overall decline from 72 percent in FY 2004/05 to 69 percent in FY 2006/07.

2.5.2.10 In urban areas almost half of the total primary enrolment was currently in private schools. However, in rural areas, private school enrolment, as a share of total primary enrolment, increased from 18 percent in FY 2004/05 to 20 percent in FY 2006/07, suggesting that in rural area, where the majority of the poor live, public schools remain the main source for primary education and thus need special focus regarding improving access and quality. This seems true for all provinces, although in rural Punjab 24 percent of the enrolled children were in private schools.

Table 2.4: Primary enrolment in government schools as percentage of total primary enrolment

Region and Province	**FY 2004/05 PSLM**			**FY 2005/06 PSLM**			**FY 2006/07 PSLM**		
	Male	Female	Both	Male	Female	Both	Male	Female	Both
A. Excluding *Katchi* Class:									
Urban Areas:	**52**	**53**	**52**	**42**	**45**	**43**	**45**	**48**	**47**
Punjab	44	47	46	36	40	38	40	44	42
Sindh	57	57	57	46	45	46	46	50	48
NWFP	61	64	63	50	61	55	60	63	48
Balochistan	84	84	84	76	81	78	73	78	75
Rural Areas:	**82**	**82**	**82**	**76**	**77**	**76**	**80**	**80**	**80**
Punjab	77	77	77	71	73	72	75	76	76
Sindh	96	96	96	92	88	91	95	95	95
NWFP	82	86	83	69	79	73	78	80	95
Balochistan	97	98	97	94	94	94	93	95	94
Overall:	**73**	**71**	**72**	**65**	**65**	**65**	**69**	**68**	**69**
Punjab	68	68	68	60	62	61	75	76	76
Sindh	76	72	74	71	62	67	95	95	95
NWFP	79	81	80	66	76	70	78	80	79
Balochistan	94	94	94	89	89	89	93	95	94

Source: Pakistan Social and Living Standards Measurment (PSLM) Survey, various editions, Federal Bureau of Statistics, Government of Pakistan.

2.5.2.11 **Intermediate Indicators for Education:** Education intermediate indicators include functional public schools, basic facilities in public schools, posts filled against sanctioned strength in public schools and percentage of trained teachers in these schools. Regarding the number of functional public schools, their total number declined from 146,316 in FY

2001/02 to 144,558 in FY 2006/07 (Table 2.5). At provincial levels, it is encouraging to see an overall increase of 4 percent in the number of functional schools during the period in Balochistan and similar trends in NWFP as these are the provinces with comparatively lower figures of GER and NER. Data regarding provision of basic facilities and teachers posted against the sanctioned strength is given in Annex I.

Table 2.4: Number of functional public schools FY 2006-07 (percent)

	Year	Primary	Middle	Total
Pakistan	2003/04 (A)	133,952	13,668	147,620
	2004/05 (A)	127,040	14,146	141,186
	2005/06 (A)	129,115	14,522	143,637
	2006/07 (A)	129,803	14,755	144,558
	2007/08 (E)	130,546	15,000	145,546

Source: Pakistan Social and Living Standards Measurement (PSLM) Survey, various editions, Federal Bureau of Statistics, Government of Pakistan.

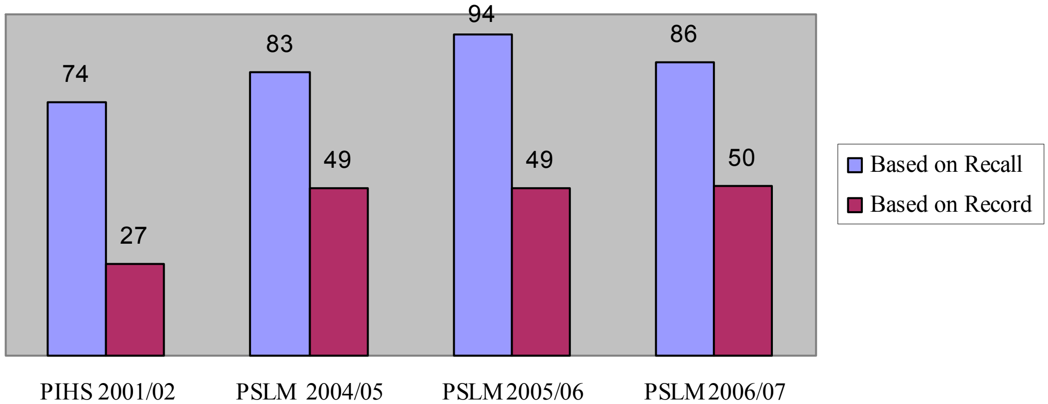
2.5.3 (2) Health

2.5.3.1 The PSLM provides useful information regarding some of ealth sector final outcomes and intermediate indicators on self-reported sickness, use of health services, child immunization coverage, use of Oral Rehydration Salts (ORS) during a diarrhoea episode, pre- and post-natal care and drinking water supply and sanitation. Some of these indicators are discussed in the following sections.

2.5.3.2 Immunization reduces child malnutrition as well as mortality. According to the World Health Organization (WHO) guidelines, a child should receive a BCG[16] vaccination to protect against tuberculosis, three doses of DPT[17] to protect against diphtheria and tetanus, three doses of polio vaccine, and a measles vaccination. The increase (in full immunization) was particularly impressive in rural areas, from 46 percent in FY 2001/02 to 73 percent in FY 2006/07. Under the 'record' method, full immunization rate was low at 50 percent in 2006-07 compared to 76 percent under the 'recall' method. However, there had been an improvement in record-based immunization rate, from only 27 percent in FY 2001/02 to 50 percent in FY 2006/07.

[16] Bacille Callmette- Guerin.
[17] Diphtheria, pertussis and tetanus.

Figure 2.2: Percent of children aged 12-23 months immunized pre and post natal care



Source: Pakistan Social and Living Standards Measurement (PSLM) Survey, various editions, Federal Bureau of Statistics, Government of Pakistan.

2.5.3.3 Quality pre natal care can contribute to the prevention of maternal mortality by detecting and managing potential complications and risk factors, including pre-eclampsia, anemia and sexually transmitted diseases. Pre natal care also provides opportunities for women to learn the danger signs of pregnancy and delivery, to be immunized against tetanus, to learn about infant care, and be treated for existing conditions such as malaria and anemia.

2.5.3.4 High maternal mortality in Pakistan can be reduced through quality prenatal care. The PSLM shows that the proportion of married women who had given birth during the last three years and had attended at least one pre-natal consultation increased from 35 percent in FY 2001/02 to 53 percent in FY 2006/07 (Table 2.6). Punjab had the highest attendance rate and Balochistan the lowest.

2.5.3.5 Compared to pre-natal, the post-natal consultation rate was low i.e. 24 percent in FY 2005/06. However, it improved considerably during the PRSP period, rising from only 9 percent in FY 2001/02 to 24 percent in FY 2006/07 with consultation rates higher in urban than rural areas.

Table 2.6: Pregnant women visiting health facility for pre and post natal consultation (percent)

Region and Province	**FY 2001/02 PIHS**			**FY 2004/05 PSLM**			**FY 2005/06 PSLM**			**FY 2006/07 PSLM**		
	Urban	Rural	Overall	Urban	Rural	Overall	Urban	Rural	Overall	Urban	Rural	Overall
Pre natal consultation												
Pakistan	63	26	35	66	40	50	74	42	52	73	45	53
Punjab	64	31	40	67	47	56	73	45	53	71	50	56
Sindh	68	22	38	74	40	55	82	38	56	82	37	56
NWFP	45	19	22	51	35	39	53	42	43	64	43	46
Balochistan	45	16	21	57	27	35	60	30	36	56	25	31

Post natal consultation												
Pakistan	16	6	9	34	16	23	35	17	22	38	18	24
Punjab	15	8	10	32	17	23	31	17	21	33	18	22
Sindh	19	6	10	41	16	27	43	14	26	49	18	31
NWFP	8	4	4	29	17	21	22	21	21	29	20	22
Balochistan	16	5	7	32	10	16	25	9	12	31	14	17

Source: PSLM FY 2006/07, Government of Pakistan.

2.5.3.6 **Utilization of Health Services**: Utilization of health services include information on the use of different types of health services during recent self-reported illnesses, diarrhea episodes among children, and pre and post natal consultations by married women who had given birth during the last three years.

2.5.3.7 The largest proportion (69 percent overall, 74 percent urban areas and 66 percent rural areas) of sick people consulted a private doctor/dispensary/hospital. Around one-fifth of the sick population consulted a public dispensary/hospital in urban as well as rural areas. A very small proportion of the sick population consulted other health providers, such as Rural Health Centre/Basic Health Units, *Hakeem*[18]/herbalist and homeopath. However, in the NWFP a relatively larger proportion of sick people consulted a chemist/pharmacy according to the CWIQ-PSLM[19].

Table 2.7: Percentage distribution of health consultations in past two weeks by type of health provider/consulted during FY 2006/07

Region and Practitioner	Private/ Dispensary/ Hospital	Public Dispensary/ Hospital	RHC/ BHU	Hakeem/ Herbalist	Homeopath	Chemist/ Pharmacy	Saina/ Saini	Other
Urban Areas	**74**	**18**	**1**	**1**	**1**	**4**	**1**	**0**
Punjab	72	18	1	2	1	5	1	0
Sindh	82	14	1	1	1	0	0	0
NWFP	51	34	1	1	1	11	1	0
Balochistan	60	37	1	0	1	1	0	0
Rural Areas	**66**	**18**	**3**	**4**	**1**	**6**	**2**	**0**
Punjab	71	15	2	5	1	4	2	0
Sindh	72	21	5	1	0	0	1	0
NWFP	50	21	4	3	1	21	1	0
Balochistan	38	39	11	3	0	2	7	0
Pakistan	**69**	**18**	**2**	**3**	**1**	**5**	**1**	**0**
Punjab	71	16	2	4	1	4	1	0
Sindh	78	17	2	1	0	0	1	0
NWFP	50	23	3	2	1	19	1	0
Balochistan	44	39	8	2	0	2	5	0

Source: PSLM FY 2006/07, FBS, GoP.

[18] Traditional herbal practitioner.
[19] Core Welfare Indicators Questionnaire, Federal Bureau of Statistics, Government of Pakistan.

2.5.3.8 In case of diarrhea among children, it is encouraging to see a considerable increase in the use of ORS, an effective way of preventing dehydration. The use of ORS increased to 76 percent in FY 2006/07 as compared to 71 percent in FY 2005/06. The increase in use of ORS was greater in rural areas (75 percent in FY 2006/07 as compared to 68 percent in FY 2005/06) than in urban areas (79 percent in the same time period). No gender differential was found. More than two-thirds of children suffering from diarrhea consulted private doctors/hospitals. The use of public dispensaries/hospitals for diarrhea treatment declined between FY 2001/02 and FY 2006/07 to 13 from 59 percent (Table 2.8) and a persistent increase in use of Private dispensaries and hospitals was witnessed during the respective time span. Only a small proportion of respondents reported the use of RHC/BHU, LHW, LHV/Nurse, chemist or hakeem/homeopath/herbalist for diarrhea treatment. This data provides basis for concrete policy actions by the government to increase the service delivery in rural areas and more specifically in geographically poorer areas as prices are higher in private sector and leads to increase in incidence of poverty.

Table 2.8: Type of practitioner consulted for diarrhea treatment (percent of cases)

	Percentage of Diarrhea Cases				
Region and Practitioner	**1998-99 PIHS**	**2001-02 PIHS**	**2004-05 PSLM**	**2005-06 PSLM**	**2006-07 PSLM**
Private Dispensary/Hospital	54	59	68	65	72
Govt Hospital/Dispensary	24	21	15	19	13
RHC/BHC	3	3	5	4	6
LHW	0	1	1	0	1
LHV/Nurse	-	-	0	0	0
Chemist/Pharmacy	9	10	6	8	5
Hakeem /Homeopathic/Herbalist	6	4	3	3	2
Other	3	2	1	1	1

Source: PSLM FY 2006/07, Government of Pakistan.

2.5.3.9 The proportion of married women who attended at least one pre and post-natal consultation has been reported earlier. The three most commonly consulted sources for pre-natal care were private hospital/clinic, government hospital/clinic and home-trained birth attendants (TBA) (Table 2.9). However, there seems to be either a data reporting problem or a serious concern regarding health services delivery in the public sector. The PIHS data for FY 1998/99 and FY 2001/02 show that around 40 percent of women attended some government facilities such as hospitals, clinic, RHC or BHU for pre-natal consultation. The CWIQ-PSLM shows a decline of 25 percent in FY 2006/07. It is hard to explain this reduction in pre-natal consultation from public hospitals, clinics, and RHCs. As in the case of pre-natal care, the three most commonly cited sources of post-natal care in both rural and urban areas were private hospitals/clinic, government hospitals/clinics, and home TBA.

Table 2.9: Health facilities used for pre natal consultation (percent)

Person/ Facility Consulted	2001-02 PIHS			2004-05 PSLM			2005-06 PSLM			2006-07 PSLM		
	Urban	Rural	Both	Urban	Rural	Both	Urban	Rural	Both	Urban	Rural	Both
Home TBA	3	5	4	10	16	13	4	6	5	7	15	12
Home LHW	1	4	3	5	10	7	2	4	3	3	9	7
Home LHV	1	4	3	4	7	6	2	3	3	3	6	5
Home Doctor	1	1	1	6	4	5	1	1	1	4	3	3
Govt Hospital /RHC/ BHC/BHU	41	42	42	25	25	25	34	39	37	25	25	25
Private Hospital/Clinic	49	37	43	49	34	42	55	43	48	57	40	47
Other	2	7	5	1	4	2	2	3	3	1	2	1
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: PSLM FY 2006/07, Government of Pakistan.

2.5.4 (3) Drinking Water and Sanitation

2.5.4.1 **Sources of Drinking Water and Sanitation:** Access to safe drinking water, an indicator of the PRSP and MDGs, is at the top of the government's policy agenda. The PRSP-I clean drinking water target was not achieved. The PRSP definition of the sources of safe drinking water includes tap water, hand pumps, and motor pumps inside or outside the house. Hand pumps[20] and motor pumps[21] together provided 56 percent of households with drinking water in FY 2005/06, which decreased to 51 percent in FY 2006/07, whereas the percentage of households using tap water[22] has shown a slight increase. However, this change appears to be mainly a change in convenience since there seems to be a substitution from hand pumps and motor pumps. Moreover, the percentage of households depending on lower water sources i.e. dug from wells, etc. is either increased or slightly decreased.

2.5.4.2 Tap water has increased from 34 percent in FY 2005/06 to 36 percent in FY 2006/07. Sindh has highest value of this indicator at 47 percent followed by NWFP at 44 percent, Balochistan at 37 percent, and Punjab at 29 percent in FY 2006/07. In FY 2000/01, 44 percent of households had access to hand pumps in Pakistan, which declined to 30 percent in FY 2006/07, probably due to tap water availability to households. In FY 2000/01, 17 percent of households had access to motor pumps, which increased to 21 percent in FY 2006/07 (Table 2.10).

[20] Hand pump includes hand pumps both inside and outside house.
[21] Motor pump includes motor pump and tube well inside and outside the house.
[22] Tap water consists of both tap water inside and outside house.

Table 2.10: Main sources of drinking water in Pakistan (percent)

Water sources	FY 2001/02 PIHS			FY 2004/05 PSLM			FY 2005/06 PSLM			FY 2006/07 PSLM		
	Urban	Rural	Overall	Urban	Rural	Overall	Urban	Rural	Overall	Urban	Rural	Overall
Tap water	58	10	25	60	23	39	59	21	34	62	22	36
Hand pump	14	56	44	13	39	27	12	42	32	9	41	30
Motor pump	22	14	17	22	14	18	25	23	24	24	20	21
Dug well	2	10	7	2	9	6	2	7	5	1	6	4
Other	3	10	7	3	16	10	3	8	6	4	10	8
Total**	100	100	100	100	100	100	100	100	100	100	100	100

Source: PSLM 2006/07, Pakistan Millennium Development Goals Report 2004 and Accelerating Economic Growth and Reducing Poverty: The Road Ahead, Poverty Reduction Strategy Paper, 2003.

Note: Percentage of population with access to piped water, MDG baseline year FY 1990/91: 53 percent
Percentage of population with access to clean drinking water, PRSP baseline year FY 2001/02; urban: 95 percent, rural: 80 percent, overall: 86 percent
Percentage of population with access to clean drinking water, PRSP target FY 2005/06, urban: 97 percent, rural: 84 percent and overall: 90 percent
Percentage of population with access to piped water, MDG target 2015; 93 percent
*Sum of tap water, hand pump and motor pump
** Totals may not add to 100 because of rounding

2.5.4.3 The overall proportion of households with a flush toilet[23] facility increased by 14 percentage points to 58 percent in FY 2006/07 compared to FY 2001/02. The use of flush toilets was 92 percent for the urban households, Punjab with 93 percent – the highest; and Balochistan with 78 percent – the lowest. About 15 percent of households in FY 2006/07 had non-flush toilet and 27 percent do not have any toilet. This varies greatly between urban and rural areas i.e. 4 percent of urban households have no toilet compared to 39 percent of rural households. Proportion of households with a flush toilet in FY 2006/07 in Punjab, Sindh, NWFP and Balochistan stood at 64, 55, 52 and 25 percent, respectively. Rural Punjab had the highest proportion of households reporting no toilet at all i.e. at 44 percent while rural Sindh had the lowest, at 27 percent.

2.5.5 (4) Housing

2.5.5.1 Adequate housing is a key determinant of human welfare. According to the PSLM FY 2004/05 nearly 87 percent households in Pakistan owned a dwelling in the survey year. There were 86 percent households in Pakistan who own a dwelling in FY 2006/07 (87 percent in FY 2005/06), while 7 percent of households had rented dwelling units and about 6.12 percent had rented free houses but a small number of 0.96 percent households were on subsidized housing units.

2.5.5.2 Congestion in housing is another important indicator of poverty. In Pakistan, the PSLM FY 2004/05 indicates that about 24 percent of households had one room while 69 percent had 2-4 rooms. In rural areas, 27 percent of households lived in one room, compared with 20

[23] *Flush* refers to flush connected to public sewerage; flush connected to septic tank; and flush connected to open drain.

percent in urban areas. According to the PSLM survey-CWIQ, there were 24.33 percent dwelling units with one room and 69 percent with 2-4 rooms during FY 2006/07. The Survey indicates that 6.62 percent of households had five and more living rooms in their dwelling units. In rural areas the proportion of dwellings with one room (27 percent) were greater than in urban areas (19.5 percent).

2.5.5.3 Electricity has become a necessity of life. In Pakistan in FY 2006/07 there were 86.6 percent households who used electricity for lighting. At the provincial level, NWFP province had the highest proportion of households (91 percent) and Balochistan has the lowest (65 percent) which use electricity for lighting. In urban areas 97 while, in rural areas 81 percent households used electricity for lighting while the remaining households used gas/oil or candle for lighting.

Table 2.11: Distribution of household by type of housing and electricity use (percent)

Region and Province	Owned Households	RCC/RBC Used for Roof	Housing Units with One Room	Percentage Households Using Electricity for Lighting
Urban Areas	**75.67**	**60.77**	**19.47**	**97.58**
Punjab	76.71	57.54	21.53	97.84
Sindh	75.49	68.6	17.24	97.05
NWFP	69.14	54.8	16.18	98.31
Balochistan	72.11	39.38	14.35	97.44
Rural Areas	**91.28**	**16.98**	**26.89**	**80.82**
Punjab	91.29	18.65	25.17	86.36
Sindh	92.35	12.34	40.82	61.53
NWFP	90.23	20.13	19.07	90.04
Balochistan	90.47	3.61	20.55	55.65
Pakistan	**85.88**	**32.11**	**24.33**	**86.61**
Punjab	86.52	31.36	23.98	90.11
Sindh	83.93	40.44	29.04	79.27
NWFP	86.62	26.07	18.57	91.46
Balochistan	86.18	12.02	19.09	65.47

Source: PSLM FY 2006/07, Government of Pakistan.

2.5.6 (5) Employment

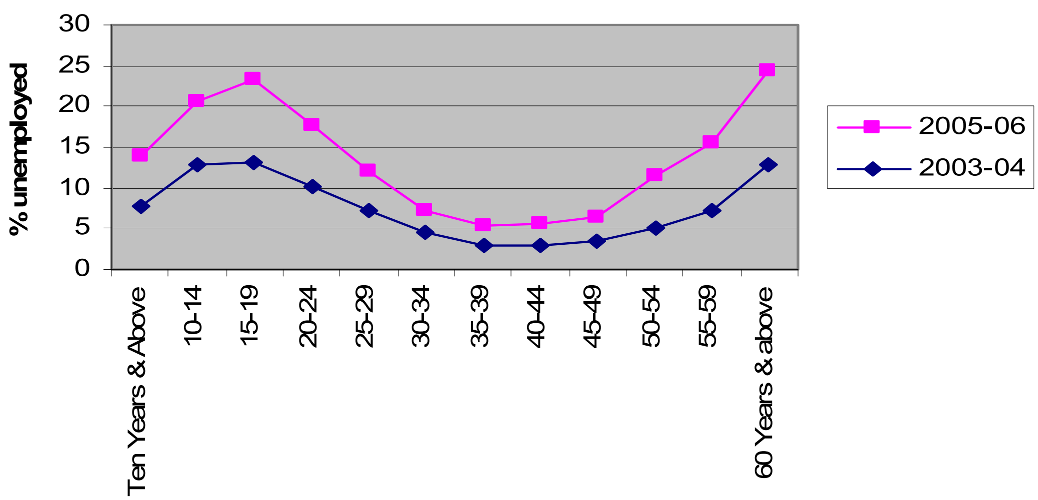
2.5.6.1 **Employed Labour Force:** Employment is central to reducing poverty. For monitoring the labour market, the PRSP tracks two indicators: the 'total employed labour force' and the 'unemployment rate.' Trends in these are discussed as follows:

- The LFS computes the labour force by multiplying crude activity rate by total population. The former increased from 29.6 percent in FY 2001/02 to 30.4 percent in FY 2003/04. During this period the total population of the country increased consequently increasing the total labour force from 43 million in FY 2001/02 to 50.30 million in FY 2006/07. Open unemployment in Pakistan decreased from 8 percent in FY 2001/02 to 7.48 percent in FY 2006/07 while this corresponds to the period when overall poverty decreased.

- The number of employed persons also increased — from 38.88 million in FY 2001/02 to 47.65 million in FY 2006/07 surpassing the PRSP-I target of 42.03 million in FY 2005/06. This increase affected gender, provinces, in both rural and urban areas. Since the economy was able to create more jobs than the increase in the labour force, the volume of unemployed fell from 3.51 million in FY 2001/02 to 2.65 million during FY 2006/07.

2.5.6.2 **Unemployment:** Overall unemployment decreased from 8.3 percent in FY 2001/02 to 5.27 percent in FY 2006/07, mainly because of a steep decline in women unemployment from 13 to 9 percent than men i.e. from 6.6 to 5.4 percent evenly across the areas. Age specific rates for teens to early fifties experienced decline again more for women than men. The rates for later fifties and beyond scaled up, however, due to men exclusively. Among males, this decline was nominal — i.e. from 6.7 to 6.6 percent (Figure 2.3)

Figure 2.3: Percentage of age wise unemployment rate



2.5.6.3 Changes in the unemployment rates varied between rural and urban areas. The female unemployment rate declined in rural (from 10.9 in FY 2003/04 to 7.7 in FY 2005/06) as well as urban areas (from 19.8 in FY 2003/04 to 15.8 in FY 2005/06). The rate for males fell modestly in rural areas, but in urban areas it increased from 8.4 percent in FY 2003/04 to 6.9 percent in FY 2005/06.

2.5.6.4 This decline could be due to two reasons: females were able to get job opportunities or they withdrew from the labour force mainly because of discouragement. But female participation in the labour force increased considerably between FY 2001/02 to FY 2003/04 in rural areas, and there was a modest decline of 0.6 percentage point in urban areas. It thus appears that female unemployment fell primarily because of an expansion in job opportunities. It has been suggested that microfinance facilities, focusing on women in rural areas, may be a major factor helping to reduce female unemployment rate.

2.5.6.5 **Employment in the Informal Sector:** In consonance with often-held contention, informal sector accounts for 73 percent of the employment in main jobs outside agriculture sector. In the same vein, percentage of employed (75 percent) in rural areas was higher than that of urban areas (71 percent). As expected, formal sector activities were more concentrated in urban areas (29 percent) as compared to rural areas (25 percent). Male workers were more numerous relatively in urban while females in rural. The profiles of comparative surveys are analogous which indicates structural rigidities. Informal sector's employment surged from 70 percent in FY 2003/04 to 73 percent in FY 2005/06, across gender and areas.

2.6 Pro-poor Expenditures

2.6.1 Assessing qualitative as well as quantitative aspects of PRSP expenditures is central to the PRSP process; and the government has attached critical importance towards their regular monitoring, analysis and transparency. Since the initiation of I-PRSP in 2001, pro-poor expenditures on 17 sectors have been reported regularly on a quarterly and annual basis. This section gives an overview of the expenditures incurred since FY 2001/02. Table 2.12 presents data on sector-wise PRSP total expenditures in absolute numbers from FY 2001/02 to FY 2007/08.

Table: 2.12 PRSP expenditures (FY 2002-08)

Sectors	Expenditure (Rs million)						
	2001/02	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Roads, Highways & Bridges	6,340	13,145	22,746	35,181	53,248	60,003	84,825
Water Supply and Sanitation	4,644	3,421	5,799	6,538	10,338	16,619	19,817
Education	66,290	78,447	97,697	116,873	141,702	162,084	182,646
Health	19,211	22,368	27,009	31,426	39,203	53,166	61,127
Population Planning	1,331	3,120	4,689	4,578	10,229	7,002	13,322
Social Security & Welfare	3,664	1,301	4,144	2,030	7,575	4,513	18,942
Natural Calamities	189	410	529	922	19,148	5,008	7,728
Irrigation	10,133	15,535	22,506	37,871	59,819	74,771	83,493
Land Reclamation	1,838	1,733	2,016	2,111	2,673	2,348	3,130
Rural Development	12,325	16,883	18,607	15,369	15,040	22,175	23,334
Rural Electrification	0	0	1,422	4,354	1,000	2,499	2,748
Food Subsidies	5,513	10,859	8,513	5,359	6,021	5,455	54,872
Food Support Programme	2,017	2,017	2,804	2,703	3,081	3,458	4,370
Khushal Pakistan Fund *	800	800	590	78	-	20	1,420
Low Cost Housing	0	0	423	318	305	299	597
Justice Administration	1,981	2,196	2,437	3,116	5,642	5,081	7,820
Law and Order**	31,004	36,293	39,370	47,416	1,115	2,088	2,429
Total Budgetary	**167,280**	**208,528**	**261,301**	**316,243**	**376,139®**	**426,680®**	**572,620**

Total Non-budgetary* **	**7,669**	**12,119**	**10,461**	**11,619**	**14,831 ®**	**18,734®**	**27,985**
Total beneficiaries (000) of non-budgetary transfers	1,810	2,078	3,654	3,632	6,390 ®	5,120®	5,563
Total (Budgetary and non-budgetary)	**174,949**	**220,647**	**271,762**	**327,863**	**390,970**	**445,414**	**600,605**
Grand Total: Rs. 2,432 billion (FY 2001-08)							

Source: Ministry of Finance, Government of Pakistan, 2008.
Note: ® Refers to revised figures.
* Expenditure for FY 2001/07 relates to Tawana Pakistan Programme
** Based on actual expenditure for FY 2006/08.
*** Consists of Micro-credit, Zakat, EOBI and Pakistan Bait-ul-Mal (excludes Food Support Programme, which is already reported in budgetary expenditure).

2.6.2 Pro-poor budgetary and non-budgetary expenditures gradually increased from Rs 174,949 million in FY 2001/02 to Rs 600,605 million in FY 2007/08, while pro-poor expenditure as a share of GDP increased sharply from 3.8 percent in FY 2001/02 to 5.46 percent in FY 2007/08 as shown in table 2.13.

Table: 2.13 PRSP current & development expenditures (FY 2002/08)

Year	**PRSP Expenditures (Rs Million)**			**PRSP Expenditures as percent of GDP**		
	Current	Development	Total	Current	Development	Total
2001/02	37,638	129,642	167,280	2.95	0.86	3.8
2002/03	44,208	164,320	208,528	3.41	0.92	4.32
2003/04	78,983	182,318	261,301	3.23	1.43	4.63
2004/05	112,635	203,608	316,243	3.09	1.71	4.81
2005/06*	112,342	263,797	376,139	1.46	3.42	4.88
2006/07*	215,722	210,957	426,680	2.48	2.42	4.90
2007/08*	301,935	270,685	572,620	2.88	2.58	5.46

Source: Civil Accounts provided by Accountant General's Office.
* Based on actual expenditure
Note 1: GDP (mp) for FY 2006/07 and FY 2007/08 in Rs. Million amounts to 8,723,215 and 10,478,194 respectively.
Source for GDP: Economic Adviser's Wing, Finance Division, 2008

Section - II

2.8 Participatory Process in PRSP Formulation

2.9 The Poverty Reduction Strategy Paper (PRSP) approach is a promising way to design poverty reduction strategies that command broader discussions within a country with numerous governmental and non-governmental organizations, and external development partners through a comprehensive consultative process. The PRSP process recognizes the participation of the poor as a critical element in the formulation of a Poverty Reduction Strategy.

2.10 During the formulation process of the second generation Poverty Reduction Strategy, a comprehensive and widely spread round of consultations at federal and provincial levels, and with communities all over Pakistan was held. The objective of the participatory process was to engage parliamentarians, line ministries and departments, development partners, civil society, and above all the poor communities in policy formulation and to build ownership for the reform programme. The aim of the government was to build Poverty Reduction Strategy Paper (PRSP)-II on the outcomes of PRSP-I and understand expectations of the stakeholders. For this purpose, the consultative process was initiated at two levels: consultations at the district, provincial and national levels; and consultations with the communities all over Pakistan, the lessons drawn from which are compiled in subsequent paras as 'Voices of the Poor.'

2.11 A comprehensive process of consultations was initiated in 2005 including research studies, seminars, poverty and social impact analysis (PSIA) 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 development partners including Asian Development Bank, Department for International Development (DFID), INGAD, UNDP, UNFPA, ILO, UNICEF, WHO, JICA, CIDA, USAID, EU, GTZ, NORAD, etc remained actively involved in the PRSP-II process and contributed towards policy design, implementation, and evaluation. DFID helped in carrying out a PSIA in Microfinance sector of Pakistan. The study examined the impact of policy and programmes in the PRSP-I time period and assessed the impact of proposed policy and programmes ex-ante on poverty. As part of the assessment, a Financial Services Survey was also conducted which, investigated the formal and informal financial instruments used by poor households in general, and the impact of microfinance services on beneficiary households in particular. The total number of participants at all consultative workshops are listed in Annex II.

2.12 **Federal Level workshops**

2.12.1 A series of workshops have been held at national and provincial levels for consultations on the PRSP II which are listed below:

- Consultation with Academicians, Researchers and Civil Society (December 12th, 2005)
- Consultation on Globalization, Unemployment, Gender, Inequality in income distribution and Environment (May 5th - 6th , 2006)
- Consultation on Health, Education and Governance (July 24th – 26th , 2006)
- Consultation on MDG Costing at the national level (September 19th, 2006)
- Launch of PRSP-II Draft Summary at the Pakistan Development Forum (April 25th – 27th, 2007)
- National Workshop on 'Competitiveness', 'Infrastructure' and 'Financial Sector Development' (July 17th, 2007)
- Meeting of the Technical Working Group on Health (August 12th, 2008)

- Meeting of the Technical Working Group on Education (August 12th, 2008)
- Meeting of the Technical Working Group on Labour (August 29th, 2008)
- Meeting of the Technical Working Group on Environment/ Clean Drinking Water and Sanitation (September 29th, 2008)
- Meeting of the Technical Working Group on Gender (October 10th, 2008)
- Meeting of the Technical Working Group on Social Safety Nets (October 15th, 2008)

2.13 Provincial Workshops

2.13.1 Following provincial workshops were arranged in the four provinces with the aim to identify vulnerable areas where incidence of poverty is the highest and to conduct urban and rural poverty comparisons:

- Balochistan (July 29th, 2006 – Quetta)
- Sindh (31st July, 2006 - Karachi)
- Punjab (7th August, 2006 - Lahore)
- NWFP (9th August, 2006 - Peshawar)

2.14 Research Studies

2.14.1 Several exclusive studies have been carried out by consultants, covering some of the key areas of the PRSP-II. Keeping in view the crucial linkages between employment generation and poverty reduction, a study on 'Employment Generation Strategy for PRSP II' was carried out. The outcomes of this study strongly emphasized the importance of employment as a crucial factor in attaining economic growth in Pakistan and its role in eradicating poverty. The study also provided a detailed analysis of the tremendous scope of various service sectors (trade, transport, non-farming sectors/meat-processing, floriculture, dairy, fisheries, fruits, etc. housing & construction) to employ a large number of people.

2.14.2 Another study on 'Globalization and its impact on Poverty in Pakistan' suggests key strategic steps necessary for the country to maximize its growth and poverty reduction, in order to fully benefit from globalization.

2.14.3 The study on 'Income Inequalities in Pakistan and a Strategy to Reduce Income Inequalities' undertook an in-depth review of income inequalities in the country. It suggested various measures for a more equitable income distribution for incorporation in the poverty reduction strategy.

2.14.4 A study on 'Reducing the Gender Gap/Engendering PRSP II' was also conducted which highlighted the existence of gender disparities in Pakistan and lists certain key areas identified by PRSP for effective integration of women in the economy. 'Environmental Sustainability' was another study that developed the crucial linkages between environmental sustainability and poverty reduction.

2.14.5 Input from Ministries

2.15.1 To ensure that every government department relevant to the PRSP is fully engaged in the formulation and implementation of the strategy to reduce poverty, all Line Ministries and departments provided their strategic road maps with regard to related policy parametres envisaged for the next three years. Exclusive brainstorming sessions to discuss the medium term policies were held with Ministries of Education, Health, Food Agriculture & Livestock, Commerce, Population Welfare, Petroleum & Natural Resources, etc.

2.16 Technical Working Groups

2.16.1 An effective Monitoring and Evaluation (M&E) framework is the key to the successful implementation of any strategy. Keeping in view the importance of this critical issue Technical Working Groups (TWGs) on Health, Education and Labour/Employment, Gender, Environment, Water & Sanitation and Social Safety Nets have been constituted under Strengthening Poverty Reduction Monitoring Project. The TWGs consist of sector specialists from diverse backgrounds and includes officials from concerned ministries/departments, experts from international development organizations, civil society and academia. As mentioned above, six meetings of TWGs were held which critically analyzed the monitoring indicators conceived during PRSP-I and developed new indicators for the PRSP-II M&E framework. The TWGs also provided input for finalizing the data sources and baseline for PRSP output and outcome indicators. The suggestions synthesized from these technical meetings have been made part of PRSP-II's M&E framework.

2.18 Final Round of Consultations for Finalization of Draft PRSP-II

2.18.1 Embodied in the PRSP framework is the expectation that participation by national stakeholders and international development partners in developing and implementing the poverty reduction strategies will create broad-based ownership. Translating these expectations into operational recommendations the PRSP framework advocates participation of the poor in poverty analysis; prioritization of public actions to be addressed in the Strategy; and monitoring the government's delivery of the commitments made. Recognizing that the participation of various stakeholders in the PRSP process needs to be further bolstered for the strategy to become more effective, a final round of consultations to finalize draft Poverty Reduction Strategy Paper (PRSP)-II was held at three levels in November – December, 2008 including: (a) Consultation with national stakeholders; (b) Consultations with international development partners; and (c) Consultation with Parliamentarians.

2.18.2 **National Workshop for Sharing Draft PRSP-II:** To further deepen the sense of local ownership of the PRSP process, and to institutionalize participation of national stakeholders including government ministries/departments, academia, civil society, youth and beneficiaries at community level, a workshop for sharing the Draft PRSP-II was held on November 14th, 2008 at the National Library Auditorium, Islamabad. The workshop was conducted with the aim that it is vital for the public officials and representatives of civil society, as well as the public in general, to have a greater voice in making and implementing policies like the PRSP, so that the fruits of prosperity are distributed more equitably.

2.18.2.1 The participants were divided into the following three groups based on various pillars of the draft poverty reduction strategy and their sectoral linkages:

Box 2.1: Breakout groups during consultative workshops

Group I	**Pillar II:** Protecting the Poor & the Vulnerable **Pillar VIII:** Capital and Finance for Development **Pillar IX:** Housing and Land Management **Pillar X:** Governance for a Just & Fair System
Group II	**Pillar III:** Increasing Productivity and Value addition In Agriculture **Pillar IV:** Integrated Energy Development Programme **Pillar V:** Making Industry Internationally Competitiveness **Pillar VII:** Removing Infrastructure Bottlenecks (PPPs)
Group III	**Pillar VI:** Human Development for the 21^{st} Century: Education; Health; Access to Clean Drinking Water & Sanitation; Population Programme; and Women Empowerment

2.18.2.2 The participants deliberated on the Draft PRSP-II and analyzed the document from different perspectives. The officials from line ministries, provincial departments, civil society, and academia examined the text in view of their previously contributed input regarding sectoral policies, proposed interventions and targets given for the PRSP-II period. They also verified the data and sources given in the document for effective monitoring and evaluation of the PRSP's output and outcome indicators. The participants also scrutinized the document with a view to identify missing interventions, errors and omissions. Their recommendations and submissions were carefully recorded and at the end of the day were presented in the plenary session of the workshop.

2.18.3 **Consultative Workshop to Share Poverty Reduction Strategy Paper (PRSP-II) with the International Development Partners**: The global consensus on the importance of the Millennium Development Goals (MDGs) brings the discussion of poverty reduction strategies to the centre stage of the international development efforts. The development partners play not only a key role in sustained efforts for poverty reduction as outlined in their specific country assistance plans and strategies but also provide guidance in the light of their international experiences in poverty reduction. It is imperative that development strategies and programmes of development partners must reflect the wishes and aspirations of the people to build consensus and ownership. Foregoing in view, a consultative workshop to share the Draft PRSP-II with international development partners was organized on November 19th, 2008 at the Finance Division, Islamabad.

2.18.3.1 This full-day workshop was attended by a large number of representatives from international development community including the World Bank, IMF, ADB, EU, USAID, DFID, UNDP, UNFPA, UNHCR, UNESCO, UNICEF, UNIDO, UN World Food Programme, WHO, JICA, CIDA, SDC, and FAO, etc. Representatives from line ministries and departments were also present.

2.18.3.2 The participants deliberated on the various pillars of PRSP-II and synthesized their comments and suggestions into presentations. These presentations based on recommendations which were then presented in the plenary session of the workshop.

2.18.4 **Consultative Workshop to share PRSP-II with the Parliamentarians**: Involving the elected representatives of the people in the consultative process of poverty-reduction is not only necessary for sustainability of the process, but parliamentary oversight of the PRSP can ensure long-term ownership of the strategies and generate the support necessary to sustain reforms. Parliament is an institution where the voices and preferences of the public and particularly of the poor can be heard. Parliamentarians' outreach to their constituencies on issues of PRSP is particularly relevant in this context. Greater parliamentary involvement in the poverty reduction process helps to ensure that a country's poverty reduction strategy is generated, implemented and evaluated through national institutions with the legitimacy to ensure ownership and sustainability. Parliamentarians also have a significant role to play in influencing the government's poverty alleviation programmes through the budgetary process.

2.18.4.1 To institutionalize the role of Parliamentarians in formulation of PRSP-II, a consultative Workshop to share the Draft PRSP-II was held on December 4th, 2008 Islamabad.

2.18.4.2 During the workshop, the Parliamentarians stressed the need for legislative oversight of government policies in general and of the budget process in particular to ensure that government is effectively working towards poverty reduction. They unanimously maintained that agriculture is the engine of growth needs to be specially highlighted in the strategy for poverty reduction. In addition, focus on key areas of human development while giving utmost importance to education health and access to clean drinking water for the marginalized. The government's efforts in providing the poor relief in the form of Benazir Income Support Programme in face of rising inflation were lauded. Parliamentarians overwhelmingly supported government's efforts to improve governance and institutional development. They were of the view that by instituting accountability and good governance in the administration and management of pro-poor activities and programmes, we can effectively continue the crusade against poverty.

2.19 PRSP-II Communication Strategy

2.19.1 The government firmly believes that the process of designing and updating the PRSP-II remains inclusive so as to ensure that all voices (including those of the poor) are heard. In order to further ensure general public participation and ownership of the Strategy, the PRSP-II has been placed on the Website of Ministry of Finance (www.finance.gov.pk).

2.19.2 The PRSP Secretariat is working towards developing an all-inclusive communication strategy to ensure ownership through sharing and dissemination of PRSP-II at all levels of society. This would not only ensure accountability, participation and transparency in the implementation process but will also provide food for thought and input for future strategies. Communication interventions would utilize diverse channels in accordance with audience needs including electronic and print media, workshops and seminars, translation of PRSP into national and regional languages, and special supplements in national dailies.

2.20 **Voices of the Poor**

2.21 This section summarizes results from consultations held with poor communities all over Pakistan on the outcomes of the PRSP-I. It expresses the perspectives of the poor on poverty reduction strategies adopted by Pakistan during the past few years, and their opinions on how far they considered these strategies to have been successful. It thus helps to frame policies for the future.

2.22 In late 2005, the Rural Support Programme Network was asked to organize community consultations for formal feedback on the people's views about the on-going PRSP[24]. The consultations with rural poor were intended to ascertain whether they thought PRSP had made any difference in their lives and, if so, through what interventions and by how much.

2.23 During February 2006, 54 dialogues were held in 21 districts, with a total of 1,214 participants. The dialogues were held separately with a total of 646 male and 568 female participants. An effort was made to include as diverse a group of participants as possible, including small farmers, daily wage labourers, employees of public and private sectors, unemployed members of the labour force, *Mustahiqs*[25] of *Zakat*[26], people engaged in small enterprises, students, etc. A summary of these dialogues - highlighting the perceptions of the people on what has worked and what has not, as well as their suggestions on how to improve matters - is presented below.

2.24 **Employment:** A consensus emerged that the employment situation had improved slightly in the formal sector during the last few years though the change was not substantial. The improvement had resulted particularly from public sector development initiatives especially at the village and Union Council levels. In general, people related access to employment opportunities with education and with having the right contacts. They felt that merit was often not the determining factor. There was a growing trend for women to seek jobs including in non-traditional areas. The jobs mainly sought by women were in the social sectors especially those of lady health workers and school teachers.

2.24.1 High unemployment persisted among young people and lack of technical education cited as a major reason for the difficulty in finding employment. In the construction sector, work opportunities were more easily available than earlier. Salaries as well as daily wage rates of skilled and unskilled labour had risen substantially. However, majority of those consulted believed that the rise in salaries and wages had been offset by increasing prices of daily necessities and consumption goods. Participants in the dialogue emphasized that since the

[24] The consultations were conducted with support from DFID.
[25] Mustahiq is a person who is eligible to receive Zakat.
[26] Zakat is the Islamic concept of tithing and alms. It is an obligation on Muslims to pay 2.5% of their wealth to specified categories in society when their annual wealth exceeds a minimum level (*nisab*).

majority of rural population was engaged in farm-related work, a flourishing agriculture and expanding agribusiness were crucial to increasing rural employment opportunities.

2.24.2 The participants recommended that policies and programmes for education and training should take into account current and future employment opportunities. Technical education and vocational skills training could give more people opportunities to contribute. Effective promotion of self-enterprise and SMEs would provide many additional employment opportunities.

2.25 **Small Enterprise Development:** Participants stressed that SMEs needed assistance in making links with market centers; i.e. they lacked knowledge about market preferences. Overall, it appears that in the view of dialogue participants, little progress had been made in facilitating small enterprise development, particularly in the area of skill development and establishing market linkages.

2.26 **Micro-credit:** During the last few years, access to micro-credit had considerably improved, but the geographical coverage remained very limited relative to that required by the population and what could potentially be achieved.

2.26.1 Recommendations included the expansion of geographical coverage of micro-credit institutions to cover the entire country in addition to an increase in loan ceilings from micro-credit institutions and for loaning to be tailored to client needs, for instance, repayment schedules should be consonant with the cash flows of their clients' businesses. Demand for new credit products to cater to client needs, such as, consumption loans was also high such as insurance for agriculture and livestock.

2.27 **Agriculture:** The entire rural economy is directly or indirectly dependent upon agriculture (including livestock). Most participants in the dialogues believed that there had not been much improvement in this sector during the last few years. The general view was that, despite higher prices for produce, profitability in this sector had not improved as costs of production had increased. Services and facilities for small farmers continued to lack. Agricultural inputs were expensive and in many places were not of good quality or were completely spurious.

2.27.1 The National Programme for Improvement of Watercourses was widely appreciated. Many participants thought that it was productive and would have long lasting benefits. However, the prerequisites asked of small farmers and the procedures to be followed for such schemes such as those relating to disbursement of funds by the government needed to be streamlined while the amount of community contribution needed to be lowered.

2.27.2 The seasonality of the canal system was a major cause of concern. Growing scarcity of water was affecting agricultural production both in rain fed and irrigated areas. Furthermore, many small farmers believed that they did not get their fair share of irrigation water, which they believed was usurped by influential farmers in collusion with the

Irrigation Department.

2.27.3 In general, participants were not happy with the extension efforts of the Agriculture Departments. The results of agricultural research, new and innovative techniques, and seed/crop varieties, were not being effectively disseminated among the farming communities. The management of natural resources had improved in districts where area/development programmes had been working; people were more aware about improved farm practices but more efforts were needed. Participants suggested that the government needed to further facilitate farmers in the marketing of produce as well as in storage. The dialogue participants had not experienced any change in tenancy rights. The landless tenants remained at a disadvantage and were prone to exploitation.

2.28 **Livestock:** Livestock was an important source of income in the rural areas. In most dialogues, participants believed that livestock-related services had not improved markedly during the last 3-4 years. They expressed a need for technical services for improving livestock breeds and for disease prevention and treatment. The majority also felt that few people could actually avail of such services through the Livestock Department. Nevertheless, in parts of the NWFP, participants thought that the services of the Department of Livestock and Dairy Development had indeed improved.

2.28.1 Some of the women participants said that in their areas they had received training in poultry farming through a government department. With the provision of Livestock Extension Workers (LEWs), now livestock medication and vaccination services were available which were previously not available. However, in most villages, veterinary facility and access to qualified veterinary doctors was not available. That gap was filled by quacks. It was suggested that the network of veterinary hospitals/dispensaries be expanded and the presence of qualified staff be ensured. Moreover, since females were actively involved in livestock and poultry keeping, more women veterinarians should be inducted by the Livestock Department. This also strengthened the need for further village-based LEWs.

2.28.2 Awareness about improved practices had risen in districts where area/rural development programmes had been working, in particular and communities were socially organized. Participants stressed that proper marketing facilities for dairy products were largely absent. Participants felt that dairy activities offered a huge potential and should be supported in rural areas by linking small farmers to commercial dairy businesses.

2.29 **Governance:** The general consensus on the devolved system was that the concept was well-founded but was not being implemented in its true spirit. One of the main reasons why most ordinary rural people appreciated the devolved setup was that it had improved access to government institutions and their services. However, participants complained that in many cases funds were allocated on the basis of allegiance to political parties. Some felt that the elected representatives did not listen to the poor and cooperated with the influential and with their own relatives. Participants complained of a lack of coordination between local elected representatives and government functionaries. Initially there was considerable confusion about role, responsibility, and authority. The participation of women as elected representatives at the local level was so far seen as more symbolic than substantive. However, despite the current limitations, most people were glad that some at least among them had access to power structures that could assist in resolving issues.

2.29.1 The general view was that accessing justice and curtailing corruption in the public sector had not noticeably improved in the last few years. Rural people were especially unhappy with what they had to go through in dealings with the police, revenue and with irrigation departments. Court cases continued to be lengthy and costly. The legal system took years before cases were concluded and judgments implemented.

2.29.2 People felt that most government departments had an uncooperative and occasionally even hostile atmosphere unless they agreed to pay bribes or had a ‘reference.’ Some of the participants did feel that problems in dealing with the police and other government departments had been somewhat eased with the help of elected representatives. However, most participants felt that the efficiency and effectiveness of public servants had not improved significantly during the period under consideration

2.30 **Education:** Participants generally agreed that during the last few years, access to primary level schooling had improved for both girls and boys. Beyond the primary level, access was often more difficult, especially for girls, the distances involved and because of deficiencies in schools’ infrastructure particularly of boundary walls and toilets. Many schools, both, for boys and girls lacked adequate facilities for providing clean drinking water.

2.30.1 Recruitment of teachers on contract by district governments had helped bridge the shortage of teaching staff. Teacher absenteeism had been checked to a large extent during the last few years. The free education policy of the government had enabled many poor families to enroll their children. The provision of free books, waiver of school fees, and scholarships to girls had significantly improved girls’ enrolment in schools.

2.30.2 In the opinion of most participants, the quality of education had largely remained unchanged. School Management Councils (SMCs) existed but in most cases were dormant and did not play an active role in school management. Government schools often lacked even the minimum requirements of laboratory facilities and other equipment. Technical education centers were located in big towns and Tehsil/District headquarters making access to them especially difficult for girls.

2.30.3 Private sector education was a growing and widespread trend. People preferred private schools. In the view of some participants, government schools only served the poor as those who could afford sent their children to private schools.

2.30.4 It was suggested that there should be a formal system for adult literacy with adequate facilities and properly paid staff. Some participants expressed satisfaction with the current adult literacy programmes initiated by the government (e.g. through National Commission for Human Development) and by NGOs. In none of the dialogues did anyone express knowledge of any specialized education or training facilities for disadvantaged/special children.

2.30.5 It appeared from the dialogues that there had been no improvement in higher education. Access to higher education (beyond matriculation) was especially difficult for people in rural areas as higher education institutions were usually located in towns or cities. This made them more expensive because of travel time and transportation costs.

2.31 **Healthcare:** In the dialogues there was general agreement that during the last few years there had been very little improvement in healthcare facilities besides some special initiatives. Government hospitals (including at Tehsil/District levels) lacked doctors, paramedic staff, lifesaving drugs, and diagnostic equipment. Since larger specialized hospitals were located in urban areas, the rural population had to travel there to seek secondary-level medical care which entailed a huge cost as well as inconvenience with particular difficulties for women. People were forced to seek private healthcare facilities for better service. Majority of the dialogue participants felt that the needy never got any financial assistance in civil hospitals.

2.31.1 In the rural areas, in general, Basic Health Units (BHUs), Rural Health Centres and Dispensaries were not fully functional and did not provide an acceptable level of service. Participants stressed that life-saving medicines ought to be available free at BHUs. Some participants mentioned the Punjab Chief Minister's Initiative for Primary Healthcare under which a Public Private Partnership had been initiated for managing BHUs. It was claimed that subsequent to this initiative, primary healthcare facilities had improved during the last three years, doctors and other staff were now present and the supply of required medicines had improved. This could be a model for wider replication.

2.31.2 One of the new initiatives that people thought a definite improvement during the last few years was the Lady Health Workers (LHWs) programme. The LHWs were available where needed in the villages, and they extended timely and effective services. People were generally satisfied with immunization services for children and, in particular, were quite happy with the anti-Polio immunization programme. Participants suggested that free and easily accessible healthcare treatment be given to poor and marginalized families.

2.32 **Water Supply and Sanitation:** The dialogues revealed that in many locations the situation had improved in this sector. In particular, many district governments had taken steps to resolve water and sanitation issues in villages and towns. However, in remote and isolated villages things had not changed. Even areas where progress had been made in sanitation lacked a proper system for disposing of solid waste. Clean (safe for human health) drinking water was not available for a majority of the rural population. Participants in the dialogues emphasized that there was a tremendous need for more (safe for human health) drinking water schemes.

2.33 **Social Safety Nets:** Some participants estimated that as much as 25 percent of the community might deserve financial support through safety nets, but perhaps just 15 percent of the deserving got any assistance. Members of the *Zakat* Committees were nominated by the government. There was a general perception that the selection of the deserving by the Committees is not transparent. Some people said that the members of *Zakat* Committees usually gave benefits only to their relatives and friends or on the basis of political affiliation or *biraderi*.[27] Participants thought that the process of obtaining social safety net assistance was lengthy and complicated. The majority felt that the *Guzara* (living) allowance provided through Zakat was insufficient for even subsistence living.

2.33.1 In some dialogues in the NWFP, participants said that in their area *Zakat* was now more easily available to the deserving, however, the scheme still needed improvement. Majority of the people recommended that the coverage of social safety nets must extend to all those who merit assistance. The amount of Guzara allowance ought to be increased to ensure subsistence. Besides the monthly financial living allowance, social safety nets ought to include skills training, credit for setting up self-owned enterprises, basic healthcare for family members, and support for children's education. The participants felt that the *Zakat* fund should be administered in a fair and transparent way and be easily accessible to the deserving. People need to be fully aware about what assistance is available for the deserving and the *Mustahiq* ought to be able to receive what is due without hurdles and delays.

2.33.2 In general, the dialogues revealed that socially mobilized communities were better able to participate in and to access services and facilities that were available. They were also better able to convey their needs and priorities to decision makers and to implementing agencies. This applied in the economic field, e.g., micro-credit and agriculture; in the social sectors, e.g., school management and oversight; and to social safety nets.

2.34 **Satisfaction with Basic Services**

2.34.1 The recently conducted CWIQ-PSLM, covering over 70,000 respondents all over the country, substantiates most of the reflections coming out of the dialogues with the poor reported above. The CWIQ-PSLM, for the first time, generated information on the satisfaction from schooling, health facilities, family planning, veterinary hospital, agriculture, and the police. Perception about health and education services based on this data set is discussed here. The survey reported that 59.8 percent of respondents were satisfied with schools in FY 2004/05 (Table 2.14a). The highest level of satisfaction from schooling (67 percent) was found in the NWFP, while the lowest (48 percent) was in Balochistan. The level of satisfaction from schooling was higher in urban areas than in rural. However, only 36 percent of the population was satisfied with basic health units. Satisfaction with the services of basic health units was more or less the same in all provinces, except the NWFP, which recorded a higher level (52 percent). Rural areas

[27] Kinship

expressed greater satisfaction with the services of basic health units than did urban.

Table 2.14(a): Household satisfaction by facilities and services use (percent)

Region and Province	Facilities and Services Use in 2004-05	
	Basic Health unit	School
Urban Area	**29.36**	**66.38**
Punjab	20.47	67.63
Sindh	31.35	61.57
NWFP	58.78	72.98
Balochistan	36.67	66.71
Rural Areas	**40.96**	**54.85**
Punjab	38.89	59.11
Sindh	40.98	47.87
NWFP	48.76	64.7
Balochistan	36.62	40.89
Overall	**35.94**	**59.84**
Punjab	30.04	63.2
Sindh	36.33	54.49
NWFP	51.92	67.31
Balochistan	36.64	48.29

Source: CWIQ-PSLM FY 2004/05-FY2006/07.

2.34.2 The CWIQ-PSLM FY 2004/05 for the first time assessed a qualitative aspect regarding households and changes in their economic situation during the year preceding the survey. An answer to this question does not, of course, substitute for poverty estimates based on income or consumption data, however, it does provide useful insight. In both rural and urban areas, half the households perceived no change in their economic situation during the year, however, 27 percent of households in urban areas and 23 percent in rural areas reported an improvement in their economic situation compared to the previous year (Table 2.14b). Proportionately more households in the Punjab and the NWFP reported improvement in their well-being than households in Sindh and Balochistan. One-quarter of the rural households reported a worsening of their economic situation in the one-year period suggesting they had not benefited from the high agricultural growth.

Table 2.14(b): Households' perception of their economic situation in FY 2004/05 compared with that in FY 2003/04 (percent)

Region and Province	Economic Situation of the Household						
	Much Worse	Worse	Same	Better	Much Better	Don't Know	Total
Urban Areas	3.59	18.73	50.51	23.97	2.71	0.49	100
Punjab	3.06	18.24	48.37	26.75	3.08	0.49	100
Sindh	4.16	18.41	52.99	21.43	2.64	0.38	100
NWFP	5.36	23.85	44.88	23.32	2.13	0.45	100
Balochistan	2.25	15.42	63.95	16.1	1.36	0.93	100
Rural	4.49	20.66	52.27	20.42	1.81	0.36	100

Areas							
Punjab	3.54	19.33	50.78	23.63	2.47	0.26	100
Sindh	6.24	22.61	58.09	11.9	0.93	0.23	100
NWFP	4.81	23.06	41.24	28.28	2.2	0.41	100
Balochistan	3.88	18.05	61.61	14.83	0.81	0.81	100
Overall	4.1	19.82	51.51	21.957	2.2	0.41	100
Punjab	3.31	18.81	49.62	25.13	2.76	0.37	100
Sindh	5.23	20.58	55.63	16.51	1.76	0.28	100
NWFP	4.99	23.31	42.39	26.71	2.18	0.42	100
Balochistan	3.42	17.3	62.28	15.19	0.97	0.85	100

Source: PSLM 2004/05

2.34.3 These voices of the poor provide important feedback for fine-tuning the Poverty Reduction Strategy and ensuring its better implementation. From the dialogues, it became evident that the participants' dissatisfaction was chiefly with inadequacies in implementation and not with the Strategy itself.

Chapter 3 - Poverty diagnostics

3.1 This chapter provides a brief review of the level and the correlates of poverty in Pakistan, which will form an empirical basis for the discussion of the strategy and policy measures to tackle poverty laid out in subsequent chapters. Most of poverty related data in this chapter are drawn from a key poverty monitoring instrument, i.e. a series of the Pakistan Integrated Household Survey (PIHS) and the Pakistan Social and Living Standards Measurement Survey (PSLM). This chapter pays special attention to the PRSP period, i.e. since FY 2001/02 and often compares major poverty statistics between FY 2001/02 and the latest available survey year.[28]

3.2 Poverty has many dimensions in Pakistan. The poor 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. These issues are discussed in detail in different chapters of the report; strategies to address them constitute the main pillars of the PRSP-II.

3.3 Poverty Trend

3.3.1 A long-term trend of poverty in Pakistan is shown in Figure 3.1. Poverty, measured in terms of the headcount of the poor (the proportion of the population with consumption below the official poverty line), shows a mixed trend throughout the 1990s until it peaked at 34.5 percent in FY 2001/02.[29]

3.3.2 However, it can be seen from Figure 3.1 that there was a large turn-around in the poverty trend in FY 2001/02. Poverty in the country declined by more than 12 percentage points between FY 2001/02 and FY 2005/06 and reached 22.3 percent - its lowest level during the PRSP period.

3.3.3 The overarching objective of the PRSP-II is to reduce poverty. This requires that existing poverty estimates reflected in PRSP-II are realistic and based on surveys. The poverty estimates are worked out at the national level using the PSLM data compiled by the Federal Bureau of Statistics. The latest PSLM data is available only for FY 2005/06. The Planning Commission considers that a Poverty Reduction Strategy based on FY 2004/05 or FY 2005/06 data would underestimate the extent of poverty.

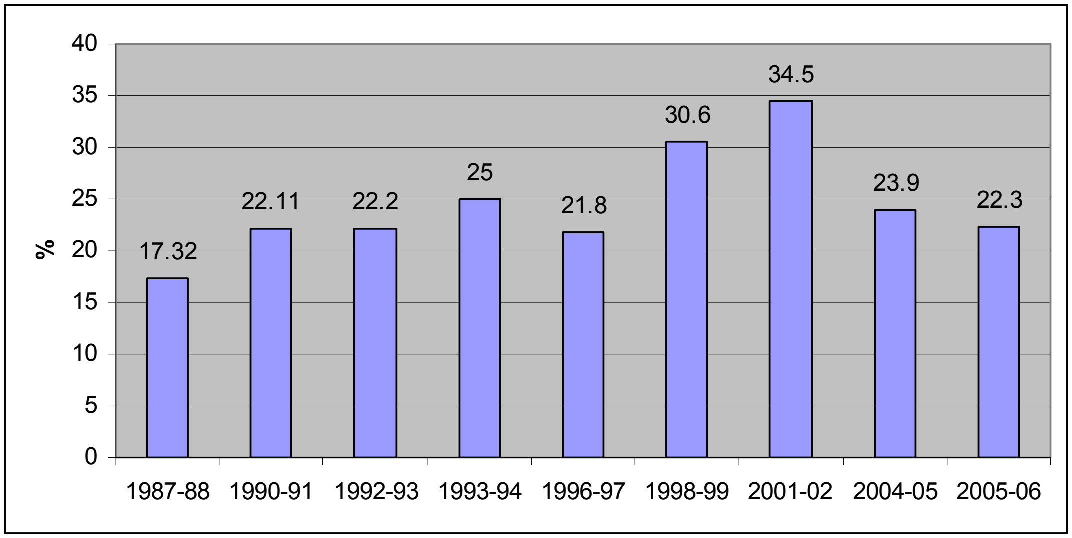
3.3.4 The Planning Commission is of the view that no reliable data exist for estimating poverty in recent years. Significant changes in the growth pattern; and an increase in food and fuel

[28] I-PRSP and full PRSP were completed in 2001 and 2003, respectively. Here, the PRSP period refers to the period since 2001.
[29] See the end of the chapter for the methodology used for poverty line estimation.

prices have occurred since 2005 adversely affecting the poor. The Planning Commission will undertake a comprehensive estimate of poverty trends over the next three years after it receives the PSLM data for FY 2007/08 from the Federal Bureau of Statistics, which is likely to be available by January/February 2009.

3.3.5 In the meantime, a Panel of Economists set up by the Planning Commission has provided a preliminary estimate of poverty (based on informed judgment) for FY 2008/09 that indicates an 'addition of 6 percentage points to poverty incidence since FY 2004/05.'

Figure 3.1: Poverty headcount rate in Pakistan FY 1987/88 – FY 2005/06 (percent of population)



Source: Pakistan Economic Surveys, FY 2001/02 & FY 2007/08, Finance Division, Government of Pakistan.

3.3.6 Poverty declined both in rural and urban areas (Table 3.1). Urban poverty declined more than 40 percent between FY 2001/02 and FY 2005/06 from 22.7 percent to 13.1 percent, while rural poverty declined slightly more than 30 percent from 39.3 percent to 27 percent. As a result, the urban poverty is now less than half of the rural poverty in FY 2005/06. However, in terms of percentage point decline, rural areas experienced a larger decline (12.3 percentage points) than urban areas (9.6 percentage points).

Table 3.1: Decline in the poverty headcount FY 2001/02–2005/06

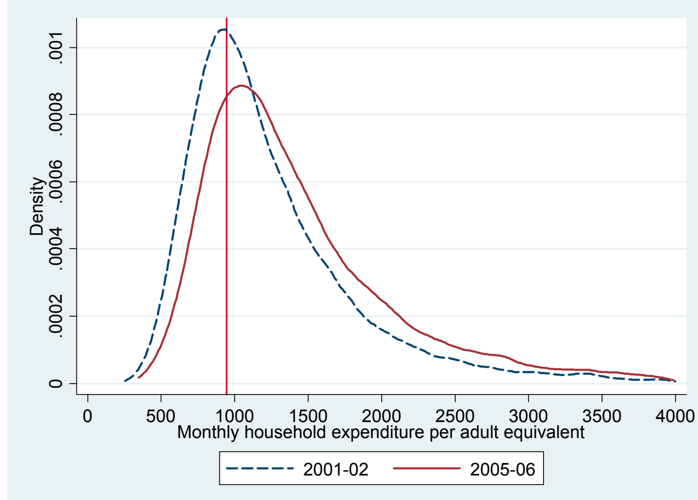
Region	FY 2001/02	FY 2005/06	Percent decline
Overall	34.5	22.3	35.4
Urban	22.7	13.1	42.3
Rural	39.3	27.0	31.3

Source: Pakistan Economic Survey, FY 2007/08

3.4 Distributional impact of economic growth

3.4.1 The Pakistan economy took off since FY 2003/04 and the GDP growth rate jumped to 7.5 percent and remained high till FY 2006-07. An important question is whether the growth benefitted the poor as well. This section focuses on the distributional impact of the recent upward trajectory of economic growth.

Figure 3.2: Distribution of consumption expenditure per equivalent adults, 2001/02 and 2005/06 (Rs at 2005/06 prices)



Source: PIHS FY 2001/02 and PSLM FY 2005/06

3.4.2 Figure 3.2 shows the distribution of population ranked by household expenditure per adult equivalent for both FY 2001/02 and FY 2005/06. It clearly shows the proportion of poor population has declined and the proportion of middle income class increased. This suggests that the benefits from the recent economic growth have spread widely over different income groups. Also, the concentration of population near the poverty line declined substantially, which indicates that a small shock in income and expenditure likely to have less impact on the poverty headcount rate.

3.4.3 Table 3.2, which follows the classification of the PRSP, reinforces the observations from Figure 3.2. The proportions of the extreme poor, the ultra poor and the poor all declined substantially since FY 2001/02. On the other hand, the proportion of the rich, including both 'Quasi non-poor' and 'Non-poor', increased noticeably.

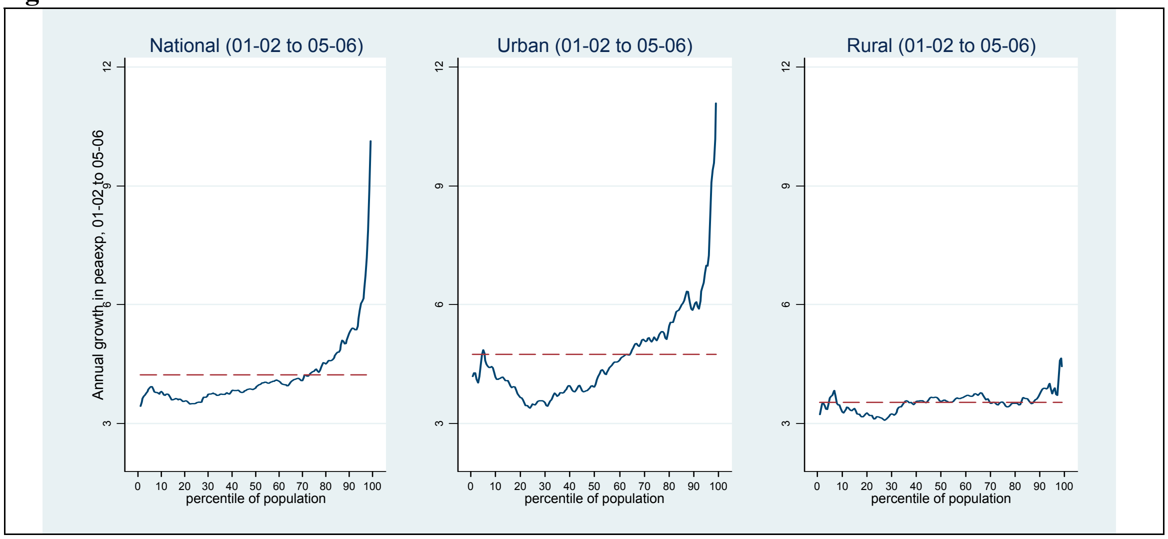
Table 3.2: Population distribution by household expenditure per adult equivalent (Percent)

Poverty Category		**2001-02**	**2005-06**
Extremely Poor	50% of poverty line or less	1.1	0.5
Ultra Poor	50% - 75%	10.8	5.4
Poor	75% - 100%	22.5	16.4
Vulnerable	100% - 125%	22.5	20.5
Quasi Non-Poor	125% - 200%	30.1	36.3
Non-poor	200% of poverty line or above	13.0	20.9

Source: Economic Survey FY 2007/08, Government of Pakistan.

3.4.4 To see the growth impact by different income groups in more detail, growth incidence curves are shown in Figure 3.3. These curves map the average annual growth rate of per adult equivalent consumption expenditure for each centile over the period FY 2000/01 to FY 2004/05. The figure shows that almost all income groups enjoyed a similar rate of growth in rural areas, while the rich enjoyed a higher growth rate in urban areas. Although there are some variations in growth rates, it is noteworthy that all groups recorded more than 3 percent annual growth rates.

Figure 3.3: Growth incidence curves between FY 2001/02 and FY 2005/06



Source: PIHS FY 2001/02 and PSLM FY 2005/06

3.5 Poverty profiles

3.5.1 Profiling the poor is often useful to identify where the poor live; who they are; and what they are doing; which are essential in designing poverty alleviation strategies. This section overviews the poverty profiles.

3.5.2 Urban-Rural breakdown

3.5.2.1 The poor are overwhelmingly concentrated in rural areas. As stated above, the poverty headcount rate in rural areas is 27 percent, more than double the size of urban areas. Furthermore, 80 percent of the total poor population lives in rural areas.

Table 3.3: Urban-Rural breakdown of poverty statistics in FY 2005/06

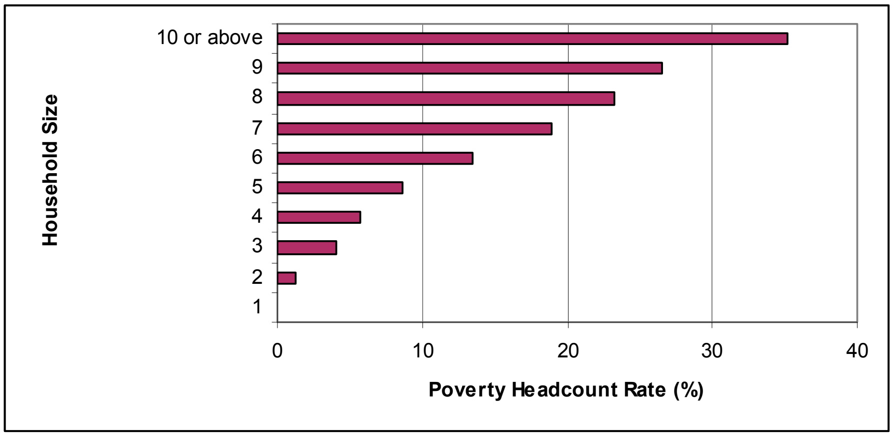
	Urban	**Rural**
Headcount rate (Percent)	13.1	27.0
Share of poor population (Percent)	20.5	79.5

Source: PSLM FY 2005/06

3.5.3 Poverty and demographics

3.5.3.1 Poverty is highly correlated with household size. Larger households and households with high dependency ratios are likely to be much poorer than smaller households (Figure 3.4). For example, no household with one member is poor while more than 35 percent of households with 10 or more members are poor.

Figure 3.4: Household size and poverty rate FY 2005-06



Source: PSLM FY 2005/06, Government of Pakistan.

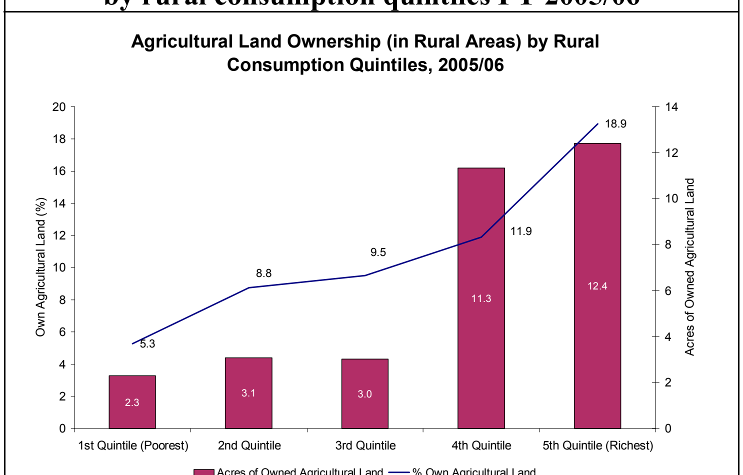
3.5.4 Agriculture and Poverty

3.5.4.1 Pakistan is an agrarian country where about two-third of the population still lives in rural areas. Not surprisingly, rich households in rural areas were more likely to own agricultural land than poor households in FY 2005/06. The richest 20 percent of rural households were on average more than 3.5 times likely to own agricultural land than the poorest 20 percent of rural households (Figure 3.5). Also, the richest 40 percent of rural households owned agricultural land that was on average about 4 times larger than that owned by the poorest 60 percent.

3.5.5 Education, Occupation and Poverty

3.5.5.1 Educational attainments and occupations of household heads appear to be highly correlated with poverty incidence of the households. For example, according to PSLM FY 2005/06 data, educational attainment of household heads differs starkly between the rich and the poor. Among the poorest 20 percent of population (or quintile), nearly 70 percent of household heads did not complete class 1; however, among the richest quintile, only around 20 percent of household heads did not complete class 1. On the other hand, almost no heads in the poorest quintile completed class 11 or more, while more than 30 percent of heads in the richest quintile completed class 11 or more.

Figure 3.5: Agricultural land ownership (in rural areas) by rural consumption quintiles FY 2005/06



Source: PSLM FY 2005/06

3.5.5.2 Also, occupational status is clearly different between the rich and the poor. In FY 2005/06, nearly 40 percent of household heads in the poorest quintile held so-called “elementary occupations” while less than 20 percent of heads in the richest quintile held the elementary occupations.

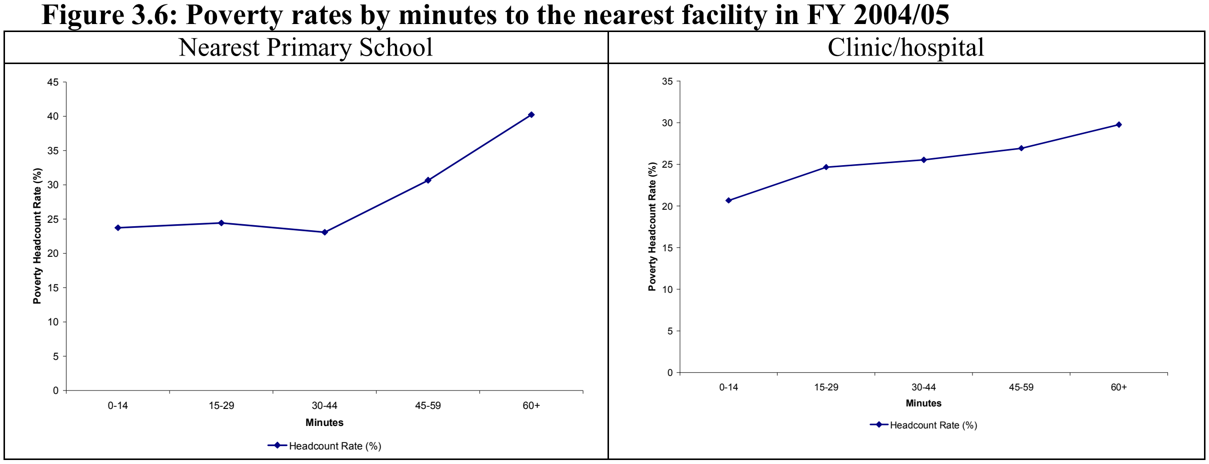
3.5.6 Service delivery and Poverty

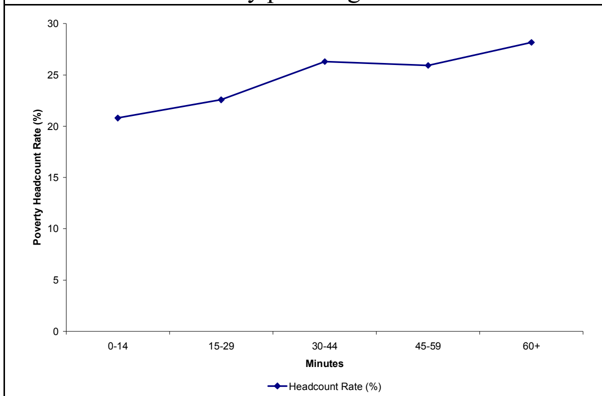
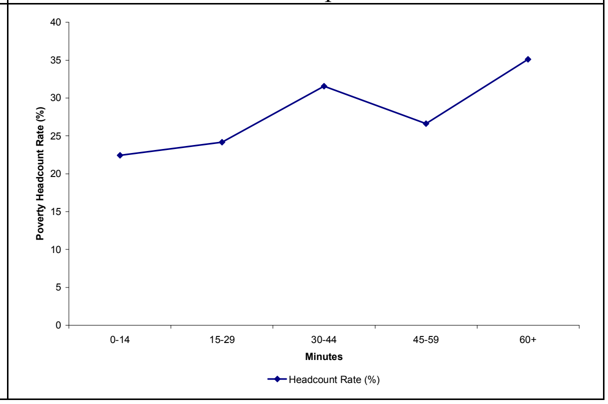
3.5.6.1 Access to key community services is strongly associated with a household's poverty situation. Using the PSLM FY 2004/05, which has rich data on access to key facilities and infrastructure, Figure 3.6 shows the relationship between the distance to some basic community services, such as the nearest primary school, hospital/clinic, family planning facility, or public transport, and poverty. It shows that households closer to the basic community services are in general richer than those isolated from these services.

3.5.7 Other important factors

3.5.7.1 Needless to say, other factors are also important. Poor and vulnerable households tend to lack access to jobs, assets, savings, insurance products, institutional credit, and assistance options. Due to this, they are often compelled to resort to desperate measures to cope with chronic stress and shock, often with tragic outcomes. Patterns of multi-generational poverty traps can be identified, whereby poverty incurred by one generation is transferred to subsequent ones, with no apparent hope of escape. A prime example is offered by the effects of the educational attainment of the household head on that of the family — children in families of which the household head is illiterate, tend to be illiterate. Since literacy is correlated with poverty, this tends to perpetuate poverty by transferring it across generations. Another instance is provided by borrowing or the sale of assets, which results in the depletion of already scarce resources. Selling or mortgaging land, house, and productive assets occur with disturbing frequency. Another consequence is economic inefficiency — self-insurance against risk can have high opportunity costs and stifle innovation and investment, as households choose to maintain liquid and low-risk, low-return assets. These factors need to be studied further.

Figure 3.6: Poverty rates by minutes to the nearest facility in FY 2004/05



Family planning clinic	Public Transportation
	

Source: PSLM FY 2004/05

ANNEX: METHODOLOGY OF POVERTY LINE ESTIMATION

Among the many approaches and definitions in the theoretical literature and adopted by various developing countries, the Planning Commission of Pakistan has used the following definition for estimating the poverty line.

> "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".

It is to be noted that the current (FY 2005/06) estimates of poverty status (headcount ratio, poverty gap and squared poverty gap) are updated by Consumer Price Index (CPI) from the revised poverty estimates of FY 2000/01. The methodology of revised poverty estimates of the FY 2000/01 involved the following steps:

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

- Aggregate the various sub-components;
- Adjust for cost of living differences; and
- 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; and
iv. Housing.

(i) Food Items
It includes food consumed from all sources and needs data on the total values alongwith the quantity of various food items consumed in the reference period:

- Food purchased in market place;
- Home produced food;
- Food items received from the employer as payment in kind for services rendered; and
- 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; and
- 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 dependent as well as the independent variables for regression. Parameter estimates from this model are used to calculate rent for the other segment of population.

II. Adult Equivalence Scale

Nutrition based adult equivalent scales which differentiate between households on the basis of sex and age are also used for transforming the number of persons in a household to adult equivalents. The application of nutrition based equivalent scales to any expenditure other than food expenditure is questionable from a methodological point of view. The "revised estimates" are based on a simple equivalent scale that weights 0.8 to individuals younger than 18 years old and 1 for all other individuals. The adult equivalent scale of Planning Commission is based on calorie requirements and therefore, applicable only to food consumption expenditure. Moreover, food expenditure represents only about 50 percent of the total consumption expenditure, therefore, an adult equivalent scale (0.8 for younger than 18 years old and 1 for others) has been used to adjust the total household consumption expenditure.

III. Methodology of Poverty Line Estimation:

Poverty line is estimated from a regression of per adult equivalent monthly consumption expenditure (food and non-food) against estimated daily per adult equivalent calorie intake. This methodology implicitly assumes that those households that reach the minimum requirement of calorie also consume necessary nonfood items, otherwise they would have increased calorie intake. The regression is run for the first three quintiles so that expensive and luxury consumption habits of the rich may not overestimate the poverty line.

Regression Equation Form

The regression equation is as under:

$$\mathbf{LnY = a + bX + u}$$

Where:

Y = Monthly per adult equivalent consumption expenditure (food and non-food)
X = Daily per adult equivalent calorie intake

Results

Ln Y = (6.112 + (2.019E-4*2350)) = Rs 723.40 (Updated Estimates)
$R^2 = 0.195$
Standard error of the estimate = 0.2112

Assumptions:

- There exists specifically defined amount of calories that is considered essential. Here, this per adult equivalent minimum calorie requirement (**X)** is 2350 calories per adult equivalent per month;

- In case the minimum calorie requirement is achieved, then implicitly, the nonfood essential items are also achieved;
- Same goods basket is consumed in all the provinces.; and
- The first three per adult equivalent consumption expenditure quintiles are used in the regression equation estimating the poverty line so that the consumption pattern of the rich does not affect the determination of the poverty line.

IV. Methodology of Poverty Indices Estimation

Poverty indices

Once the decision has been made regarding the choice of poverty line there is then choice of aggregator. This can range from a simple count of individuals below poverty line to more complicated measures which take account of the distribution of income amongst the poor. We use the poverty measures proposed by Foster, Greer, and Thorbeck (1984) that are the headcount ratio (P^0), average poverty gap (P^1) and the squared poverty gap (P^2).

Headcount ratio (P^0)

The headcount ratio is defined as the proportion of people below the poverty line. This measure is easy to calculate but it has some disadvantages. It takes no account of the depth of poverty. Someone just below the poverty line has the same weight as the very poorest of the poor. It also fails to obey the principle of transfers i.e. a transfer of income from a poorer person to a rich person does not increase headcount ratio. Indeed, if the recipient of the transfer is just below the poverty line and the transfer raises him just above the poverty line then the transfer will have reduced poverty. This gives rise to the situation where the most effective means of the reducing poverty is to target the comparatively best-off the poor. Despite these drawbacks, the headcount ratio is still perhaps the most widely used poverty measure.

Headcount:

$$P_{oi} = p_o(w_i) = \begin{cases} 1 & \text{if } wi \ \square\ z \\ 0 & \text{if } wi \ \square\ z \end{cases} \qquad HC = 1/N \ \square^{\square}{}_{\square\square 1} p_o(w_i)$$

Where z is the value of the poverty line, w_i is the per adult equivalent consumption expenditure of the individual i, and N is the total population. For all the indices, when the individual values are summed up they are multiplied by the household size and properly weighted to represent the whole population.

Poverty Gap (P^1)

Poverty gap is the product of incidence and average distance between the incomes of the poor and the poverty line. It reflects the average shortfall of the incomes of the poor expressed as a share of the poverty line. Poverty gap does take account of the depth of poverty but it does not take account of the distribution of income amongst the poor.

Poverty gap:

$$P_{1i} = p_1(wi) = \begin{cases} (z - wi/z) & \text{if} \quad wi < z \\ 0 & \text{if} \quad wi \geq z \end{cases} \qquad SP = 1/N \, \Sigma^{N}_{i=1} \, p_1 \, (wi)$$

Squared poverty Gap (P^2)

The squared poverty gap measure of poverty is sensitive to the distribution among the poor as more weight is given to the poorest below the poverty line. It corresponds to the squared average distance of income of the poor to the poverty line. Hence moving from P^o towards P^2, more weight is given to the poorest in the population.

Severity of poverty:

$$P_{2i} = p_2(w_i) = \begin{cases} (z - wi/z)^2 & \text{if} \quad wi < z \\ 0 & \text{if} \quad wi \geq z \end{cases} \qquad SP = 1/N \, \Sigma^{N}_{t=1} p_2 \, (w_i)$$

V. Updating the Poverty line to FY 2005/06

Following steps were undertaken to update the poverty line and estimate poverty status from the household data contained in the PSLM FY 2005/06 survey:

- Total household consumption expenditures in nominal terms in FY 2005/06 prices were reduced to common denominator of a single month.
- In arriving at total household consumption expenditure, prices prevailing in 1100 Primary Sampling Units (PSUs) and across the twelve month period (July 2005 to June 2006) were standardized to conform to a consistent consumption welfare concept.
- These were divided by household size adjusted for children less than 18 years of age. For example, if there were 5 children under 18, these were treated as 4 adults. This adjustment yielded consumption expenditure per adult equivalent per month.
- The poverty line of Rs 878.64 obtained in FY 2004/05 was raised by 7.48 percent CPI inflation during FY 2004/05 and 2005/06 to arrive at the new inflation adjusted line of Rs 944.47 per adult equivalent per month.[30]

[30] Note in order to arrive at poverty-status for FY 2004/05, the poverty line of Rs 723.40 obtained in FY 2001/02 by methodology described above was adjusted by CPI inflation of 21.46 percent during the period to obtain poverty line of Rs 878.64 in FY 2004/05.

- By comparing the per adult equivalent per month expenditure of each sampled individual with the FY 2005/06 poverty line of Rs 944.47, the above indicators on poverty status were calculated.

Chapter 4 - Pillar I: Macroeconomic stability and real sector growth

4.1 The study of global and regional poverty as well as Pakistan's own experience from the PRSP-I period suggest that a country's economy must grow rapidly over a prolonged period in order to reduce poverty. At the macro level, economic growth implies greater availability of public resources to improve the quantity and quality of education, health and other services. At the micro level, economic growth creates employment opportunities, increases the incomes of the people, and therefore reduces poverty. Many developing countries have succeeded in boosting economic growth for brief periods, but only those that have sustained high growth over substantial periods (say, two or more decades) have seen a lasting reduction in poverty. East Asian countries such as Korea, Malaysia, China, Taiwan, Singapore, and Hong Kong offer clear examples of the effects of economic growth on poverty alleviation. It is also evident from the experience of these countries that growth does not come automatically — it requires policies. Macroeconomic stability is the key to sustain high economic growth for longer periods. The persistence of high economic growth and not a short sequence of bust and boom that characterized the Pakistan economy over the years is the best hope for poverty alleviation.

4.2 The distribution of poor population in Pakistan suggests that almost 75 percent of the poor are clustered around the poverty line. Thus a slight rise in the mean income pulls many people above the poverty line whereas one crop failure or economic shock may send millions below the poverty line. Pakistan has historically posted higher economic growth too often in its checkered history of sixty years. The volatility in economic growth due to macroeconomic forces is the basis of the asymmetric growth in Pakistan and played an important influence on income distribution. The effects of income growth and the distributive effect associated to structural change were positive on reducing poverty but the evolution of relative prices and wage policies avoided a real income growth of urban and rural low skilled labours. The volatility of the income has proved very costly for the poor. The economy experienced longer spell of slower economic growth only in the 1990s and the poverty level reached as high as 34 percent of the population in 2001.

4.3 The economy moved to a higher growth trajectory in the vicinity of 6-7 percent real GDP growth during FY 2002-07 and resultantly the poverty declined substantially in FY 2004/05. However, the growth strategy relied heavily on external financing and use of sale proceeds from some public sector assets to meet a growing current account deficit. The poor resource mobilization efforts within the country remained hallmark of the economic policy in this period and exacerbated vulnerabilities to external shocks.

4.4 The domestic factor behind higher growth during 2002-07 was a consumer boom on the back of enhanced access to credit. The services sector and production of durables in the manufacturing sector spearheaded the move to higher growth trajectory. The agriculture sector and small and medium industry were largely ignored. These two areas were the best hope for poverty reduction. Financial businesses and telecommunication were the major attractions of foreign investors and these two sectors registered double digit growth feeding into higher growth in the services sector. The minimal potential of job creation and lower level of forward and backward linkages has given rise to a 'jobless and joyless' growth.

4.5 The productive capacity of the economy remained alien to this higher growth and new industrial capacity was hardly added to the economy. The agricultural policy was not announced during the last eight years. The input prices of agriculture escalated at a faster pace while output prices remained almost stagnant up to 2006 and it was only in the last two years the output prices witnessed upsurge. Poor water resource management was another area of concern and no serious efforts were made to augment smooth supply of the irrigation water. The agriculture sector faced acute water and input shortages during the last eight years but no conscious effort was being done to bridge demand-supply gap.

4.6 Severe macroeconomic pressure impacted economic activity in Pakistan in FY 2007/08. Beside other factors, Pakistan has had to face significant costs during the last few years being a frontline state in the 'War on Terror', thereby neutralizing buoyancy in capital inflows. The law and order situation in certain parts of the country has deteriorated alarmingly. Pakistan, with the rest of the world felt the force of a steep rise in the prices of petroleum and primary products.

4.7 The fiscal year 2007/08 was a volatile year for Pakistan's economy both on domestic and external fronts. Number of unfavourable and unexpected events occurred during the years, which include: political unrest; law and order situation; supply shock; rising oil; food and other essentials prices; and crisis in the international financial market together with shortcomings in economic management. All these events have adversely affected the key macroeconomic fundamentals of Pakistan. The economy suffered a setback as GDP registered a growth of 5.8 percent against the target of 7.2 percent and a growth rate of 6.8 percent in FY 2006/07. The major sectors, agriculture and manufacturing, performed poorly. Services sector was the saving grace of economic growth in FY2007/08 which primarily stemmed from better than expected performance achieving 8.2 percent as against 7.6 the previous year.

4.8 The FY 2007/08 saw the fragility of the growth model adopted by Pakistan during the last several years. Surging oil, food and commodity prices accompanied by the turmoil in international financial markets and the disturbed domestic political conditions had an adverse impact on Pakistan's budgetary position. Furthermore, over a year of policy inaction on account of political expediency for addressing the challenges, accentuated the budgetary imbalances. Expenditures greatly exceeded their budgeted amounts, mainly because of subsidies on oil, power, fertilizer, wheat and other foods.

4.9 The mismanagement of wheat operations led to an unanticipated import of 1.7 million tons of wheat at high prices, despite a bumper wheat crop (23.3 million tons) in 2006/07. This imposed a burden of Rs 40 billion on the government as payment for differential between the cheaper price in the domestic market and imported cost. In a similar fashion, the higher cost of furnace oil used in power generation was not allowed to pass through to domestic consumers of electricity. Therefore, against the budgeted subsidy of Rs 52.9 billion the projected power subsidy stood at Rs 113 billion — a slippage of Rs 60 billion.

4.10 The fiscal deficit surpassed the target by 3.4 percentage points of GDP. The combined impact of subsidies to the budget on account of oil and commodity shocks was estimated at nearly 3.6 percent of the GDP. It means the overrun of the fiscal deficit was entirely driven by the subsidies. Belated attempts to obtain savings from reductions in the development expenditures were unsuccessful. The efforts to curb the fiscal deficit within the target were further undermined by the huge overruns in interest payments. In the wake of major disruptions like domestic food and energy shortages and a plummeting exchange rate with high inflation, and exceptionally high macroeconomic imbalances, the required contingency plan was missing.

4.11 With the beginning of the new fiscal year (2008/09), Pakistan economy faced four major challenges: decelerating growth; rising inflation; growing fiscal deficit; and the widening gap in merchandise trade leading to a sharp depletion of foreign exchange reserves and a plummeting exchange rate.

4.12 The high price of food in the global arena threatens to push millions into poverty. Rising food prices have pushed up overall inflation not only in Pakistan, but across the region, particularly during 2007 and mid 2008. This is worrisome, because food price inflation is the most regressive of all taxes, hurting the poor and fixed income groups the most.

4.13 The recent upsurge in inflation is unprecedented in Pakistan and the victim of this hike is the lowest income group where incidence of inflation is the highest among all income groups. Downward adjustments in fuel prices will be neutralized by upward adjustment in energy prices but increase in support price of wheat will also play a role. Inflation has edged up due to massive borrowing from the SBP for budget financing and the government has, therefore, committed itself to restrict SBP financing to zero (on net basis) in order to stabilize inflation.

4.14 Macroeconomic Framework

4.14.1 Macroeconomic imbalances are inimical to longer-term growth and macroeconomic stability. The longer the imbalances persist, the greater the subsequent adjustment will be needed. Macroeconomic stability is, therefore, found to be absolutely vital for improving the investment climate and taking the economy at higher growth path on a sustained basis. The objectives of Pakistan’s stabilization programme are to reduce the ‘twin deficits’ (fiscal and current account) to restore macroeconomic balance, to bring the balance of payment to a viable position, and to build up foreign exchange reserves with a view to strengthening shock absorbing capacity of the economy.

4.14.2 Empirical evidence suggests that macroeconomic instability has generally been associated with poor growth performance and the consequent rise in poverty. The persistence of large fiscal and current account deficits and the attendant rise in public and external debt have been the major source of macroeconomic instability in Pakistan in the 1990s and the last fiscal year (2007/08) proved once again that these imbalances vitiated a stable macroeconomic environment which can not be conducive for investment and growth. Indeed, Pakistan witnessed its investment rate decelerating, economic growth slowing, employment opportunities shrinking, poverty level rising, debt burden reaching alarming proportions, and foreign exchange reserves plummeting in the past as a result of macroeconomic imbalances.

4.14.3 Against this backdrop the government has taken a series of steps to stabilize the economy. The government's Economic Stabilization Programme includes a combination of stabilization measures and structural reform. The former is aimed at restoring macro-economic balance by bringing the level of demand and its composition in line with the output capacity of the economy and a sustainable external current and fiscal account position. The latter comprises microeconomic and institutional reforms directed at fostering an efficient allocation of resources and removing obstacles to optimize savings and investment. The ultimate objective of the stabilization programme is to harness long-term growth potential of the economy for more inclusive growth.

4.14.4 The macroeconomic stabilization is, unfortunately, likely to slow down economic growth, cause unemployment and push poverty rate up in the short run. Therefore, the central element in the government's strategy is to protect the poor and vulnerable from the adverse effects of the adjustment by increasing the allocations for social safety nets. In the long run economic stabilization will benefit the vulnerable segments of society. The macroeconomic framework for PRSP-II has been prepared with a view to steering the economy to a higher growth trajectory in a stable macroeconomic environment. Growth, investment, and inflation aspects of the macroeconomic framework are shown in Table.4.1.

Table 4.1: Growth, savings and investment FY 2008-13

		Benchmark	**Projections**				
Items	**Unit**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Agriculture	%	**1.5**	**3.0**	**3.4**	**3.8**	**4.0**	**4.3**
- Major Crop	%	-3.0	3.5	4.0	4.0	4.0	4.5
- Livestock	%	3.8	3.2	3.5	4.0	4.3	4.5
Manufacturing	%	**5.4**	**1.5**	**4.0**	**5.1**	**5.7**	**6.9**
- Large Scale Manufacturing	%	4.8	0.0	4.0	5.3	6.0	7.5
Services	%	**8.2**	**4.2**	**5.8**	**6.1**	**6.7**	**7.8**
- Wholesale & Trade	%	6.4	4.5	4.8	5.0	5.5	7.2
- Financial Businesses	%	17.0	3.0	12.0	11.0	12.0	13.0
Real GDP Growth	%	**5.8**	**3.4**	**5.0**	**5.5**	**6.0**	**7.0**
Inflation (CPI Based)	%	**12.0**	**23.0**	**13.0**	**7.0**	**6.5**	**5.0**
Nominal GDP Growth	%	**20.0**	**27.2**	**18.6**	**12.8**	**12.9**	**12.3**

GDP (Current mp)	Rs. Billion	**10,478**	**13,384**	**15,880**	**17,926**	**20,237**	**22,736**
		As % of GDP					
Investment	**%**	**21.6**	**19.9**	**21.3**	**23.8**	**24.5**	**24.8**
- Fixed Investment	**%**	19.9	18.4	19.8	22.3	23.0	23.3
- Public Investment	**%**	5.7	3.0	3.8	5.5	5.9	6.2
- Private Investment	**%**	14.2	15.4	16.0	16.8	17.1	17.1
National Savings	**%**	**13.3**	**13.4**	**15.6**	**19.2**	**20.5**	**21.2**
Foreign Savings	**%**	**8.4**	**6.5**	**5.7**	**4.6**	**4.0**	**3.6**
Memo Items							
Nominal Exchange Rate	Rs / $	62.5	82.0	92.7	97.3	101.6	104.7
Nominal GDP	US $ Billion	167.5	163.2	171.3	184.3	199.2	217.3
Population	Million	161.0	163.8	166.6	169.3	172.1	174.8
Per Capita GDP	US $	1040	997	1029	1089	1158	1243

4.14.5 Higher economic growth — which is indispensable for reducing poverty — will depend on the ability of the country to unlock the creative energies of the people. This requires investment in human capital and higher spending on social sector. Going forward, Pakistan will have to allocate substantially large resources for strengthening the country's physical and human infrastructure to sustain the growth momentum. However, with low domestic savings rate and low foreign direct investment, a key policy question is how to finance growth in the medium term. Pakistan has heavily relied on foreign saving in the form of international borrowing in the past to finance development. The growth model based on foreign savings has increased vulnerability of the economy in recent past and we have to reverse the recent downward trend in domestic saving.

4.14.6 To mobilize an adequate quantum of household savings, we should provide appropriate incentives so that households invest in financial assets with higher returns instead of putting money into physical ones such as land, housing, dollars and gold. One such instrument is contractual savings which has potential to fill in the demand gap for saving instruments with medium and long term maturity not only for individual but also for institutional investors. The effectiveness of contractual saving vehicles, such as pension funds, mutual funds, insurance companies, etc. in helping to increase savings has been established. Development of the debt market for government securities and corporate bonds is equally important in order to address medium and long term mobilization of saving, the development of institutional investors, the diversification of financial intermediation from commercial banks, and the introduction of advanced financial instruments.

4.14.7 Pakistan has traditionally mobilized modest national savings to GDP ratio which is hardly sufficient to finance investment need of the economy. The fiscal deficit and its financing patterns explain more of poor domestic savings ratios in the country than any other factor. The easy access to external resources to finance the deficit and creation of base money at will are two main causes of the poor domestic savings ratios in the country. The government has emerged as a major dissaver over the years.

4.14.8 The government had committed itself to fiscal discipline where the revenue deficit had to be eliminated by end of fiscal year 2008 under Fiscal Responsibility and Debt Limitation Act 2005. However, the extraordinary situation prevalent in the country forced to default on this clause. Under the new stabilization plan, the government is likely to generate savings by end of fiscal year 2010 after another year of default in FY 2008/09. Additionally, the economy has to create incentives for household and corporate savings through financial sector improvement, development of insurance sector, installing new pension funds, corporate bond markets and so on.

4.14.9 Table 4.2 documents trends in public finance. Total revenue is projected to increase from 14.3 percent of GDP in FY 2007/08 to 17.8 percent in FY 2012/13. Total expenditure between these two dates remains more or less constant at around 20 percent of GDP thereby leading to a reduction in the overall deficit. The key to the creation of fiscal space during the PRSP-II period will be a sharp increase in the tax-to-GDP ratio. This will require a reform of the tax system; the World Bank is currently preparing a study that will help the government in this area. The government has also initiated a programme of strengthening tax administration, which will include simplifying tax compliance and minimum interaction between the taxpayer and the tax official. To this end, a full description of required reforms in the area of tax administration, including an action plan for harmonizing the GST and income tax administration, will be prepared and the draft legislative amendments will be submitted to the parliament to harmonize the income tax and GST laws and reduce exemptions. The government will initiate a process to implement a full value-added tax (VAT) with minimal exemptions, to be administered by the Federal Board of Revenue (FBR). Draft legislation for the VAT is expected to be ready for public debate by end-2009.

Table 4.2: Pakistan: Consolidated Fiscal Framework FY 2008-2013

	Benchmark					
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
(Rs billion)						
Total revenue	**1,499.4**	**1,995.0**	**2,510.0**	**2,935.0**	**3,512.0**	**4,055.0**
- Tax Revenue	1,056.3	1,468.0	1,868.0	2,270.0	2,722.0	3,240.0
- Non-Tax Revenue	443.1	527.0	642.0	665.0	790.0	815.0
Total expenditure	**2,276.6**	**2,510.0**	**2,987.0**	**3,430.0**	**3,950.0**	**4,520.0**
Current Expenditure	1,857.6	2,111.0	2,375.0	2,460.0	2,755.0	3,095.0
- Interest	489.7	618.0	744.0	580.0	580.0	580.0
Development expenditure	423.4	399.0	612.0	970.0	1,195.0	1,425.0
Primary balance	**-287.5**	**103.0**	**267.0**	**85.0**	**142.0**	**115.0**
Overall balance	**-777.2**	**-526.0**	**-477.0**	**-495.0**	**-438.0**	**-465.0**
GDP	**10,478**	**13,384**	**15,880**	**17,926**	**20,237**	**22,736**
(As % percent of GDP)						
Total revenue	**14.3**	**14.9**	**15.8**	**16.4**	**17.4**	**17.8**
- Tax Revenue	10.1	11.0	11.8	12.7	13.5	14.3
Total expenditure	**21.7**	**18.8**	**18.8**	**19.1**	**19.5**	**19.9**

Current Expenditure	17.7	15.8	15.0	13.7	13.6	13.6
Development expenditure*	4.3	3.0	3.9	5.4	5.9	6.3
Net lending	-0.3	0.0	0.0	0.0	0.0	0.0
Primary balance	-2.7	0.8	1.7	0.5	0.7	0.5
Overall balance	**-7.4**	**-3.9**	**-3.0**	**-2.8**	**-2.2**	**-2.0**

4.14.10 For the government to remain fiscally responsible and prudent we need more revenue. With current undoubtedly narrow tax base, it will be difficult to generate enough resources to finance infrastructure development. The government will therefore make efforts to extend the tax base to hitherto untaxed or under-taxed sectors. Broadening the tax base will also ensure a fairer distribution of the tax burden among various sectors of the economy. The overall services sector, including wholesale and retail trade as well as agriculture, are potential candidates for broadening the tax base.

4.14.11 Medium term fiscal consolidation will be supported by strong tax policy and administration measures, and the medium-term fiscal framework assumes a further increase in tax revenue of at least 2.5 percentage points of GDP. The government will reduce exemptions under the GST and harmonize the income and GST laws in the context of the 2009/10 budget discussions. Finally, a new draft VAT law will be submitted for public debate by end 2009. The full revenue impact of this law will materialize over the medium term.

4.14.12 The government plans to use the ongoing review of the FBR to modernize the tax administration and bring it to high international standards. Improving the coverage and working of the GST to make it a proper VAT and taxes consumption rather than the narrow sectoral focus that has resulted in erosion of the base and operation of the GST. Similarly, the income taxes need to be fully implemented with a global treatment of income. The fiscal adjustment will be achieved primarily by phasing out energy subsidies, better prioritizing development spending, and implementing tax policy and administration measures. The historical level of tax-to-GDP ratio will keep Pakistan into a vicious circle of fiscal deficit, financing problem and debt trap. FBR is tasked to come up with more innovative strategies to expand its tax mobilization efforts to under-taxed and un-taxed sectors. The consolidated fiscal framework envisages enhancing tax-to-GDP ratio from its low level of 10.4 percent of GDP in 2007/08 to 14.3 percent in 2012/13.

4.14.13 The government's objective is to increase tax revenue by at least 3.5 percentage points of GDP over the medium term. This is based on strengthening the tax administration and taking parallel tax policy measures. An integrated tax administration organization on a functional basis at FBR level will report to the Chairman. This will also integrate the Income Tax and Sales Tax organizations by end 2009. A risk-based audit strategy will be implemented. On the policy side, the government will harmonize the income tax and GST laws, to facilitate joint functioning of the new administration to be included in the Budget 2009/10. Following the tax policy review in mid December 2008, the government will initiate a process to implement a full VAT with minimal exemptions, to be fully administered by FBR. The exemptions on various sectors have to be eliminated. It will enable the government to reduce marginal tax rates which will help further stimulate investment and production and will promote voluntary tax compliance. It will also ensure the fair distribution of the tax burden among various sectors of the economy.

4.14.14 Investment is the key driver of economic growth. In order to achieve the desired growth, investment rate is projected to move from 21.6 percent of GDP in FY 2007/08 to 24.8 percent in FY 2012/13. Private investment will take the lead in reinvigorating directly the production sectors — rising from 14.2 to 17.1 percent between the two dates, while public sector investment will focus on human and infrastructure development. National savings are projected to increase from 13.3 percent of GDP to 21.2 percent over this period. The savings-investment gap is therefore projected at 6.5 percent of GDP in FY 2008/09 and 3.6 percent of GDP in FY 2012/13 (Table 4.1). This shows that reliance on foreigner's savings will be reduced with the passage of time and the investment demand for higher growth would be financed from domestic savings.

4.14.15 The dynamics of macroeconomics of the country have undergone substantial change in recent years. The strategy of financing growth through higher current account deficit is seen to have failed, and the focus on production sector has to be enhanced for more inclusive growth. The people at the bottom of the pyramid need more share of opportunities in the process of economic development. Pakistan is introducing second generation of reforms with a greater focus of inclusion of people at the bottom of pyramid by creating more jobs and opportunities. The strategy will focus on small businesses which will help in resolving the problem of income distribution.

4.14.16 These are all included in the stabilization plan. In implementing its new broad-based programme for economic stabilization, the government has already taken the following actions:

- raised petroleum prices to reduce burden on the budget;
- significantly cut expenditures, particularly on subsidies;
- tightened monetary policy to fight inflation, as interest rates were raised by nearly 350 basis points (bps);
- depreciated exchange rate by nearly 20 percent between March and December, 2008;
- introduce additional measures (such as curbing forward booking of foreign exchange) to cool off import demand;
- put restrictions on the use of foreign exchange;
- committed to remove all subsidies on oil and electricity by end December 2008 and June 2009;
- eschewed further borrowing from the State Bank (on a net basis);
- imposed regulatory duties on non-essential imports; and
- Cut development spending to adhere to the fiscal deficit target of 4.3 percent of GDP.

4.14.17 In order to cushion the impact of this programme on the poor, the government initiated the Benazir Income Support Programme (BISP) with an allocation of Rs 34 billion (this is discussed in detail in the next chapter). The new macroeconomic framework reinforces commitment to target vulnerable segments of the society and an increase of 0.6 percentage points of GDP in FY 2008/09 in the social safety net spending to 0.9 percent of GDP, in order to protect the poor and cushion the impact of the elimination of subsidies on vulnerable groups.

4.14.18 The consolidated fiscal framework strikes a balance between resource availability and expenditure spree. The latter are made to decline from 21.7 percent of GDP to 19.9 percent in the medium term. The composition will shift towards growth-enhancing components — current expenditure will fall from 17.7 percent of GDP to 13.6 percent, while development expenditure is projected to rise from 4.3 percent of GDP to 6.3 percent. To keep the fiscal deficit at a sustainable level, greater emphasis is placed on additional resource mobilization. The fiscal deficit is envisaged to be reduced from 7.4 percent of GDP in FY 2007/08 to 2.0 percent in FY 2012/13.

4.14.19 A credible and prudent fiscal policy comprised of: (i) a balanced tax structure based on rational and affordable rates with minimal exemptions covering a broad range of taxpayers; (ii) an expenditure policy that aims to moderate growth in non-developmental expenditure and adequately accommodative for pressing social and infrastructure needs of a developing economy; and (iii) a prudent debt management policy.

4.14.20 The Fiscal Responsibility and Debt Limitation Act (FRDLA), 2005 binds the government to achieve revenue balance (total revenue minus total current expenditure) by the end of the fiscal year 2007/08. This target was not achieved because of extraordinary developments in the year, caused mainly by higher food and oil subsidies. The fiscal aspect of the macroeconomic framework adheres to the limit set by the Act, and accordingly a revenue surplus is maintained throughout the period of the Medium-Term Macroeconomic Framework. Within this framework, current expenditures decline from nearly 17.7 percent of GDP in FY 2007/08 to 13.6 percent in FY 2012/13. This restraint is largely brought about by declining payments for interest.

4.14.21 Pro-poor expenditures will be prioritized through a Medium Term Expenditure Framework (MTEF) that will be consistent with the FRDL Act, 2005 which stipulates that expenditures on social sectors would be 4.5 percent of GDP in any given year and that allocations for health and education would double as a percentage of GDP over the next 10 years ending in FY 2013. The targets for key macroeconomic aggregates presented in the Framework are the broad direction over the medium term and are indicative; they are not intended to preempt any future adjustments that may be required to achieve the desired targets. As a consequence of the divergent movements in revenues and expenditures, public debt is projected to decline from 56.3 percent of GDP in FY 2007/08 to 45 percent by the end of 2013. The path of the country's debt burden is consistent with the FRDL Act, 2005.

Table 4.3: Pakistan's Balance of Payments Outlook FY 2008-13

	Benchmark					
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
(US $billion)						
Trade balance	**-15.3**	**-13.3**	**-12.9**	**-13.2**	**-13.4**	**-13.7**
Exports, f.o.b.	20.1	22.5	25.0	27.8	30.8	34.2
Imports, f.o.b.	-35.4	-35.8	-37.9	-40.9	-44.2	-47.9
Services, net	**-6.3**	**-6.2**	**-6.4**	**-6.9**	**-7.6**	**-8.3**
Income, net	**-3.9**	**-3.7**	**-4.2**	**-4.1**	**-4.5**	**-5.3**
Transfers, net	**11.5**	**12.5**	**13.8**	**15.7**	**17.6**	**19.4**
Current account balance (incl. official transfers)	**-14.0**	**-10.6**	**-9.8**	**-8.5**	**-7.9**	**-7.9**
Overall balance	**5.8**	**4.3**	**0.3**	**-1.8**	**-3.0**	**-4.1**
SBP gross reserves	**8.6**	**8.6**	**11.3**	**12.3**	**13.5**	**14.5**
Memoranda:						
Nominal exchange rate (average)	62.5	82.0	92.7	97.3	101.6	104.7
Nominal GDP (US $billion)	167.5	163.2	171.3	184.3	199.2	217.3
Export Growth	**16.5**	**12.0**	**11.0**	**11.0**	**11.0**	**11.0**
Import Growth	**31.2**	**1.1**	**5.8**	**8.0**	**8.0**	**8.5**
(As % of GDP)						
Trade balance	-9.1	-8.1	-7.5	-7.1	-6.7	-6.3
Current account balance (including official transfers)	-8.4	-6.5	-5.7	-4.6	-4.0	-3.6

4.14.22 On the external side the macroeconomic framework projects a drastic reduction in the trade gap from US $15.3 billion in FY 2007/08 to US $13.7 billion in FY 2012/13 that would enable reduction in the current account deficit from US $14.0 billion to US $7.9 billion in this period (Table 4.3). As a percentage of GDP the current account deficit is projected to decline from 8.4 to 3.6 percent of GDP during this period. The reduction in the trade deficit is mainly on the back of drastic compression of non-essential imports as well as stabilization of prices of crude and edible oil along with commodity prices. Exports are expected to grow at their long-term average of 14-20 percent in the medium term. With the declining trade deficit, the current account deficit will also fall and thus necessitates external debt reduction from 27.3 percent of GDP in FY 2007/08 to 21.9 percent by the end of the macroeconomic framework period.

4.14.23 The overall vision of PRSP-II is, therefore, to steer Pakistan's economic growth back in the range of 5-7 percent per annum by stimulating growth prospects in the production sector; creating adequate employment opportunities; improving income distribution; and harnessing the country's economic competitiveness through economic liberalization, deregulation and transparent privatization.

4.14.24 The most crucial part of the Poverty Reduction Strategy is to regain macroeconomic stability and establish an enabling environment for investment. The risk to macroeconomic stability emanates from the security situation and from the turmoil in the world economy. The structural reforms to be implemented in Pakistan during the next five years should make higher domestic savings and investment a permanent feature. To ensure that macroeconomic problems do not impede the pace of job creation and poverty reduction efforts, the government will continue to review fiscal, monetary and exchange rate policies to harmonize them with stabilization goal. The country's growth prospects would be further enhanced by a more externally driven growth process, and by an acceleration of structural reforms to further improve productivity and investment climate. In this light, the PRSP-II will also endeavour to make growth more inclusive and with a human face, which is essential for improving the life of the common man. The PRSP-II will revolve around this macroeconomic framework.

Chapter 5 - Pillar II: Protecting the Poor and the Vulnerable

5.1 Assisting the poor and vulnerable is the key objective of a Poverty Reduction Strategy. Broadly speaking, Pakistan's Strategy intends to achieve its objectives in three ways. First, it seeks to create productive employment by expanding the demand for labour through a rapid growth of GDP. Second, it concentrates on the development of the country's human resources so that the largest possible number can participate in and benefit from the enlarged job offerings. However, third, the strategy recognizes that despite best efforts there will always be sections of the population that require additional support. A humane society will try to ensure that special measures are devised to deal with the problems of the disadvantaged. A particular urgency to expand existing programmes and to institute new measures has been provided by the rapid escalation in food prices in FY 2007/08, which is likely to have pushed significant numbers below the poverty line. Special measures are also required to deal with the results of natural disasters — such as earthquakes, floods, prolonged drought — which Pakistan has suffered in recent years.

5.2 Other chapters in this report deal with the first two elements of the poverty reduction strategy. This chapter takes up the third element, namely, the strategies and methods of providing special protection. It should, of course, be understood that the chapter covers only the most significant policies that inform the strategy and the institutions that will implement it. It must also be remembered that a considerable amount of social support is provided by private philanthropies, and the description of these is beyond the scope of this paper.

5.3 The social protection network

5.3.1 Over the years, a substantial safety net of direct and indirect social protection mechanisms has evolved. The direct provisions include direct transfers such as Zakat and the Pakistan Bait-ul-Mal (PBM); employment-based guarantees of income such as by the Employees' Old Age Benefit Institution (EOBI), the Workers Welfare Fund (WWF); and provincial social security benefits. Indirect provisions include subsidies on electricity, price of flour, other food items and housing. In addition, there are special programmes to construct elements of the infrastructure using labour-intensive methods, which both generates income for the poor and increases the productive capacity of the country by adding to its capital stock.

5.3.2 Between FY 2002/03 and FY 2007/08 the total expenditure on non-budgetary/social safety programmes, directly targeting the poorest and the most vulnerable segments of the society increased from Rs 16 billion in FY 2002/03 to Rs 62 billion in FY 2007/08, and the amount projected to be spent on these programmes in FY 2008/09 is more than Rs 148.6 billion[31] (about 1.1 percent of GDP and 3.74 percent[32] of total budgetary expenditures for this year)

[31] The projected amount excludes Microfinance and two components of Zakat

[32] "Includes Pakistan Bait-ul-Mal, Benazir Income Support Programme, Punjab Food Support Scheme, People's Works Programme only.

— more than double that of the previous year (Table 5.1). The National Social Protection Strategy (NSPS) also envisages doubling the number of beneficiaries during the five years 2007–12. Moreover, social care services are to be provided to about 100,000 persons with disabilities and vulnerable groups. As the system improves and more fiscal space becomes available, the programmes will be expanded.

Table 5.1 (a): Direct transfers and beneficiaries, 2001/02–2008/09

Programme	Disbursement /beneficiaries	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 Projected
Zakat	Amount disbursed (million Rs)	8,009	5,330	3,692	4,520	4,611	4,090	5,724*
	Total beneficiaries (000)	1,754	1,639	1,370	2,373	2,494	2,007	-
Pakistan Bait-Ul-Mal (all programmes)	Amount disbursed (million Rs)	2,335	3,159	3,270	3,838	3,911	5,521	7,965
	Total beneficiaries (000)	1,315	1,614	1,671	3,130	1,460	2,129	2,045**
Benazir Income Support Programme	Amount disbursed (billion Rs)	-	-	-	-	-	-	34
	Total beneficiaries (000)	-	-	-	-	-	-	3,400
Punjab Food Support Scheme	Amount disbursed (billion Rs)	-	-	-	-	-	-	21.60
	Total beneficiaries (000)	-	-	-	-	-	-	1,800
Workers Welfare Fund	Amount disbursed (million Rs)	2,236	1,944	2,006	2,609	2,791	7,840	27,975
	Total beneficiaries (000)	60	63	94	161	166	169	23
Peoples Works Programme-I	Amount disbursed (million Rs)	844	3,681	2,828	2,981	2,197	1,896	4,420
	Total beneficiaries (000)	-	-	-	52,079	24,830	44,613	60,000
Peoples Works Programme-II	Amount disbursed (million Rs)	1,064	6,588	4,031	9,900	19,998	17,255	7,184^

	Total beneficiaries (000)	-	-	-	-	-	-	-
Micro-credit* **	Amount disbursed (million Rs)	2,518	3,034	5,431	6,655	9,947	14,147	-
	Total Clients (000)	216	286	470	606	906	1,154	2,528
EOBI	Amount disbursed (million Rs)	1,592	1,742	1,929	2,899	3,446	4,227	7,464
	Total beneficiaries (000)	108	115	121	281	260	273	300

Source: For Zakat: Ministry of Religious Affairs Zakat and Ushr, for Pakistan Bait-Ul-Mal: Ministry of Social Welfare and Special Education, for EOBI: Employees' Old Age Benefits Institution, Head Office Karachi.
* Excluding Permanent Rehabilitation Scheme and National Level *Deeni Madaris*[33].
** Includes Food Support Programme and Individual Financial Assistance only.
*** From FY 2002-03 to FY 2007-08 Micro-credit data was taken from Pakistan Poverty Alleviation Fund (PPAF), Khushali Bank and ZTBL.
^ Up to 8.11.2008

Table 5.1 (b): Direct transfers and beneficiaries FY 2001/02–2008/09*

Programme	Disbursement/ beneficiaries	2003	2004	2005	2006 Actual	2007	2008	2009 Projected
People's Rozgar Programme	Amount disbursed (million Rs)*	-	-	-	27	4,958	2,337**	***
	Total beneficiaries (000)*	-	-	-	1	65	13	101

Source: Ministry of Finance, Internal Finance Wing.
*** Part of the above table, the data is based on the calendar year of National Bank of Pakistan.**
**** Up to June 2008.**
***** Projected allocation for FY2008/09 is Rs 32.250 billion**

5.3.3 For FY 2008/09, the government is finalizing a comprehensive social protection programme in response to the escalating food prices. The major change that has occurred this year is a steep increase in the targeted social protection allocations. In addition to the existing Zakat and Pakistan Bait-ul-Mal, the Benazir Income Support Programme (BISP), as described below, initiated by the Federal Government and the Food Support Programme (FSP) of the Punjab Government have together allocated Rs 56 billion for this purpose. This presents a trend break — qualitatively and quantitatively — in terms of government commitment to social protection. The intended scale of these programmes sends out a clear signal of changed priorities. The introduction of these programs also necessitates the re-visitation of existing programs to ensure a coherent strategic vision for social protection in Pakistan.

[33] Islamic schools.

5.4 Pakistan's social protection net

5.4.1 Pakistan's safety net developed largely as a series of adhoc responses to problems thrown up by particular circumstances. It is, therefore, not surprising that it contains duplicating and overlapping programmes. Moreover, since it has grown up over a considerable number of years, combines the interests of many different constituencies, and incorporates several institutions, it would be unrealistic to expect that the different elements could be merged into a seamless entity in a short period.

5.4.2 The intention, however, is to start working towards an overall social protection strategy that is both efficient and well-targeted, and minimize duplication and overlaps of programmes. It is also intended to make poverty interventions more gender-sensitive; the emphasis in developing future programmes is to ensure that they do not neglect but empower women. The ultimate aim of the government is to strengthen the safety net programs through better targeting and devise programmes that also support graduation from safety net to income generation and sustainable livelihoods.

5.5 The National Social Protection Strategy

5.5.1 In response to the challenges, a National Social Protection Strategy (NSPS) was drafted, building on detailed sectoral reviews as well as on inputs provided by all the relevant actors, both at the federal and provincial levels. The NSPS provides a framework for addressing poverty alleviation that is consistent with the PRSP, the MTDF, the Vision 2030, and other strategic documents. The vision for the Social Protection Strategy is to bring the poor and vulnerable elements of the population and the backward regions into the mainstream of development, thus reducing existing inequalities.

5.5.2 The Social Protection Strategy complements other strategies and action plans that pertain, directly or indirectly, to social protection. National policies and action plans already exist for specific vulnerable groups, for example, persons with disabilities, child labourers, children at risk of trafficking, bonded labourers, and the most vulnerable in disaster-affected areas. The NSPS seeks to complement these initiatives and to address poverty and vulnerability broadly, wherever it exists. It also seeks to coordinate implementation of all these plans.

5.5.3 One of the main objectives of the strategy is to provide a roadmap for the development of a minimum social protection package for the poor and vulnerable. For this purpose the document identifies priority areas for policy action and outlines a broad reform agenda aimed at improving programme targeting, coverage, implementation and monitoring. These priority actions are to:

- Increase access to economic opportunities among the working and entrepreneurial poor: Policies and interventions to be considered in this area are: (i) programmes aimed at employment/income generation (or active labour market programmes) such as training/skill development for vulnerable groups (disabled, youth drop-outs, and adult workers), microfinance programmes, reduction in constraints to access product markets, and public works; (ii) support for labour market institutions (e.g. unions, collective bargaining, minimum wage, social security regulations, severance programmes) that protect the poor, while ensuring labour market flexibility and facilitating formal sector growth.

- Prevent individuals (poor and nonpoor alike) from falling into poverty from income shocks. Policies and interventions to be considered in this area are: (i) social security programmes to help individuals for longevity, and to insure against disability, sickness/health, or unemployment; (ii) other programmes that provide insurance for the informal sector, such as micro-insurance, workfare, and social pensions.

- Provide basic needs for the chronic poor, and those unable to work. Policies and interventions to be considered in this area are: (i) social assistance/income support to the poor, including stipend programmes and conditional cash transfer programmes that provide incentives for human capital accumulation among the poor; (ii) programmes that increase access to basic health/nutrition and education services/early childhood development; and (iii) social welfare services (e.g., community-based rehabilitation, foster/adoptive care, street children programmes).

5.5.4 Many of these needs are strongly linked and need to be addressed holistically — unless health services are improved, the incidence of ill health will continue to rise; unless educational retention is improved, children will never be able to exit from poverty because they will be concentrated in low-return employment or remain unemployable. It is, therefore, important to address primary needs via social protection, while simultaneously focusing on the mechanisms that ensure that the exit from absolute poverty is permanent for the majority of the vulnerable and a large proportion of the chronically poor.

5.6 The strategy

5.6.1 In discussing a strategy for social protection, it is more relevant to examine the issues that such a strategy aims to address than to catalogue the different institutions that implement the strategy. Since it is now widely recognized that poverty is a multifaceted state, comprising not only low incomes but also the absence of capabilities that enable a person to lead the sort of life of life that he or she values, Pakistan's poverty reduction strategy encompasses a number of different aspects. Within the overall strategy, efforts to provide special protection to the vulnerable are directed to five key elements: (1) income support; (2) nutrition support; (3) human resource development; (4) natural disaster management; and (5) facilitating the role of the non-government and private sector.

5.6.2 **(1) Income support**

5.6.2.1 The strategy envisages three main avenues for supporting the income of the indigent: (a) direct income transfers; (b) pensions and similar social benefits; and (c) programmes to boost employment. Each of these measures is supported by one or more institutions.

5.6.2.2 **(a) Direct income transfers**

5.6.2.3 Four institutions comprise the major agents for direct income transfers: Zakat; the Pakistan Bait-ul-Mal (PBM); the Benazir Income Support Programme (BISP); and the Punjab Food Support Scheme.

5.6.2.4 **Zakat:** The institution of Zakat plays a significant role in mitigating the sufferings of the poor segment of the society, and derives from the injunction to Muslims to donate one-fortieth of their wealth to charity. It is a key instrument for social rehabilitation and reducing vulnerability to exogenous shocks. About 25 percent of the Zakat budget is given through institutions while the remaining 75 percent is disbursed directly to individuals through Local Zakat Committees (LZCs).

5.6.2.4.1 Zakat is disbursed under different programmes, such as: financial assistance (Guzara Allowance), educational stipends, health care, Eid grant, assistance to leprosy patients, national level health institutions, and marriage assistance. A total of Rs 4.1 billion was disbursed among 2 million beneficiaries in FY08.

5.6.2.4.2 In order to overcome tendency of permanent reliance on Zakat, rehabilitation schemes and technical education stipends have been introduced to support the move towards self-reliance. For example, under the Permanent Rehabilitation programme, grants of Rs10,000–50,000 for starting a small business are provided. According to a Gallup Survey, the first phase had a success rate of more than 90 percent.

5.6.2.4.3 Technical educational stipends have also helped increase the capacity of the poor. Reportedly, 88 percent of the beneficiaries of this scheme get employment or are engaged in self-employment.

5.6.2.4.4 The Zakat system is being computerized which will help ensure better control, monitoring and reformation of both collection and distribution systems of Zakat. Objectivity has been assured by subjecting families to a computer-based verification process. This process has been entrusted to NADRA, which will apply software to screen out those not eligible according to the specified criteria, and will transmit the final list of recipients electronically to Pakistan Post. Work is under way to develop a ‘smart card’ system that will ultimately become the medium for disbursement for the programme as well as for other supports that the government is contemplating to launch in due course.

5.6.2.4.5 An internal monitoring mechanism is being put in place to verify actual delivery of exact amount to the designated families. A proposal is under consideration to place the list of recipients on the website to enable instant, round-the-clock Independent Third Party Validation to verify that the families receiving the payouts do fulfill the specified criteria.

5.6.2.5 **The Pakistan Bait-ul-Mal (PBM):** The Pakistan Bait-ul-Mal has made a significant contribution towards poverty reduction by providing assistance to destitute widows, orphans, invalids, the infirm and other needy persons. The PBM disburses to the needy under a wide variety of programmes that encompass food support, child support, rehabilitation of child labour, vocational training, support to medical centres, and others. The PBM, which disbursed Rs 6 million to 25,000 beneficiaries in its initial year of existence (1992), disbursed Rs 5.52 billion in 2007/08 to around 2 million households, with an increase of only 3.5 percent in administrative cost.

5.6.2.5.1 The Pakistan Bait-ul-Mal has taken important steps towards better targeting, administration and management.

- It has a Monitoring and Evaluation Wing, which carries on the spot visits to the different districts throughout the year. The organization has developed a computerized Food Support Programme Management System (FSPMS) which ensures efficient and transparent delivery of the subsidy. Pakistan Post also monitors the programme through its Vigilance Cell.

- Similarly, the PBM's Child Support Programme (CSP) is monitored monthly and quarterly to ensure that inputs are being delivered and work schedules are complied with. The follow-up and monitoring mechanism help in preparing monthly reports containing information on quantitative and qualitative efficacy of the programme. The World Bank is also providing technical assistance to PBM on strengthening of the monitoring and evaluation system for cash transfers.

- The PBM has assigned the task of impact evaluation of the CSP to Gallup Pakistan. The impact of the programme will be evaluated in the current financial year. If the evaluation shows a successful operation, it will be scaled up in a phased way during the period of the PRSP-II.

- The PBM has developed a database of its beneficiaries that is the only available computerized information of people living below poverty line. This information can also be helpful for formulating other Poverty Alleviation Programmes. The network has been expanded to all the districts.

5.6.2.5.2 A review of existing safety net programmes indicates that the vehicle with the highest potential for scaling up is the PBM. During the PRSP-II period, steps will be taken to: (i) enhance the rate of subsidy and coverage; (ii) build on existing PBM programmes to improve design, selection, poverty targeting and coverage; (iii) institute formal, systematic procedures for the review of entitlements and the exit of beneficiaries from the programmes; and (iv) reduce leakages and improve targeting in Zakat programmes, particularly in rural areas. Obviously, given the recent launch of the Benazir Income Support Programme (BISP), all these plans will need to be carefully vetted and coordinated with the BISP plans to avoid duplication and overlap.

5.6.2.6 **The Benazir Income Support Programme (BISP):** The government is conscious of the cost being imposed on poor families from the sharp escalation in food prices. The government is committed to a policy that combines macroeconomic stability and the stability of family budgets. An important new programme is the Benazir Income Support Programme (BISP), whose objective is to provide cash grants to the poorest families in the country.

5.6.2.6.1 The programme has been allocated Rs 34 billion for the fiscal year 2008/09. It is the third largest allocation in the current budget, constitutes 0.25 percent of GDP, and will cover up to 12-14 percent of the population in low income brackets in the entire country, including FATA, Northern Areas and Azad Jammu Kashmir. Special attention has been accorded to remote areas, including those in Balochistan, Chitral, North and South Waziristan, Kohistan and Tharparkar. The next year's budget for BISP is expected to be expanded to Rs 84 billion and intends to increase coverage to 7 million families.

5.6.2.6.2 The BISP is intended to compensate economically vulnerable families for the erosion of their purchasing power. A multipurpose survey is being planned to ensure that the disbursement goes to the right person; to check the impact of the assistance on the lives of poor by the change in their nutritional intake; and to test the impact on the intra-family distribution of resources. Its unique feature is that the payment will be made only to the female head of the family. Impact on female empowerment is likely to be decisive, particularly in the context of social development. The payout is not claimed to be able to remove a family's poverty, but it should certainly serve to protect its nutritional intake to a large extent.

5.6.2.6.3 The programme will disburse Rs 2000 every alternate month to around 3.4 million families, at least for the remainder of the fiscal year 2008/09, that have a monthly income of less than Rs 6000. The impact could be quite significant. For families earning, say Rs 5000 per month, a payout of Rs 1000 will amount to a 20 percent increase in their current purchasing power. Families in low income brackets spend between 50-70 percent of their income on food. At current flour prices, Rs 1000 a month amount will be sufficient to finance 20-25 days of flour needs for a 5-6 member family.

5.6.2.6.4 At present, the BISP uses a combination of two methods for targeting. Beneficiaries must apply through forms distributed by local MNAs. Forms require applicants to provide information on a number of socio-economic characteristics, such as income, employment, formal sector employment/pensions, disability, asset ownership, and household members abroad, etc. which match the targeting criteria for the scheme. This information is verified by the nominator and by the information held for or provided by the applicant to the NADRA.

5.6.2.6.5 Selected beneficiaries must possess a NADRA National Identity Card, which will be provided free of cost and expeditiously in case a beneficiary does not possess a card. Plans are underway to incorporate a question in the forthcoming survey that will provide information on the economic status of each household, through which a clear picture of the intended beneficiaries can be seen. If all of the BISP beneficiaries are amongst the poor, the scheme will cover around 6 percent of the national population, and upto a quarter of those below the poverty line.

5.6.2.6.6 All members of Parliament have been provided equal opportunity to recommend deserving families, based on specified criteria. A serious attempt has been made to ensure maximum objectivity and transparency in the programme by separating the programme management, recipient selection, verification, and disbursement processes.

5.6.2.6.7 However, the government is aware that despite the safeguards, there is still the possibility of funds being misdirected. The authorities recognize that the design of the programme and measures for its implementation need to be monitored and strengthened and are working on ways to improve the current system to ensure that the poor are not excluded from the programme. They intend to further refine the design by switching to an objective and transparent targeting tool (such as the well-tested 'Poverty Scorecard'). With the new targeting tool rolled out/launched in December 2008; the scorecard will be the way the poor and vulnerable are identified in the country for the purpose of social protection.

5.6.2.7 **Punjab Food Support Scheme (PFSS):** The Punjab Food Support Scheme (PFSS) is a provincial programme, also initiated in 2008. It was originally designed to provide food stamps for the poorest households, but has now been converted to a cash grant of Rs 1000 per household per month. In this sense it is exactly like the BISP, except run for the Punjab Province. The targeting relies on local government officials (district and union councils) and political appointees to propose an initial list of beneficiaries. The subsidy is aimed at:

- Households that do not have a bread-earner;
- Widows, orphans, and the destitute;
- Chronically sick and/or disabled persons;
- Elderly persons who have been abandoned by their family;
- The poorest of the poor segments of the society with marginal income.

5.6.2.7.1 The scheme covers both rural and urban areas, with a total estimated subsidy of Rs 21.6 billion for 1.8 million families. The first two phases of the scheme have covered about 1 million beneficiaries.

5.6.2.7.2 The programme is being monitored in three ways: A strong database has been developed by the Punjab Government to distinguish between various categories of beneficiaries included in the scheme. The Pakistan Post Office has monitoring teams to ensure the transparency in the disbursement process, plus district monitoring teams set up by the DCOs provide a further check on implementation. Finally, an audit will be conducted by a firm of good repute in accordance with international standards.

5.6.2.7.3 The government recognizes that targeted subsidies of all kinds, especially for food, are more efficient than universal subsidies. However, while it is the government's intention to move in this direction, a prior condition is that the targeting mechanism be improved. In this connection, as mentioned earlier, the government is open to refining the targeting of BISP, while also learning from the current experience in its implementation. Furthermore, there is ample room to align and streamline all safety net programs to ensure that (a) the poorest are reached and served, (b) duplication across programmes is minimized, and (c) appropriate exit options are devised so that the poor and vulnerable can graduate from cash transfers to livelihoods and income generation. As targeting improves it will be possible to move from universal to targeted subsidies that promise to create the fiscal space for such programmes. Therefore, building the required information base to support a social policy platform that can align all social protection programs will be a medium term goal for building a robust and sustainable system in the country.

5.6.3 (b) Pensions and similar social benefits

5.6.3.1 **Employees' Old Age Benefit Institution (EOBI):** The Employees' Old Age Benefit Institution (EOBI) established under EOB Act 1976, maintains the Employees' Old Age Benefits Fund. It provides old age benefits to insured persons employed in industrial, commercial and other organizations in the private sector. The sources of revenue for the fund are the contributions and any other payments made by the employers, income from investment of the money of the institution and donations. An insured person with 15 years of contribution is entitled to a monthly old-age pension – over 60 years for men and over 55 years of age for women.

5.6.3.2 The Act currently applies to establishments employing 10 or more workers. It has registered 2.7 million workers from 56,632 industries/establishments. The EOBI is providing old age pension to 209,649 individuals; invalidity pension to 7,246 individuals; survivors' pension to 89,429 beneficiairies; and old age grant to 10,901 retirees (Table 5.2). During FY 2007/08, a sum of Rs.4.2 billion was disbursed to around 273,000 beneficiaries.

Table 5.2: Coverage and Beneficiaries of Employees' Old Age Benefit Institution

No. of industries/establishments registered	56,632
No. of workers registered	2,753,907
No. of Pensions granted	**317, 225**
Old-Age Pension	209,649
Invalidity Pension	7,246
Survivors Pension	89,429
Old-Age Grant	10,901

Source: Labour Legislation and Administration in Pakistan, Labour and Manpower Division, 2008.

5.6.4 (c) Employment

5.6.4.1 The strategy seeks to increase the income of the poor by special efforts to create additional employment. These efforts comprise programmes to boost employment directly by harnessing workers to create public assets through largely labour-intensive methods (the Public Works Programme), and others to indirectly increase employment by improving access to micro-credit.

5.6.4.2 **Public Works Programme:** The government has revived the People's Works Programme (PWP) of small development schemes that would cover such basic areas as: provision of electricity, gas, farm to market roads, and water supply. The programme would serve the dual purpose of providing employment and improving infrastructure.

5.6.4.2.1 The Ministry of Local Government and Rural Development coordinates the implementation of the PWP-I, for which Rs 4420 million were provided in the Public Sector Development Programme (PSDP) for FY 2008/09. The PWP-II is a special programme launched by Prime Minister's Secretariat for funding development schemes. The programme supplements the government's development efforts by executing small schemes in roads, electricity, education, health, water supply, sanitation, and other fields. These projects are identified by local communities according to their needs. During FY 2008/09, an amount of Rs 22 billion has been allocated under PWP-II. Year-wise expenditures under this programme from FY 2002/03 to FY 2008/09 are given in Table 5.1 (a).

5.6.4.2.2 During FY 2006/07, 3590 schemes costing Rs 2197 million under PWP-I were funded, out of which, 2729 schemes have been completed. Similarly, during FY 2007/08, 2021 schemes were funded, costing Rs 18967 million, out of which 878 have been completed. Projects in electrification and roads accounted for about three-quarters of the funds, and these will remain the priority sectors, followed by drinking water supply, during the period of the PRSP-II.

5.6.4.3 **Microfinance:** The microfinance industry grew at over 40 percent a year during the period of the PRSP-I. By March 2008, the sector had reached more than 1.7 million savers, and had a clientele of almost 1.6 million borrowers, of which nearly half were female. The provision of these loans to businesses and individuals for economic purposes helped to create additional employment in different parts of the country — microfinance service providers are present in 105 districts, including some of the most far-flung, such as FATA.

5.6.4.3.1 Six specialized microfinance banks currently provide microfinance services, with a major share of their advances going to the livestock sector, followed by micro-enterprises and agricultural inputs. Several NGOs also provide microfinance services to marginalized communities. The sector continues to grow rapidly and plans to reach 3 million borrowers by 2010 and 10 million by 2015.

5.6.4.3.2 The private sector is very active in the provision of microfinance. The Pakistan Microfinance Network (PMN) is a network for organizations engaged in microfinance and is dedicated to improving the outreach and sustainability of microfinance in the country. It also aims to establish performance measures, enhance the capacity of retail microfinance institutions through specialized training, and promoting the financial transparency of such institutions. The PMN is well-positioned with 95 percent of the total microfinance coverage and with the 20 leading microfinance institutions and banks as its members.

5.6.4.3.3 An important player in this regard is the Pakistan Poverty Alleviation Fund (PPAF) which has aligned itself with the evolving microfinance landscape in the country. The cumulative outreach of PPAF has extended to around 85 districts of the country. About 800,000 persons have been disbursed credit, with a considerable percentage of PPAF loans going exclusively to women (375,000). Upto September 2008, the PPAF had disbursed a total amount of Rs 27.5 billion to over 1.7 million borrowers.

5.6.4.3.4 The PPAF also helps to deal with special problems. Thus, in the wake of the October 8, 2005 earthquake, an amount of Rs 300 million was diverted from PPAF's existing programme to the relief effort. During the rehabilitation and reconstruction phase, the PPAF was assigned responsibility of 34 union councils in AJK and NWFP by the Earthquake Reconstruction and Rehabilitation Authority. As of September 2008, an amount of Rs 14.6 billion had been disbursed for housing reconstruction; Rs 404 million for rehabilitation of infrastructure, and Rs 392 million for reconstruction of education and health facilities.

5.6.4.3.5 Another important player is the People's Rozgar Programme (PRP). Creation of self-employment opportunities has to form part of any programme for employment generation. For this purpose, the government has made arrangements for the unemployed to have access to credit to enable them to start a useful business.

5.6.4.3.6 The Government of Pakistan has extended its support to the scheme in the form of interest rate subsidy (6 percent), credit loss sharing (up to the first 10 percent of total credit loss), life/disability insurance, and other means. The National Bank of Pakistan has disbursed an amount of Rs 6.059 billion in 42,382 cases up to June, 2008 under the Scheme. Microfinance is discussed further in chapter 11 on the financial system.

5.6.5 (2) Nutrition Support

5.6.5.1 For nutritional support to the poor the strategy relies on three major institutions:

5.6.5.2 **Food Support Programme of the Pakistan Bait-ul-Mal:** The Food Support Programme (FSP) of the Pakistan Bait-ul-Mal (PBM) is a social safety net that targets the poorest of the poor in order to provide relief from the increase in wheat prices that has occurred since August 2000. Since its inception, the programme has disbursed about Rs 23 billion. The PBM has taken important steps towards better targeting, administration, and management and has set up a monitoring and evaluation system which carries on-the-spot visits to different districts throughout the year. The programme is also monitored through the Pakistan Post Office.

5.6.5.3 **The Punjab *Sasti Roti*[34] Programme:** Hunger is an important part of poverty. The Government of the Punjab has put in place a programme to provide bread at prices that the

[34] Cheap bread

poor could afford. This requires providing flour to participating breadmakers at subsidized prices. Out of about 13,000 bread makers surveyed in the Punjab, over 5500 joined the programme. The government intends to help set up more than 30,000 subsidized bread making sites.

5.6.5.4 The programme will be monitored right down to the level of *tehsils* and *mohallahs*[35]. District governments intend to utilize services of Revenue, Cooperative, Health, and Union Council staff in the monitoring process.

5.6.6 (3) Human Resource Development

5.6.6.1 A number of institutions support the safety net by providing additional programmes for education and health. The PBM is one such institution, and provides finance to vocational training centre, hospitals and medical centres in addition to extending scholarships and stipends to poor students.

5.6.6.2 The Government of Pakistan and the provincial governments are preparing plans to provide medical insurance of about Rs 15,000–20,000 per year to the poor. The Government of Sindh has set a target of about 100,000 households to be given health insurance in the first phase. The Sindh government is also launching a scheme to provide free medical treatment for poor orphans and widows in all its districts. The Government of the Punjab is preparing similar projects.

5.6.7 (4) Natural Disaster Management

5.6.7.1 In recent years Pakistan has suffered a series of natural disasters, such as powerful earthquakes in 2005 and 2008, and major floods in 2007. These calamities killed thousands and were responsible for destroying the homes, animals, farms, and other assets of hundreds of thousands. Since Pakistan is situated on major fault lines in the Earth's crust, the likelihood of similar tragedies in the future remains significant.

5.6.7.2 A reactive emergency response remained the country's predominant way of dealing with disasters. These events were dealt with mainly under the Calamity Act of 1958, which was concerned mostly with organizing an emergency response. The country lacked a systematic approach towards managing the effects of natural disasters. The Government has therefore, established agencies namely: (a) the Earthquake Reconstruction and Rehabilitation Authority (ERRA); and (b) the National Disaster Management Authority (NDMA) to provide relief to the affectees.

5.6.7.3 **(a) Earthquake Reconstruction and Rehabilitation Authority (ERRA)**

5.6.7.3.1 The ERRA was established on October 24, 2005. The mandate of the ERRA is to plan, monitor, and regulate reconstruction and rehabilitation in earthquake-affected areas. The Social Protection Strategy (July 2006-June 2009) formulated a three-year plan of action to support the most vulnerable groups. The aim of ERRA's Social Protection Strategy is to

[35] Sectors.

ensure that the vulnerable in the earthquake affected areas are provided basic social services, livelihood assistance, and support for rehabilitation, primarily within their own families and communities and to establish linkages with the mainstream social welfare structures and services.

5.6.7.3.2 The ERRA launched massive rescue and relief operations and has initiated the following programmes to protect the poor in the earthquake-affected areas.

- **Livelihood Support Cash Grant Programme (LSCG):** LSCG was implemented in all nine affected districts of NWFP and AJK from May 2006 to October 2007. LSCG was further extended for six months for a total of 22, 2007 most vulnerable families. Monthly support of Rs 3,000 per month has benefited 267,402 families.
- **ERRA Rural Landless Programme:** The Project has been planned to provide package of Rs. 250,000 to each verified landless household. The Project is being implemented in two hases. Phase-I concluded on May 15, 2008 and Phase-II started on July 22, 2008 till March 2009. Total Project cost (Phase I &II) is US $50 million (Rs 3 billion) funded by USAID as grant and project implementation cost of US $1.72 million is provided by DFID.
- **Medical Rehabilitation of Persons with Disabilities:** The Project involves:
    - Institutional strengthening of NIRM (National Institute of Rehabilitation Medicine) Islamabad and DGQs/THQs at Battagram, Shangla, Bagh, Oghi, Atthmuqam, and Hattian Bala;
    - Construction of 50 bed Rehabilitation Centers for persons with disabilities (PWDs) at Muzaffarabad and Abbottabad; and
    - Establishment of Community Based Rehabilitation Centers in Muzaffarabad, Bagh Shangla and Mansehra. Project implementation is underway.
- **Legal Aid Centres:** This project is funded by ADB at the cost of US $512,900 which aims to provide free legal assistance to vulnerable groups in the earthquake affected areas. Under this project 18 Legal Aid Centres have been established at Tehsil level providing assistance in the cases related to documentation, administration and courts. Till November, 2008 26,321 cases have been received out of which 20,519 cases have been resolved and 5,802 cases are pending at various stages.
- **Targeted Vulnerability Survey (TVS)**: ERRA has conducted "Targeted Vulnerability Survey" with a total cost of Rs. 40.237 million to identify the vulnerable population in earthquake-affected areas of the NWFP & AJK. Affecters have been categorized according to their basic socio-economic demographic details into four vulnerable groups i.e. Orphans, Female Headed Households, Persons with Disabilities and the Elderly. In this survey, a total of 459,467 individuals and households were identified in the four categories (NWFP: 247,744 and AJK: 211723).
- **Social Welfare Complexes (SWCs) and Women Development Centres (WDCs)**: ERRA has initiated establishment of SWCs and WDCs in all the nine affected districts

of AJK& NWFP with the aim to strengthen Social Welfare Departments and to provide appropriate services to the vulnerable categories in an efficient and effective manner. SWC will house District level Social Welfare Offices which will undertake the following activities: existing SWD managed facilities (Kashana, Dar-ul-Aman, Darulfalah etc); will provide new initiatives (old people's home, hostel for orphans and vulnerable women, psychosocial support, legal assistance, child protection services; vocational training programmes; Special Education; referrals; basic medical care and community re-integration of the vulnerable groups. The WDCs will offer support and services for women in distress. It will provide vocational skill development that would create opportunities for sustainable income through skills enhancement production and marketing of goods; legal aid, psychological counseling, basic medical care, and short term residential facilities. Total estimated cost of SWC/WDC projects amount to US $15.607 million. The construction of SWC/WDC Muzaffarabad would be functional in the first quarter of 2009.

5.6.7.4 **(b) National Disaster Management Authority**

5.6.7.4.1 The Government is establishing an appropriate legal, institutional, and policy structures under a strategy to minimize the vulnerability of the population to natural catastrophes. A Natural Disaster Management Ordinance (2006) has been promulgated, which provides appropriate institutional and policy structures. These structures have been created at the federal, provincial, and district levels. They encompass responsibility for coordinating at and between these administrative levels; for monitoring hazards and risks within districts, provinces and regions; for integrating disaster risk management issues into sector development plans; for implementing policies formulated under the National Disaster Management Framework (see below); and for setting and ensuring compliance with hazard and safety standards.

5.6.7.4.2 The strategy for responding to natural disasters has been laid out in the National Disaster Management Framework. This guides the work of the entire system and has been developed through wide consultation with stakeholders at the local, provincial, and national levels. A national plan of action is being developed and will be finalized during the period of the PRSP-II. This plan will cover the entire spectrum of disaster management, including mitigation, prevention, preparedness, response, recovery and rehabilitation aspects of disaster management. Disaster management plans for the provinces have been finalized, as have those for 12 of the most vulnerable districts; plans for the other districts are being formulated and will be finalized during the PRSP-II period. The Framework will also include contingency plans for industrial and chemical disasters.

5.6.8 (5) Role of non-government and the private sector

5.6.8.1 The efforts of the government will be supplemented by: (a) NGOs; and (b) elements in the private sector. The government will work to facilitate the work of these organizations and attempt to forge partnerships where necessary to ensure that these programmes complement the government's efforts.

5.6.8.2 **(a) Rural Support Programmes**

5.6.8.2.1 The Rural Support Programmes (RSP) are the largest, non-government rural development organizations in Pakistan, working currently with 2 million rural households in 3165 rural union councils in 95 districts. These households have been mobilized into more than 130,000 Community Organizations; about 77,000 employment creation infrastructure schemes worth Rs 8.9 billion have been financed; almost one million community members received training in technical, vocational skills, and leadership; and micro-health insurance has been provided to more than 960,000 persons. Communities have accessed a cumulative micro-credit portfolio of Rs 35 billion, benefiting 2 million clients.

5.6.8.2.2 The RSP network has developed a five year, comprehensive Union Council Poverty Reduction Plan, which proposes to mobilize and identify the poorest households. The plan complements the objectives of the PRSP-II in the areas of a People's Works Programme, employment generation, social safety net, vocational training, micro-health insurance, and micro-finance for the poorest. The critical element of the plan is its methodology to identify the various bands of the poor, through household-wise poverty ranking, with PRSP inputs relevant to each band.

5.6.8.2.3 The plan's key component is its poverty targeting through the Grameen Foundation's Poverty Score Card, a census method of ranking all households in a union council. A database of ranked 900,000 households has already been created. The plan gives importance to gender balances, with a parity of 50 percent between men's and women's social mobilization. The key element of this plan is the institutional mechanism of grassroots organizations of the poor, through which the proposed plan inputs will be channelized and managed. The mechanism ensures widespread inclusion and participation, thus ensuring that the poor retain a voice in decisions that affect their future.

5.6.8.2.4 The PPAF has also commenced implementation of a World Bank (US $75 million) supported programme that focuses on social mobilization and community empowerment that concentrates on the 25 poorest districts of the country. This is a part of Pakistan's Medium Term Development Framework.

5.6.8.3 **(b) The private sector and philanthropy**

5.6.8.3.1 The government of an emerging country, such as Pakistan, does not have the resources to develop an adequate safety net on its own. Fortunately, the country possesses a lively tradition of private philanthropy — exemplified by organizations such as the Pakistan Centre for Philanthropy — that supplements the government's efforts.

5.6.8.3.2 The Pakistan Centre for Philanthropy is an independent, non-profit, support organization. It was established in August 2001 to lead the promotion of philanthropy in Pakistan. Central to this promotion, remains the effort of mobilizing resources from the private sector, in particular the corporate sector for development initiatives. In doing so, the Centre also supplements the government's poverty reduction agenda.[36] The Centre does not engage in direct philanthropy; instead, it seeks to facilitate such efforts of others through support services.[37] Key stakeholders include corporate and individual philanthropists, citizen organisations, communities and the government.

5.6.8.3.3 The Centre's mission is to increase the volume and effectiveness of philanthropy for social development in Pakistan. Its long term vision is to link the primary actors in development, i.e. the government, business, and civil society in a strengthened partnership for increased social investments. The Centre's objectives and developmental activities of raising broad societal understanding through communications and advocacy; creating an enabling environment and influencing public policy through evidence-based research; bridging the information and credibility gap between grant-makers and grant- seekers; and providing philanthropy support services through public-private partnerships in education flow out of its broader vision and mission, which ultimately supplement government's poverty reduction and development efforts. The Centre has made important contributions to poverty alleviation through support to the government's education sector reforms, to disaster relief and management (after the 2005 earthquake, the PCP mobilized over US $1.2 billion international philanthropy), and by providing inputs into the government's poverty reduction policies.

5.7 Towards a medium term strategy

5.7.3 The foregoing sections have described the main elements in the social protection strategy that will be important during the period of the PRSP-II. However, the strategy will be implemented flexibly with improvements and adaptations introduced as experience is gathered. This may be particularly likely for new initiatives, such as the BISP, or where existing programmes are significantly scaled up. In most cases, the effort will be to reduce the amount of unnecessary overlap and duplication. The process will begin during the period of the PRSP-II, but reforms will continue beyond the end of the period. The strategy will pay especial attention to two issues: the need for improved targeting, and the need to improve coordination between the different levels of government.

5.8 Need for improved targeting

5.8.3 The new social protection programme aims primarily at improving the targeting system, so that a social platform with a comprehensive database can be created on which all programmes are built and to which they are aligned. The overall objective is to move towards a well-integrated social protection system to provide social security to the poor and vulnerable.

5.8.4 In order to fulfill their mandate, the existing social protection programmes need to strengthen their targeting to ensure that they efficiently reach the intended beneficiaries. It is proposed to approach the main short term objective of reaching the poorest by: (i)

[36] Please visit: www.pakistan.gov.pk/finance-division/informationandservices/poverty-reduction.html
[37] For more information on services offered by PCP, please visit their website: www.pcp.org.pk/services.html

keeping the current benefits working and effecting a transition to better and more comprehensive systems; (ii) introducing new means testing and development of databases through some pilots across chosen rural and urban areas; (iii) scaling up successful pilots across the country following assessment and generation of lessons learned; (iv) extension of the current level of benefits to the target population of the poorest of the poor; (v) introduction of pilot Conditional Cash Transfer (CCT) programmes; and (vi) scaling up successful pilots to the whole target population.

5.8.5 The government is currently in the process of (i) revising the NSPS to better reflect the priorities of the new administration (including the creation of the BISP), and (ii) creating an institutional structure for the implementation and monitoring of the strategy. A revised strategy, together with a proposed institutional framework, should be ready by January 2009 and would then be presented for discussion and ratification by the Cabinet.

5.8.6 Given that the creation of the BISP is fully aligned with the priorities identified under the NSPS, especially in what regards the provision of income support to poor and vulnerable households, it is not expected that significant changes will be required to the document's strategic framework. However, more significant revisions will have to be considered to the institutional arrangements currently governing the sector to reflect the creation of the new implementation agency.

5.8.7 Although the BISP, Zakat, and PBM share a similar objective of providing basic support to the poorest households, they have different histories, target groups and financing methodologies and their coordination and integration will need to be improved. Moreover, numerous cash, conditional cash and in-kind transfer initiatives flourishing in various areas of the country need to be integrated.

5.8.8 In terms of the number of beneficiaries, a small fraction of those below the poverty line are covered. There are some important implications that arise from this comparison. First, the increase in fiscal commitment to targeted schemes will require more resources. Second, duplication of beneficiaries between the BISP and FSP must be avoided. The Federal and Punjab governments will require to coordinate through sharing each others' lists to minimize this occurrence. Lists of both schemes are likely to be made public so that independent third party verification can take place. Third, given fiscal constraints, it is not possible for targeted cash grants to reach all poor individuals or households. This implies that the resources will have to be rationed amongst the poor. This makes the task of targeting all the more pressing, and will require transparent and verifiable criteria.

5.8.9 The success and credibility of a targeting system depends on the ability of the state to: (a) identify the poor/vulnerable in a credible, reliable, transparent and verifiable manner; (b) reach the target group efficiently and cost-effectively; and (c) maintain the ability to monitor progress so as to graduate those who do not need help any more and to enroll those who may have fallen into bad times. Pakistan does not as yet have a comprehensive data base that identifies each household as poor or non-poor, nor a system of regular and independent verification of recipients (the PBM has had occasional external checks, but these are not built into the design of the programme). Identifying the poor has been a problem for all social protection programmes so far. Given this tenuous base of targeted provisions, the new government has increased allocations and attempted to rectify some of the arbitrary methods adopted in the schemes. Currently the government is exploring ways to support the creation of a comprehensive database through a refined poverty scorecard that can help to create a sound platform for (a) identifying the poor, and (b) aligning its targeting of cash and other transfer programmes to this single unified database.

5.8.10 Well-implemented social protection reforms are likely to bring significant benefits in human welfare and in productivity, both in the short and long run. Although each of the individual initiatives in this proposal can be implemented at its own scale and speed, the overall package put forward in the strategy is designed so that its parts jointly make a reasonable social protection system that would result in higher and more stable incomes for poor and vulnerable households; enhanced food security; a significant increase in school enrolment, attendance, and completion, and reduction in child labour; reduced rural to urban migration; and moderately lower income inequality.

5.9 Coordination between federal, provincial and local governments

5.9.3 The foregoing discussion highlights the importance of better coordination between the different executors of a social security system in order to make it efficient and equitable. This emphasizes the need to clarify the roles of the federal, provincial, and local governments and to improve coordination between them.

5.9.4 The strategy sets out to provide an effective institutional mechanism. The overall policy guidance is provided by the Cabinet Committee for Social Sector Coordination (CCSSC), as social protection is a cross-sectoral initiative. The SSCC will submit an annual report to the parliament. The day-to-day implementation and coordination will be managed by the concerned federal, provincial and local governments in consultation with the stakeholders. The main responsibility for implementation will rest with the provinces, in collabouration with districts, Bait-ul-Mal, Ministry of Religious Affairs, line departments, NGOs, community groups, and the private sector. The monitoring will be carried out with national and provincial data banks as the baseline for information, and through use of information and communication technology. The evaluation of the programmes will rest with outside and nongovernmental agencies besides the Planning Commission.

5.9.5 The federal government generally formulates strategies and policies, monitors and evaluates the implementation of the strategy (including reporting back to elected and other bodies). The role of the provinces, the districts and tehsil governments will be that of implementation and, at the lower levels of government, beneficiary identification, local-level monitoring, and evaluation of specific interventions. Given the number and different types of stakeholders, well thoughtout, strong institutional coordination at the provincial level between all stakeholders will be an important feature of the implementation of the strategy.

5.9.6 The provinces will also play a major role in developing and formulating different strategies and programmes. Some of these programmes are financed and implemented in collaboration with the federal government while others are undertaken with the cooperation of development partners. The success of these programmes depends crucially on the targeting tool used for beneficiary selection, the quality of implementation of the programme, the disbursement mechanism of the income support (to facilitate auditing and transparency), well defined entry and exit criteria, and regular monitoring.

Chapter 6 - Pillar III: Increasing Productivity and Value Addition in Agriculture

6.1 Being the single largest sector in the economy, agriculture plays an important role in Pakistan's growth and forms the major source of foreign exchange earnings. Over three-quarters of the Pakistan population are in rural areas and are dependent mainly on agriculture. About 69.5 percent of the country's labour force belongs to rural areas, out of which 43.6 percent is employed in the agriculture sector.[38]

6.2 While it is clear that Pakistan is capable of adding significant value to agricultural raw materials, demographic data show that much of the resources might not be available for significant value-added processing, because it is needed for direct consumption by the local, poor population who produce it. As the population grows, local demand for unprocessed or semi-processed agricultural raw materials will increase, placing price pressure on raw materials and reducing opportunities for food manufacturing and export. The solution adopted by the government is to increase productivity in both crops and livestock to ensure an adequate raw material supply and to combine this with increased value-added in downstream food processing. The main objectives of agricultural development during the PRSP-II period will be to ensure food security, improve the quality of agricultural commodities and achieve productivity of crops.

6.3 These objectives are driven by a longer-term strategic vision. The vision of the agriculture strategy is to raise productivity and profitability of the farming community; to enhance the living standards of rural masses; to protect the natural resource base by protecting land and water and countering situations of short water supply or drought; and to ensure food security, especially for the rural and urban poor. Achieving pro-poor economic growth policy through Public Private Partnerships in promoting agri-business, trade and investment will also be part of the core strategy. The need is to innovatively increase agricultural productivity with improved technologies and appropriate practices which also ensure environmental sustainability and the health & safety of consumers and produceRs

6.4 The current development of agriculture is based on 19th and 20th century models of development and these models which were built on the natural resource base and exploitation of natural resources of a country. The fact now is that the previous envisaged models are no longer tenable because of the increasing depletion of natural resources on the one hand and the increasing population that have to be fed. The existing system requires a complete overhaul.

6.5 Notwithstanding its declining share in GDP, agriculture is still the single largest economic sector having contributed 20.9 percent to the GDP during FY 2007/08. Growth

[38] Board of Investment (BOI) and Ministry of Food, Livestock & Agriculture (MINFAL), Government of Pakistan, FY 2006-07.

performance of components to GNP at constant factor cost (FY 1999/2000) is stated in Table 6.1 below.

Table 6.1: Performance of components to GNP growth at constant factor cost (FY 1999/2000)

Sector	2005-06	2006-07 (R*)	2007-08 (P**)
Agriculture	6.3	3.7	1.5
Major crops	-3.9	8.3	-3.0
Minor crops	0.4	-1.3	4.9
Livestock	15.8	2.8	3.8
Fishing	20.8	0.4	11.0
Forestry	-1.1	-29.5	-8.5

Note: R*: Revised, P**: Provisional
Source: Economic Survey of Pakistan, Economic Adviser's Wing, Ministry of Finance, Government of Pakistan, 2008.

6.6 Pakistan faces a formidable challenge of tackling the dual issues of economic growth and poverty reduction in rural areas where the great majority of people live. Most rural people depend either directly or indirectly on agriculture for their livelihoods. Poverty is also considerably higher in rural areas as compared to urban areas. Social uplift and economic development of the rural population would be possible through improving performance of the agriculture sector, which has strong potential to create jobs and self-employment opportunities. The existing situation demands that farming as well as other rural communities may be facilitated with financial and other resources through supply of rural credit, human resource development and setting up of associations around income generation activities. Such planned efforts would help improve the performance of agriculture and help reduce rural poverty. This would need major re-orientation of the macro-policy framework in favour of small farmers and other disadvantaged segments in rural communities. Farm to market roads will be improved to provide easy access to the farmers to market their produce. A growing agriculture sector would not only serve the purpose of rural livelihood but would also enable the urban poor easy access to cheaper food and other agricultural goods and services.

6.7 Realizing the productivity gap

6.7.1 Both non-farm employment levels and the productivity of rural non-farm employment depend critically on the performance of the agricultural sector. Three related factors have tended to push up non-farm employment and productivity growth. One is the adoption of improved technologies in agriculture which directly increase local demand for modern inputs and services as well as increasing farm incomes. The second is the impact of rising farm incomes on the structure of local consumer demand, which shifts in favour of 'superior' foods and non-farm goods and services. The third is access to improved agricultural infrastructure, such as irrigation, electric power and market roads, which by reducing farm costs per unit of output and raising farm incomes, also leads to higher productivity in non-farm sector enterprises. Evidence suggests that infrastructure development can be described as the prime mover in facilitating the generation of more productive employment opportunities in rural areas. It tends to reduce poverty by increasing labour productivity in both farm and non-farm sectors by stimulating non-farm sector development, and thereby pushing up real wage rates.

6.7.2 The public sector National Productivity Organization (NPO) endeavours to promote socio-economic development in the country through productivity (see chapter 8 on competitiveness). In collaboration with the NPO, Pakistan Agricultural Research Council (PARC) has hosted 4 projects covering food safety, Intellectual Property Rights (IPR) in agriculture, technology transfer and commercialization, and value addition of fishery products; and two training courses covering organic farming and post-harvest of horticultural crops.[39]

6.7.3 Over the years agriculture has been a beneficiary of massive investments and most of these investments have not delivered the expected results. The need is to focus on small farmers so that they may have a tradable surplus from their assets. This will depend not only on the input prices but also on the pricing of outputs of the farmer. The small farmer will also require assistance to benefit from new technological developments pertaining to the efficient utilization of factor inputs. In particular, the farmer will require assistance in using water more economically, in distinguishing the type of fertilizer (organic or chemical) that would be optimal for his soil, and in choosing the correct pesticide. At the moment he sells short and buys expensive. Input factor prices are usually at international retail prices while the inelastic output prices are based on wholesale basis.

6.7.4 Farmer Friendly schools established with the help of Food and Agriculture Organization (FAO) have enabled small farmers to embark on an integrated pest management system. This has caught on and the two in tandem; organic fertilizer and bio-pesticide should work to the advantage of farmers.[40]

6.7.5 Similarly, the Punjab Government has revived the Green Tractor Scheme during the current financial year (2008-09) to facilitate small farmers. A subsidy of Rs 2.0 billion is to be provided on 10,000 locally manufactured tractors.[41] Eligibility criteria includes the fact that land is self-cultivated by the applicant with landholding not to be less than five acres in a Tehsil; not more than 25 acres in case of irrigated area; and not more than 50 acres in case of *barani*[42] area in the whole of Pakistan.

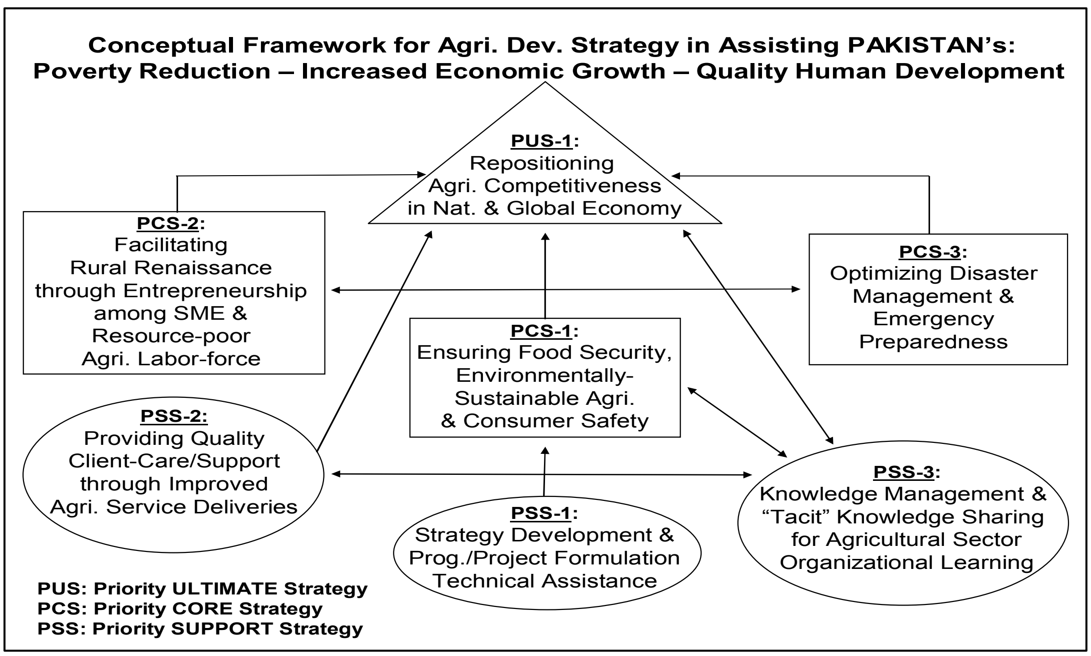
6.7.6 Such a scheme has also been approved at the federal level where it entails provision of 20,000 locally manufactured tractors with Rs 0.2 million subsidy, per unit.

[39] Ministry of Industries, Production &Special Initiatives, Government of Pakistan, October, 2008.
[40] Pakistan Agricultural Research Council, Islamabad, December, 2008.
[41] Summary approved by the Government of Punjab in August, 2008.
[42] Rain-fed.

6.8 **National Medium-Term Policy Framework (NMTPF)**

6.8.1 The National Medium-Term Policy Framework (NMTPF) 2007–2010, prepared by the Ministry of Food, Agriculture & Livestock[43] with the assistance of Food & Agriculture Organization (FAO) of the United Nations (UN), is the government's main strategic tool to facilitate resource mobilization of external technical assistance for Pakistan's agriculture sector. Pakistan is one of the eight pilot countries where the ONE UN System Reform is being implemented. The government perceives the NMTPF as a strategic planning and resource mobilization tool for developing partnership programmes with UN and non-UN agencies, the private sector, NGOs, civil society as well as other relevant organizations and financial institutions. The NMTPF was prepared through a highly participatory and consultative process with a wide range of stakeholders. The NMTPF will contain technically sound systematized and categorized Strategic Priority Areas (SPAs) which would require external technical assistance based on an integrated and coherent conceptual framework for an Agricultural Development Strategy (ADS) to assist Pakistan's poverty reduction process coupled with economic growth.

Figure 6.1: National Medium Term Priority Framework (NMTPF) for 2007 - 2010



Source: National Medium-Term Priority Framework (NMTPF) for 2007 – 2010 for Pakistan's Agriculture Sector, Ministry of Food, Agriculture & Livestock (MINFAL), Government of Pakistan and Food & Agriculture Organization (FAO), United Nations, October, 2007.

6.8.2 The PRSP-II highlights that economic growth must emanate from sectors that have greater potential to generate employment. In addition, it recognizes the need for targeted interventions for quick relief through creation of short-term employment opportunities. The

[43] As of November, 2008 this Ministry has now been bifurcated into two separate entities: (i) Ministry of Food & Agriculture; and (ii) Ministry of Livestock and Dairy Development.

table below illustrates the share of employed labour force by major sectors reflecting the highest increasing share in agriculture followed by the financial sector. For example, in agriculture which, contributes the largest share to the country's GDP; self reliance in commodities; food security through improved productivity of crops; and development of livestock and dairy – all employment and income augmenting – are being supported through: i) development of new technologies; ii) efficient use of water-precision land leveling and a high efficiency irrigation system; iii) promoting production and export of high value crops; iv) creating necessary infrastructure; and vi) ensuring availability of agricultural credit.

Table 6.2: Employed labour force by major industry sectors

	(No.s in million)			(Percentage)		
	2003-04	**2005-06**	**2006-07**	**2003-04**	**2005-06**	**2006-07**
Total	**42.01**	**46.95**	**47.65**	**100**	**100**	**100**
Agriculture	18.09	20.36	20.78	42.09	43.05	43.61
Mining	0.03	0.04	0.05	0.07	0.07	0.11
Manufacturing	5.77	6.5	6.45	13.84	13.73	13.54
Electricity & Gas	-	-	-	-	-	-
Distribution	0.28	0.31	0.36	0.81	0.67	0.75
Construction	2.45	2.88	3.13	6.05	5.83	6.56
Trade	6.21	6.89	6.87	14.85	14.8	14.42
Transport	2.41	2.69	2.57	5.9	5.73	5.39
Finance	0.45	0.52	0.54	0.89	1.06	1.14
Services	6.32	6.76	6.90	15.5	15.06	14.46

Source: Labour Force Surveys FY 2003/04, FY 2005/06 & FY 2006/07, Federal Bureau of Statistics, Government of Pakistan.

6.9 Value addition in agriculture

6.9.1 After they leave the farm, agricultural raw materials pass through three main stages: primary processing (divided into post-harvest storage, handling, and transport); extraction of the valued ingredient (e.g., edible oil from cottonseed); and finally, to the third stage of manufacturing food items for sale to the public. Each stage has its individual concerns that will be addressed by the government, by research institutions, and by the private sector. Primary value-added in the food processing chain is done by the farmer, who adds a variety of inputs to land. These inputs, e.g. seed, fertilizer, water, and labour are of major importance for the success of the value-addition process because the ultimate quality of a food product depends on the quality of the primary ingredients. All these inputs require improvement and the government will encourage public-private linkages between research institutions, extension agencies and agribusiness companies that will allow agricultural support enterprises to flourish. Table 6.3 illustrates Pakistan's agricultural growth potential. To increase competitiveness, agricultural crops and livestock must pass into a value chain and be considered as part of an integrated manufacturing system.

Table 6.3: Pakistan's growth potential in agriculture

Produce	Annual Growth Production
*Milk production (34.06m tonnes)	5.4%
Meat production (2.73m tonnes)	4.2%
Fish & shrimps (0.604 tonnes)	4.8%
Fish export (0.128m tonnes)	US $159m to US $1000m
Fruit & vegetable production	5.5%

Source: Board of Investment (BOI), Ministry of Food, Livestock & Agriculture (MINFAL), FY 2006-07 and Economic Adviser's Wing, Ministry of Finance, Government of Pakistan, FY 2007/08.
*Human consumption.

6.9.2 Agricultural (farm) costs of production are an essential factor in determining the overall competitiveness of the final food product, and the government's target is to reduce these costs compared with Pakistan's competitors. A productive and quality conscious agricultural sector producing high quality raw materials will work with agencies that preserve this value through the processing chain. High productivity of desired agricultural raw materials will be determined by the systematic needs of the food industry (i.e. demand driven), not by the fact that certain conditions may make it possible to grow a particular crop. Post-harvest losses will be reduced by removal of distortions through crop insurance to small farmers (discussed later) and greater public and private investment in innovation and improved technology.

6.9.3 The Poverty Reduction Strategy aims at forging an alliance with civil society and private sector to reduce poverty and accelerate growth. The government will continue to support public-private initiatives that connect crop and animal production with final product markets both at home and overseas. Such interventions will include promotion of contract farming, large-scale, vertically integrated agribusiness, and the development of innovative technology solutions adapted to Pakistan's conditions. New enterprises will be encouraged to locate near the source of raw materials. Close relationships between farmers, intermediate processors, and final manufacturers will be encouraged through industry associations and strategic working groups. At the tertiary i.e. final stage of the value chain, the government will emphasize the importance of presentation of food products on the supermarket shelf to consumers.

6.10 Food security and inflation

6.10.1 Hunger or discomfort caused by lack of food is a consequence of the current global food crisis, which has impacted Pakistan in the form of a price hike in food prices, including over 100 percent increase in the price of oil in the international market since April 2007, over 200 percent increase in the price of palm oil, and 150 percent increase in wheat prices. A review of price trends of essential items in Pakistan during FY 2007/08 indicates that the major portion of food inflation during this period stemmed from prices of wheat, flour, rice, edible oil, fruits, vegetables, pulses, poultry and milk, etc. However, prices of other important food items like sugar, potatoes and *moong* pulse have decreased owing to improved availability of these items in the market.[44]

6.10.2 In order to deal with this problem, the government has adopted a threefold strategy. First, it seeks to boost production by increasing the support price of key commodities. Thus, for example, the government increased the support price for wheat from Rs 425/40 kg to Rs 625/40 kg for the wheat season FY 2007/08 and Rs 925/40 kg in FY 2008/09; this should both encourage the farm to grow more wheat and also discourage hoarding of the commodity. Second, imports have been liberalized to improve the supply situation of essential commodities. Thus, the government has allowed duty-free imports of wheat and essential consumer items to augment their supplies and reduce their prices. Third, in order to ensure competition and fair play in the market, the Competition Commission of Pakistan (CCP)[45] has been empowered to prevent non-competitive behaviour in all markets.[46] The prices of essential commodities will be regularly monitored by a Secretaries Committee chaired by the Minister of Finance.

6.10.3 Ensuring food security in the long-run can be met from the southern areas of Sindh and the province of Balochistan. Palm oil in Sindh and Balochistan planted in FY 1993/94 has now been very successfully cultivated and is ready for oil extraction. To the traditional edible oil crops can be added a number of other varieties to increase employment in the rural areas. Chagai in Balochistan has a great future as it has 4.5 million hectares of land ready for mono cropping of wheat right away. Lower down is Kharan district which again has substantial land available and water that can be harvested sensibly. With Mirani dam coming in near Gwadar the scene particularly looks promising for Balochistan. The Kacchi canal and the pat feeder as also the water from the drainage canal can be used.[47]

6.11 Crop Maximization Project

6.11.1 The Ministry of Food, Agriculture and Livestock (MINFAL) and the Rural Support Programme Network (RSPN) signed a Rs 428 million contract in March to maximize crop production in over 1,000 villages across the country as part of a national food security project. Under the contract, the ministry and the RSPN will implement the social mobilization component of the Special Programme for Food Security and Productivity Enhancement of Small Farmers in 1,012 villages under the Crop Maximization Project (CMP-II). The project is being implemented in 27 districts with the aim of ensuring adequate food supply through increased production of food and cash crops. The project is expected to generate employment and provide sustainable livelihood and income in the food-insecure areas. The project will be implemented by the RSPN over a period of four years (April 2007 and beyond) in partnership with its six rural support programmes — the Aga Khan Rural Support Programme (AKRSP), National Rural Support Programme (NRSP) and the four provincial Rural Support Programmes (RSPs). A pilot project,

[44] Finance Division, Economic Adviser's Wing, Government of Pakistan, 2008.
[45] Previously known as the Monopoly Control Authority (MCA).
[46] Finance Division, Economic Adviser's Wing, Government of Pakistan, 2008.
[47] Pakistan Agricultural Research Council, Islamabad, December, 2008.

popularly known as the Sargodha Model, was implemented in three districts with results found to be quite encouraging.

6.12 Livestock and poultry sectors

6.12.1 While livestock accounts for 52.2 percent of agriculture and 11 percent of GDP, its importance can be gauged by the fact that the livelihoods of about 30-35 million people in the rural areas depend directly or indirectly on livestock and dairy sectors.[48] The livestock sector is highly labour-intensive and hence, has enormous potential to generate income for small farmers as well as for the landless and for rural women. The following areas will be in focus on during the PRSP-II period:

- Micro-credit programmes covering provision of goats, sheep and dairy animals on personal guarantee without any formal collateral. Support to livestock producers in the shape of input supply. Livestock producers would be provided with improved animal feed and artificial insemination facilities;
- Improving feed and fodder resource base, which is under great stress and continuously depleting. Similarly, knowledge of fodder grasses and fodder will be disseminated;
- The present animal marketing system is misleading since the market functionaries and middlemen exploit livestock producers. Therefore, a system of sale of live animals on meat weight basis will be introduced which will be backed with necessary legislation.

6.13 Meat sector

6.13.1 Pakistan has not been able to exploit its large livestock population to become a major player in the international meat trade. Major reasons for this include: non-development of specific indigenous meat breeds, absence of modern meat processing plants and the low priority which was accorded to this sector by policy makers in the past. Protein consumption is low by international standards. There are very few large-scale animal slaughterhouses and meat processing plants. During the PRSP-II period, the government will address these issues by strengthening programmes for health and nutrition awareness, removing distortions and improving hygiene in meat marketing, and by encouraging the production of halal meat and products for export to Muslim communities overseas. The government has recently announced a ‘Livestock Development Policy’, which is in the process of adopting a legal framework and suggests strategies and action plans for improving per animal productivity. Under this policy, the import of dairy and livestock machinery, not manufactured locally, is allowed duty free. The policy will also encourage the establishment of slaughterhouses in the private sector and allows access to credit to small farmers. Quality of the animal herd has considerably improved, thanks to better veterinary services. To further realize Pakistan’s added advantage of exporting halal food products, a Halal Certification Board will be set up under the Ministry of Science and Technology to devise and enforce halal standards and certification mechanism for export of halal food. In accordance with the Trade Policy for FY 2008/09, the available markup at 6

[48] Board of Investment (BOI) and Animal Husbandry Commission, Ministry of Livestock & Dairy Development, Government of Pakistan, 2008.

percent support on loans for setting up slaughterhouses is being increased to 8 percent or 50 percent of the markup, whichever is lower.[49]

6.13.2 If sensibly handled and projected in world markets, potential meat producing animals could improve the quality of life of the herders in Balochistan. For example, cows in Bajaur, by natural selection and by virtue of the surrounding harsh area are nutrient efficient and have the ability to produce more milk than cows in other regions. Similarly, sheep breeds are under investigation in Cholistan which have potential to provide good meat and wool; thus enabling greater income generation possibilities for the population in that area.[50]

6.13.3 A Livestock & Dairy Development Board (LDDB) has been established as a private sector-led government guaranteed not-for-profit company under the Ministry of Livestock and Dairy Development in Public Private Partnership. The company has undertaken two mega projects in meat production and milk collection respectively: The LDDB is implementing a project on “Livestock Production and Development for Meat Production” which is of 5 years duration (2005-10). The objectives include establishment of 2590 feedlot fattening farms by private farmers (1040 beef and 1550 mutton); eight slaughterhouses and 20 butcheries in the private sector along with capacity building of all stakeholders, awareness raising and legislation. The company has established its offices in all provinces mobilizing private sector investment in livestock and cattle farming; establishment of modern slaughter houses and butcheries; and increase in outreach of milk collection.[51]

6.13.4 Poultry meat contributes 19 percent of the total meat production in the country. Current investment in the poultry sector is about Rs 200 billion. The poultry sector has shown a growth of 8-10 percent annually. This sector has faced a tough challenge on account of Avian Influenza (AI) outbreak in the country. The government has provided additional incentives to increase livestock and poultry production in the country. Recent regulatory measures of the government include allowing import of high yielding animals, semen and embryos for crossbreeding, modernization of laboratory facilities to diagnose and treat livestock diseases, introduction of mobile animal health services at the doorsteps of farmers, and duty free import of veterinary dairy and livestock machinery/equipment. Construction of Animal Quarantine Facilities at various places including Northern Areas, Wahga Border, Lahore and Khokrapar, costing Rs 336 million, is a five year project (2006-2011). The project is aimed at improving quarantine facilities and establishing new entry/exit points to facilitate trade of animals and animal products.[52] The government has allowed import of incubators, brooders, evaporation cooling pads, grain storage silos for poultry, and milk and meat processing machinery not manufactured locally at zero percent custom duty. The private sector imported milk and meat processing equipment worth Rs 285 million during July-March, 2007/08. Sales exemption has been allowed for uncooked poultry meat; processed milk, yogurt, cheese flavoured milk and butter cream. In addition,

[49] Ministry of Commerce, Government of Pakistan, 2008.
[50] Pakistan Agricultural Research Council, Islamabad, December, 2008.
[51] Animal Husbandry Commission, Ministry of Livestock & Dairy Development, Government of Pakistan, December, 2008.
[52] Animal Husbandry Commission, Ministry of Livestock & Dairy Development, Government of Pakistan, December, 2008.

poultry vaccines and feed additives used in poultry feed manufacturing have been allowed at zero percent custom duty.

6.13.5 In terms of specific provincial initiatives, the following new livestock projects will be undertaken in Sindh during the PRSP-II period: (i) establishment of cattle colonies with district & private participation, Phase-I (Rs 3329 million); establishment of Centre of Excellence for Modern Technology in Animal Breeding, Sindh at Red Sindhi Cattle Breeding Farm in Tando Muhammad Khan (Rs 1466 million); construction of Taluka Veterinary Dispensaries, Phase-I (Rs 500 million); and public-private participation for developing livestock and dairy farming (Rs 500 million).[53]

6.14 Dairy sector

6.14.1 Pakistan is the fifth largest producer of milk in the world. Pakistan produced about 42.199 million tonnes of milk in FY 2007-08, with 55.1 percent of this production was contributed by the province of Punjab. The rural sector provides 71.1 percent of total annual milk production.

6.14.2 Only 3.5 percent of the total milk production is processed and marketed through formal channels. However, despite significant recent increases in total production, milk prices have still trended upwards (showing a 25 percent increase in the last 5 years). Although Pakistan is one of the world's larger producers of milk, it currently imports over Rs 3 million worth of powder milk. Countrywide, per capita milk availability is about 215.5 litres per annum, higher than most of the developing countries.[54] While milk output is relatively high, the channels by which milk reaches the consumer are rudimentary. Thus much of the productivity increase at the farm level is lost in post-farm handling and marketing. Dairy farming practices are very old and traditional and need overhauling. Furthermore, the production of processed and packaged milk (e.g. UHT milk) lags behind countries with equivalent milk supplies.

6.14.3 The government has attempted to tackle deficiencies in milk production by working with the processing industry to overcome bottlenecks (e.g., by establishing milk collection networks and promoting use of cooling tanks at the farm level). In this regards, the LDDB of Ministry of Livestock & Dairy Development is currently implementing a project entitled 'Milk Collection Processing and Dairy Production & Development Programme (2005-10)'. The project is targeting to establish milk collection and marketing network for small and landless farmers in 500 villages through provision of 300 Milk cooling units in 500 villages; to provide support to 10,000 market-oriented rural dairy farmers for production of quality breeding animals and to strengthen/ initiate progeny testing programme in Punjab and Sindh for production of progeny tested bulls of indigenous buffalo and dairy cattle breeds.[55]

[53] Government of Sindh, Planning and Development Department, November, 2008.
[54] Animal Husbandry Commission, Ministry of Livestock & Dairy Development, Government of Pakistan, December, 2008.
[55] Animal Husbandry Commission, Ministry of Livestock and Dairy Development, Government of Pakistan, November 2008.

6.14.4 To finalize and improve the industry, a private sector led Pakistan Dairy Development Company has emerged with guarantee backup of the government. The government has launched the 'White Revolution' scheme/'*Dhoodh Darya',* which aims to modernize the dairy industry with a view to increasing milk supply and ultimately improving the living standard of the rural population. This scheme intends to generate 3 million additional jobs in the formal economy and to provide an estimated Rs 350 million per day in cash flow to farmers in the sector.

6.14.5 The government has initiated a project to improve reproductive efficiency of cattle and buffaloes in smallholders' production system for the period 2007-2012 for Rs 495.15 million. The centre will produce 5000 embryos per year for farm use and supply to others.

6.15 Community based approaches: the case of Halla milk[56]

6.15.1 The struggle to remove poverty cannot be undertaken solely by the government. It will also require active participation by the community. One example of community participation effort is of women farmers who are part of a cooperative run by *Idara-I-Kissan*.[57] This *idara* has 25000 female members of whom 44 percent are landless. It has been running for the last 38 years. Under the brand name Halla, this programme has now been replicated in district Leiah and over 500 villages are now providing milk to the *idara*. Programme activities explaining the difference and social responsibility that this initiative has shown are displayed below:

Table 6.4: Community participation in agriculture

Institution building	**Extension**	**Veterinary &AI**	**Milk Marketing**	**Food & fodder**	**Women development**
Area selection	Target group formation farm mgt.	Disease prevention through vets	Village milk collection set up	Farm input supply	Livestock extension
Area orientation programme	Mgt. Farm economics	Through village vet assistance	Quality milk collection & payment	Animal feed production and supply	Mother & child care-free
Coordination programme	Health breeding	Veterinary assistance	Milk collection	As above	Goat given free
Membership	Org. aspects	Vet visits	Train milk collectors	Improved fodder seeds	Education-health
Representative programme	Training facility rural development	Village vets trained	Rain field staff marketing	Nutrition programme	Vocational schools/family planning

Source: *Idara-I-kissan*/*Halla* documents / Pakistan Agricultural Research Council, Islamabad, December, 2008.

6.15.2 The impact of these interventions includes:

- Job opportunities and economic activity at the village level;
- Regular and automatic marketing system for the farmers;

[56] Pakistan Agricultural Research Council, Islamabad, December, 2008.
[57] Institute for farmers.

- Low rate of disease prevalence and higher price of animals then the surrounding areas;
- Better price of milk for the farmers;
- Improvement in health and education and income generation of the farmer's family.
- Rural development that is sustained;
- Consumers get quality products cheaper than the other market players - Multinational Corporations (MNCs), surrogates, bakeries; and
- Halla is cheaper for the consumer, milk paid to the farmer is the same as the MNCs and the cost of production and selling is less than the MNCs resulting in a win-win situation between the farmer, the consumer and the managers.

6.16 **Fisheries sector**

6.16.1 The fisheries sector accounts for 0.3 percent of GDP. It witnessed a growth of 11 percent in FY 2007/08 against 0.4 percent during FY 2006/07. Components of fisheries such as marine and inland fishing contributed to an overall increase in value addition in the fisheries sector. New projects to be undertaken in the fisheries sector in Sindh during the PRSP-II period include: strengthening and improvement of fish and shrimp hatcheries (Rs 784 million); model village for fisherman at Dabla Para in Badin (Rs 481 million); rehabilitation and renovation of Karachi Fish Harbour (Rs 290 million); establishment of meat, fish and vegetable market at Qasimabad, Hyderabad (Rs 1.9 billion); and construction of model Fish Harbour at Keti Bunder, Thatta (Rs 500 million).[58] The following proposed programmes of the federal government aim to enhance value addition in the fisheries sector.

- **Support to coastal fishermen:** Programmes will target the boatless fishermen working as labourers as well as small boat owners. The programme will focus on areas like upgrading existing boats through enhancing modification and refrigeration of fish hold capacities and equipping with modern gadgets to make them adjust to sea climate.
- **Support to coastal fisherwomen:** Post-harvest handling of fish and fish products is carried out by women in coastal areas who lack necessary training and modern equipment, which results in enormous post harvest losses and deterioration of quality. Therefore, a programme would be launched to supply improved processing equipment backed up by training support to small-scale fishermen and women.
- **Support to inland fisheries:** The fisheries sector lacks extension support in the country resulting in poor growth and depriving it of necessary competitiveness. To address this issue a programme of streamlining of existing extension service of fisheries would be undertaken. The available diagnostic services are rudimentary and very limited which results in substantial losses of fish. This would require strengthening/establishment of diagnostic laboratories at provincial levels.
- **Introduction and promotion of fish and shrimp culture:** A project aimed at introduction and promotion of fish and shrimp culture in coastal areas of Sindh and

[58] Government of Sindh, Planning and Development Department, November, 2008.

Balochistan will be started because of the enormous potential in these areas. This programme will particularly focus on poor coastal communities.

6.17 Horticulture sector

6.17.1 Horticulture sector, which comprises production of fruits, vegetables and other high value products, has the capacity to rapidly generate incomes and jobs. Further, Pakistan has a competitive advantage in production of fruits and vegetables given their export potential. Horticulture projects, therefore, will be launched during the period of the PRSP-II targeting small farmers and women.

6.17.2 While many developing countries have seen a fairly rapid expansion in agricultural exports over the past decade, with China, Malaysia, Thailand, and India among the strongest regional performers, Pakistan's share in total world horticultural exports has actually declined. By contrast, India's total exports rose more than three-fold. Pakistan's exports have also remained heavily concentrated in low value added goods, while other regional producers such as India and Sri Lanka have improved product technology and value addition. Even in the low technology segment, such as in fresh fruits, Pakistan's exports have declined or stagnated in recent years. This stagnation is largely because of the demand in world markets for better quality products and improved traceability, related to World Trade Organization (WTO) regulations and standards, and other increasingly stringent standards in developed markets.

6.17.3 The last comprehensive survey of the manufacturing sector estimated that there were 4,474 firms based across all sectors and that the food and beverages sector accounted for 984 firms. It is estimated that about 1.5 million people may be employed in small and medium horticultural enterprises. The enterprises engaged in hortibusiness are generally either micro-scale village based activities, or large-scale operations being undertaken by nationally recognized companies.[59]

6.18 Agriculture, globalization and international competitiveness

6.18.1 Increasing global inter-linking due to globalization has made it mandatory for Pakistan to introduce new regulatory rules and bring fundamental changes in its agricultural production regimes including: the adoption of Sanitary & Phyto-Sanitary (SPS) measures; Good Agricultural Practices (GAP); and Good Manufacturing Practices (GMP) in agricultural production and processing. By meeting World Trade Organization (WTO) agreements and requirements, agricultural export commodities from Pakistan can have a better opportunity to compete globally in meeting the demand of a dynamic market and shift in consumer preferences for high-value crops. With evolving of WTO Regime and Regional Trade Agreements, the country needs to know/monitor the development of tradable commodities both domestically and internationally and suggest steps to position the Pakistan Agriculture in the emerging environment. Investments in transport & preservation technologies are

[59] Agribusiness & Diversification Project, MinFAL, Government of Pakistan, November 2008.

already underway in Pakistan through appropriate government interventions and triggers, which will improve the entire value chain in agro-industries.

6.18.2 Capacity building on WTO issues is an area of high priority, and for this purpose, an Agricultural Policy Institute (API) was established in 2006[60] to develop MinFAL's capacity for improving its negotiation strategies on WTO issues and other trade-related analysis and intelligence for promoting export of agricultural commodities and value-added food-related products. The purpose of the API is to advise the government on formulating agriculture policy in order to make Pakistani agriculture profitable, competitive and sustainable in light of emerging global and domestic policy issues in the agriculture sector.

6.18.3 Taking the case of Balochistan, the rural population increased from 1.5 million in FY 1998/99 to 3.2 million in FY 2006/07. While poverty rose in rural areas, it declined slightly in the urban areas. Balochistan's main drivers of economic recovery i.e. small scale trade; agriculture product markets; and government spending & services, have generated incomes in cities.[61] The principle challenge is that rural households obtain a share of the overall national economic growth. The province is unfortunately a regular victim of drought and earthquakes[62]. More public resources need to be allocated to lower the incidence of poverty in the region. In this light, the Agricultural Planning Directorate (APD) was established in FY 1992/93 under the Directorate General of Agriculture Extension in Quetta. According to a study undertaken by the APD in Balochistan, agriculture is the largest sub-sector consuming 97.3 percent of total available water resources in the province. In addition, agriculture provides majority livelihood to rural communities in the region. Restructuring of APD to convert it into a 'High Performance Planning Institution' is being considered to be done in three phases spread over a period of three years to overcome its deficiencies.[63]

6.19 Establishment of agro-based industries

6.19.1 There is enormous potential for establishment of agro-processing and other related industries for which agriculture is the source of raw material. This arrangement would help in increasing job opportunities for the rural poor as well as help reduce the present trend of rural migration to urban centres.

6.19.2 Agribusiness sector has the potential to be a source of economic growth and income generation with small farmers as major beneficiaries. There is a need for implementation of a project that will help to enhance the quantum of export especially of horticulture and floriculture items and value addition. The government signed a loan agreement with Asian Development Bank, and approved Agribusiness Development and Diversification Project. This is a five year (2006-2010) project aimed at addressing constraints impeding development of the agribusiness sector, and exploiting domestic and export market

[60] The Government of Pakistan reconstituted APCom as API in December, 2006.
[61] Government of Balochistan, Planning and Development Department, October, 2008.
[62] See chapter 5 for a discussion on government efforts in disaster management.
[63] "Water for Balochistan: Policy Briefings", Volume (4), No. 11, 2008, Department of Agriculture, Government of Balochistan, ADB and Royal Government of Netherlands, 2008.

opportunities in the sector, thereby contributing to increased economic growth and rural employment. [64]

6.19.3 The project objectives are to support economic growth and job creation through competitive and sustainable agribusiness development. The project focuses on development of horticulture, hortibusiness, livestock and dairy sub-sectors. Project objectives are to support economic growth and employment generation through competitive and sustainable agribusiness development. The project interventions focus on increased productivity, product quality, and value addition by removing constraints facing agribusiness that occur throughout the product value chain from production and input supply to processing and exports. Interventions include: (i) improving the managerial; production, and processing skill levels of entrepreneurs and farmers to ensure the production of good quality raw material and uniform and high standard products; (ii) supporting identified banks in increasing agribusiness lending to allow stakeholders exploit market opportunities; (iii) re-orienting government institutions to become facilitators of agribusiness development using Public Private Partnerships; (iv) improving the policy, regulatory, and financial environment to make it more responsive to private sector needs, and encourage producers and entrepreneurs to invest in agribusiness; and (v) establishing the framework and standards to comply with stringent international standards. The project components include the following:[65]

6.19.3.1 **Agribusiness Support Service Provision:** The project includes a component that aims to facilitate increased access to Business Development Services (BDS) through agribusiness enterprises by financing eligible services for capacity building, including technical, managerial, financial, and marketing skills. To achieve this objective the Project has established Agribusiness Support Fund (ASF) as a not-for-profit company under Public Private Partnerships that is providing matching grants to eligible agribusiness enterprises, farmers, research and extension service providers, and BDS providers.

6.19.3.2 **Agribusiness Finance Development:** The project will also support development of financial services, particularly credit, to agribusiness enterprises that do not have ready access to such services. The project has through State Bank of Pakistan identified 6 participating financial institutions (PFIs) to develop their understanding of the potential agribusiness finance market, and to enhance their capacity to undertake agribusiness lending. Agreement has been signed with an international consultancy firm for capacity building of participating financial institutions. These banks would be in a position to launch their financial products within 20 to 24 months.

6.19.3.3 **Agribusiness Capacity Building:** The capacity building focus is on horticulture, hortibusiness, livestock and dairy sub sectors. The objective of this component is to increase private sector participation in provision of services currently provided by public

[64] Agribusiness & Diversification Project, MinFAL, Government of Pakistan, November 2008.
[65] Agribusiness & Diversification Project, MinFAL, Government of Pakistan, November 2008.

sector institutions. To facilitate agribusiness development and international compliance, the Project will support the rationalization, restructuring, and coordination of relevant MINFAL agencies and offices concerned in alignment with WTO regulations and international product standards.

6.19.3.4 **Market Information Services:** The objective is to improve availability of market information, identified as a significant constraint to agro-enterprise expansion. The Project will promote the development of information through outsourcing. This component is to be executed by the Department of Agriculture and Livestock Products Marketing and Grading (DALPMG) under which an appropriate private sector provider will be supported to develop a system that will initially focus on 11 major wholesale markets in the county and Pakistan's major export markets for fruits and vegetables.

6.19.3.5 **Horticulture Project Unit:** This Unit has been established within Pakistan Horticulture Development and Export Board (PHDEB) with the objective to develop more effective linkages between the public sector and private agribusiness. The unit has developed a comprehensive programme that will help implement project activities in the horticulture sub sector and facilitate interaction with agribusiness enterprises. In accordance with its mandate, the Unit is assisting by: (i) contributing to and supporting provincial and special area horticultural policy task forces in developing horticulture policies for each province and special area; (ii) in association with provincial and special area project implementation offices (PlOs), identification of potential recipients for ASF cost-sharing grants, and forwarding grant applications to the ASF; (iii) identification of enterprises, farmer group enterprises, and processors to determine training, extension, and research needs; and organize their training; (iv) identification of farmer groups, exporters, packers, and processors that wish to become internationally compliant, and help them obtain project support; and (v) work closely with the project horticulture and hortibusiness consultants to support their activities.

6.19.3.6 The project also comprises components that deal with export quality certification, seed and planting material certification, and training and capacity building.

6.19.4 Development of Agribusiness Policy

6.19.4.1 This component will assist the Government to develop an appropriate policy and enabling environment for private-sector-led agribusiness development. This includes national and provincial interventions to redefine roles and responsibilities in the sector; strengthen regulatory framework, in particular for alignment with international standards; and create effective public-private partnerships to promote sector development. The project will support the development of the regulatory framework, and establish quality and certification requirements for locally produced products to align with international standards. In particular, the project will assist the WTO cell in MinFAL to formulate amendments to the legal framework to align with commitments made in regard to sanitary and phytosanitary measures in Pakistan's agreements with WTO. The project will also help

MINFAL develop programmes to collate and disseminate information relating to international standards to relevant stakeholders in both private and public sectors.

6.19.4.2 **Agro Food Processing Facilities (APC), Multan:** Small Medium Enterprise Development Authority (SMEDA), in collaboration with Punjab Small Industries Corporation (PSIC), Mango Growers Association Multan (MGAM) and Multan Chamber of Commerce and Industry (MCCI) is establishing Agro Food Processing Facilities. The Facility is expected to be operational by June 2008. Nature has blessed Pakistan with an ideal climate for growing a large variety of vegetables and fruits. Agricultural sector is directly or indirectly contributing 25 percent towards GDP. Pakistan has a total fruit and vegetable production of about 5,900,881 and 6,171,986 tonnes respectively. According to Agriculture Department, 30 percent of vegetables/fruits are wasted due to negligence and lack of processing facilities, which could convert them into non-perishable form, permitting its transportation and storage without wastage. With the spread of education, change in habits of populace, growth in working women force and increase in per capita income & urbanization, the demand for processed vegetable/fruit products is increasing progressively. The introduction of agro food-based Common Facility Centres enables minimal post harvest losses. The Centre will comprise of fruit processing (Mango and Guava Pulp) and vegetable processing (Fresh Fruit/Vegetable Grading and Packing) facilities and also provide training and consultancy services to SMEs. It is envisaged that the Project will minimize post harvest losses, increase income of growers and exports from the country.

6.19.4.3 **Punjab Agrimarketing Company (PAMCO):** The Punjab Agrimarketing Company (PAMCO) has been formed by the Government of Punjab, Pakistan under the public-private initiative to energize the agriculture business in Punjab. Investments in agribusiness which PAMCO will initiate and will in turn, improve the lot of the common farmer through targeted interventions to accomplish the following objectives: providing easy market access, adding value to farm produce, making farm products competitive and reducing post harvest losses. PAMCO is a corporate entity backed by the Government of Punjab ad managed by highly qualified private sector professionals. PAMCO operations are overviewed by a Board of Directors to ensure autonomy of the Company. PAMCO's mandate is to attract private sector investment in agribusiness with special focus on: facilitating investors, providing advisory services, investing in projects, supporting entrepreneurs and promoting trading activities.

6.19.4.3.1 PAMCO's immediate concern is increasing the marketability period of perishable commodities in Punjab which include fruits and vegetables, dairy, fisheries, livestock, floriculture and poultry. This will be accomplished by encouraging private investment in (i) cold chain infrastructure – cold storage facilities at airports, urban and production areas, refrigerated transport via road, rail and air and (ii) food processing units – mango pulping, *kinnow*[66] processing/concentrate, onion processing/dehydration, tomato preservation and potato processing.

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[66] Oranges.

6.19.5 Other major agricultural initiatives being undertaken by the government are illustrated in the box below.

Box 6.1: Major federal agricultural initiatives

- Special Programme for Food Security and Productivity Enhancement of Small Farmers in 1012 Villages (Rs 8013.5 million)
- Establishment of Facilitation Unit for Participatory Vegetable Seed and Nursery Programme (Rs 497,5 million)
- Agribusiness Development and Diversification Project (Rs 4066.0 million)
- National Agricultural Research Programme (Rs 2963.0 million)
- National Programme for Improvement of Watercourses (Rs 66373.5 million)
- Water Conservation and Productivity Enhancement Through Efficiency Irrigation (Rs 18000 million)
- Land and Water Resources Development Project for Poverty Reduction (Rs 3400 million)
- Agriculture Sector Development Loan Project (Phase-II) (Rs 10029.5 million)
- Monitoring of Crops Through Satellite Technology (Phase-II)
- Managing Burewala Strain of Cotton Leaf Curl Virus and Up-gradation of Cotton Research Institutes (Rs149.1 million)
- Restructuring and Strengthening of Agricultural Research System, Balochistan (Rs 723.9 million)
- National Biosaline Agriculture Programme (Rs 859 million)
- Production of Bioenergy from Plant Biomass (Rs 260.3 million)
- National Pesticide Residues Monitoring System in Pakistan
- Biological Control of Major Cotton Pests in Pakistan with emphasis on Mealy Bug
- Strengthening of Livestock Services for Livestock Disease Control in Pakistan (Rs 714.8 million)
- Prime Minster's Special Initiative for Livestock (Rs 1696.4 million)
- Livestock Production and Development of Meat Production (Rs 1500 million)
- Milk Collection, Processing and Dairy Production (Rs 1600 million)
- The White Revolution/'*Dhoodh Darya*' (Rs 2654.4 million as federal share)
- Improving Reproductive Efficiency of Cattle and Buffaloes in Small Holders Production System (Rs 489.9 million)
- National Programme for the Control and Prevention of Avian Influenza (Rs 1184.1 million)
- Aquaculture and Shrimp Farming (Rs 1997 million)

Source: Planning Commission, Annual Plan 2008/09, Government of Pakistan.

6.20 Special programmes for reducing rural poverty

6.20.1 In order to generate economic activities and facilitate rural communities the following programmes will be initiated. These jobs have the potential to generate job opportunities and promote growth of the agriculture sector if coupled with the necessary package of technologies and strong implementation arrangements.

6.20.2 **Supporting destitute farmers:** A comprehensive programme should be launched to support destitute farmers under which farmers may be provided agricultural inputs on delayed payment in kind with a package of technology. The implemented strategy will need to be based on cost sharing and a completely participatory approach. This intervention would also cover capacity building and training of the resource-poor farmers and organizing them into associations.

6.20.3 **Support to landless and other disadvantaged groups:** Rural landless comprise the poorest of the poor segment of Pakistan. They lack awareness and access to development programmes since traditional development has generally failed to focus on them. Therefore, a programme to include these groups in mainstream development would be initiated at grassroots level. This programme will include launching of income generation activities, and schemes for training disadvantaged groups to be more vocal for their rights and wages, etc.

6.20.4 **Support to rural women:** Rural women are key players of crop production activities with no or little institutional support. As a case study, the role of cotton picking women would be focused and programmes may be initiated to improve their situation. They will be provided with necessary knowledge support in efficient picking; informed of measures to protect them from environmental hazards caused by increased chemical spraying of the cotton crop; and providing training and information on income-generating activities.

6.20.5 **Facilitating access to inputs:** Measures have been taken in the Budget FY 2008/09 to help increase farmer productivity including supply of fertilizers at subsidized rates. An amount of Rs 35 billion has been allocated to subsidize the cost of urea and to enhance subsidy on DAP from Rs 470 to Rs 1000 per bag; availability of agricultural credit will be ensured; fertilizers and pesticides have been exempted from sales tax; and numerous schemes to improve water availability and conserve water wastage have been initiated (described below). Special focus is being given to small irrigation projects in Balochistan. The government has negotiated projects for US $38 million to improve management of water resources in the Indus River basin and for US $25 million for Balochistan Small-Scale Irrigation Project.

6.20.6 **Facilitating means of irrigation for farmers:**[67] The binding constraint on agriculture in Pakistan is water. While water shortages affect almost all the provinces, Balochistan is the most arid and is particularly hard hit. A special effort, therefore, will be made to increase the supply of irrigation water in that province. The irrigation system in the province of Sindh has also deteriorated, and measures to restore it will continue during the PRSP-II period.

6.20.6.1 The government has approved Rs 12.963 billion for rehabilitation of irrigation and drainage systems in Sindh and Rs 2.15 billion for construction of 20 delay action dams in Balochistan. A meeting of the Executive Committee of the National Economic Council (ECNEC), presided by the Prime Minister also approved Rs 2.637 billion for construction of Shadi Kaur Dam and related projects in Balochistan. The Shadi Kaur Dam will be built 50km north of Pasni (Balochistan) and will contain storage capacity of 37,000 acre feet of water. It will irrigate 7,600 acres of agricultural land and provide drinking water to 15,000 people.

6.20.6.2 The dams falling on fan areas will store water during the rainy season and let it percolate in order to create artificial recharge for a sustained flow during dry months. The dams will be

[67] Government of Pakistan, November, 2008.

built in districts Awaran, Kalat, Bolan, Chaghi, Gwadar, Khuzdar, Qila Abdullah, Qila Saifullah, Kech, Lesbela, Loralai, Mastrung, Musakhel, Panjgur, Dishin, Quetta, Washuk, Ziarat and Zhob. The project on completion will store 55,000 acre feet of additional water and benefit 35,000 acres of agricultural land. It will also recharge groundwater and more than 13,000 households will benefit from it. The dams will be completed in three years and over 5,000 skilled and non-skilled people from Balochistan will be engaged in the construction work. The project will help raise the value of agricultural crops from Rs 17.42 million a year to Rs 389.53 million. Income per acre is expected to rise from Rs 12,778 to Rs 25,650.

6.20.6.3 A Rs 12.963 billion worth project for Sindh includes strengthening of canal and drain banks (8,082 km), silt clearance of branches (3,635 km), stone pitching of canal bank (380 km), repairing and remodeling of 241 regulators, rehabilitation of 201 bridges, repair and extension of 11,725 modules, revamping and rehabilitation of the salinity control and reclamation project for tube wells and re-sectioning of 568 km surface drain. This will ensure safety of the canal system and provide water to tail-end farmers. All projects will be financed by the federal government with financial assistance from international lenders.

Box 6.2: Pro-poor agricultural development of Azad Jammu & Kashmir (AJK) (Rs million)

Ongoing projects and approved costs	New projects
Crops & horticulture	
Cultivation of vegetables around townships in AJK (Rs 14.015)	Supply of agricultural inputs through public-private partnership (Rs 200.0)
Promotion of mechanized farming for agriculture productivity enhancement (Rs 115.726)	
Promotion of red beans cultivation in Northern parts of AJK – Neelum, Leepa and Haveli (Rs 7.173)	
Agriculture development in AJK (Rs 33.765)	
Establishment of floriculture nurseries & introduction of cut flowers in AJK (Rs 29.321)	
Integrated pest management services for farmers (Rs 39.14)	
Livestock	
Poverty reduction in earthquake affected areas through restocking of small ruminants & poultry birds in AJK (Rs 13.255)	
Establishment of growth points for milk and meat at Plandari, District Sudhnoti (Rs 39.705)	
Promotion of commercial poultry farms and hatcheries for the production of eggs and integrated land management project, District Poonch (Phase-IV) (Rs 42.966)	
Wildlife	
Establishment, conservation and management of new protected areas in AJK (PC-II) (Rs 3.60)	Community based wildlife conservation through introduction of trophy hunting in AJK (Rs 40.0)
Protected areas management project (Machiara National Park) (Rs 18.285)	Support to mountain areas conservancy fund (Rs 8.0)
Fisheries	
Feasibility study for fisheries development in Mangla & surrounding areas (PC-II) (Rs 1.60)	Conservation of Mahsheer in AJK (Rs 50.0)

	Establishment of modern trout fish hatcheries, District Neelum (Rs 37.206)

Source: Planning & Development Department, Azad Government of the State of Jammu & Kashmir, Pakistan, October, 2008.

6.21 Sustainable Development Plan in the Federally Administered Tribal Areas[68]

6.21.1 The Federally Administered Tribal Areas (FATA) of Pakistan are located along the country's border with Afghanistan. The last three decades have seen turmoil and instability across the border spillover into FATA. Increasingly impoverished and marginalized, its people have also become vulnerable to exploitation at the hands of criminal and extremist elements. Today the region is once again in the spotlight, not simply for reasons of internal security but also because of its status as a staging post for geopolitical developments with global repercussions.

6.23.1.2 The economy in FATA is based on agriculture and the subsistence-level use of natural resources. However, agricultural production is low and natural resources are severely depleted. Commerce and industry provide jobs to many FATA residents but these sectors operate on a small scale and cannot absorb more than a limited share of the working population. The workforce is largely unskilled, further hindering commercial and industrial expansion. Infrastructure is thin, depriving the population of access to sufficient education facilities and healthcare. Development initiatives undertaken so far show a marked absence of cohesive planning and have instead been carried out in a compartmentalized fashion, concentrating narrowly around specific sectoral activities At this critical juncture, a long-term strategy is needed to steer development planning so that flux and uncertainty may give way to positive change that will create stability, security and hope for the future.

6.23.1.3 The **FATA Sustainable Development Plan (SDP)** aims to steer development planning in a new direction, focusing on the people at the grassroots level. It identifies the people as its main focus of development and its instigators. The key objective is to foster social and economic development based on the principles of equity and participation. The SDP outlines measures to improve services, upgrade infrastructure, promote sustainable use of natural resources, and generate activity in the industrial, trade and commerce sectors. It also provides an independent monitoring and evaluation framework to support, assess and strengthen development initiatives.

6.23.1.4 Rather than replicating the narrow focus of the past, the SDP takes an integrated approach to development planning, combining economic and social development with environmental integrity and poverty alleviation. While the core components of the plan are structured around specific sectors, the vision is holistic taking into account major cross-cutting themes ranging from broad structural concerns such as governance and institutional capacity to the more normative considerations of social cohesion and cultural identity. The Plan is flexible and adaptable, comprising of a two-phased implementation schedule. Priority interventions are planned for the first phase, spanning a period of five years, followed by a second four-

[68] FATA Sustainable Development Plan (2006-2015), Civil Secretariat (FATA), Government of Pakistan, 2006.

year assessment and consolidation period. Primary responsibility of preparing the FATA SDP lies with the Civil Secretariat in FATA, in partnership with the World Conservation Union (IUCN), Pakistan. The total cost for implementation of the long-term SDP is Rs 124.108 billion, which will be met through the federal Public Sector Development Programme (PSDP) and assistance from development partners.[69]

6.23.2 **Agriculture in FATA:** Agriculture is the lifeline of the people of FATA. Small landholders, who make up the majority of farmers, practice agriculture mainly at the subsistence level characterized by the underutilization of land and the prevalence of risk-averse behaviour patterns such as the cultivation of low input crops. The soil and climatic conditions favour the cultivation of cereals, fruits and vegetables but agricultural productivity has remained low. The irrigated midland agricultural system is based on wheat, oilseed and pulses, with some fodder and vegetables, mainly onion in the winter (October-March), while maize, sugarcane, rice, potato and tomato are grown in the summer (April-September). Household income is supplemented by the cultivation of high-value produce such as apple, apricot, date, fig, grape, peach, persimmon, plum, pomegranate and walnut. Significant scope exists to increase off-season vegetable cultivation. Wheat production falls far short of needs and the deficit is obtained from other parts of the country or abroad. Women play a major role in agricultural activities. They work in orchards while men are primarily responsible for land leveling, sowing and irrigation. In areas where women are relatively mobile, both men and women share responsibility for weeding, harvesting, threshing and seed storage.

6.23.3 **Main issues:** There is poor coordination between various actors involved in land and agriculture management, and procedural problems arise particularly when it comes to purchasing dry land agriculture machinery. Farmers lack access to improved seed varieties and do not have the relevant skills to produce high-yield seeds. Other inputs such as pesticides and fertilizers are also in short supply. Where inputs are available, quality is suspect, and no legislation exists in the tribal areas for the purpose of regulating the standard of reliability of farm inputs. Credit is not available through mainstream financial institutions. As a result, farmers turn to private lenders that offer highly unfavourable terms. Marketing problems persist in the absence of adequate infrastructure such as grading plants, cold storage facilities and farm-to-market roads. This creates waste and lowers the sale price of agricultural produce.

6.23.2.1 Forests are an integral part of the rural economy, playing a significant role in the local livelihoods particularly in the mountainous regions. Forests meet the fuel, fodder and timber requirements of the rural population, besides providing critical ecological services. Forests create jobs, particularly in operations such as felling, transportation, saw mills and sale depots. Commercial undertakings including charcoal kilns and furniture factories also rely on forest resources. At the subsistence level, the collection and sale of medicinal plants, work generally done by women, helps provide much-needed income support for

[69] Planning & Development Department, FATA Secretariat, Government of Pakistan, November, 2008.

poorer households. However, forest area in FATA is declining rapidly as a result of timber extraction (legally for local use and sale and for export to areas outside FATA), prolonged periods of drought, uncontrolled grazing, and pressure from fuel wood and fodder collection. The gap between production and use is widening, and the current levels of extraction are unsustainable. Over-exploitation has affected the natural regenerative capacity of forests. With forest resources rapidly disappearing, environmental services provided by natural ecosystems have also diminished. Land erosion has led to denuded hills unable to retain soil or water. Erosion increases the incidence of flash floods which wipe away crops, farmland and valuable infrastructure, while lower water retention has led to a drawing down of the water table, creating scarcity where none existed a few generations ago.

6.23.3 **Objective and strategies:** The SDP aims to increase the contribution of agriculture to the local economy, making it a key source for sustainable livelihoods in the area. A people-centered approach is critical so that inputs and support can be provided where they are needed most and where they will provide the most benefit. This plan will be implanted by means of the following strategies:

- Support the shift from subsistence agriculture towards market-oriented production;
- Adopt a ‘pocket area’ approach to designate zones where one specific crop with a comparative advantage will be promoted, providing necessary facilities, inputs and extension services. This effort will involve collaboration between the government, local farmers and the relevant industries. Industries will play a major role in agriculture extension services including phytosanitary measures, storage pre-processing and marketing, as well as the provision of appropriate seeds;
- Reclaim cultivable wasteland for the benefit of poor households;
- Expand the availability of water and improve the efficiency of supply systems in collaboration with the irrigation and water management sector;
- Increase the income of farmers by providing loans, access to makers and quality agricultural inputs;
- Maximize soil efficiency, minimize farm inputs, improve the quality of farm products and reduce post harvest losses by introducing environmentally friendly and area specific research-based technological packages;
- Improve agriculture data collection, compilation and analysis for effective planning and monitoring;
- Develop institutional and human resources of government and non-government service providers; and improve the working of existing farm service centres. Introduce performance-based budgeting;
- Improve water management practices in collaboration with the relevant management authorities by introducing efficient water use technologies, and constructing small dams, ponds and reservoirs. Carry out a technical assessment of groundwater;

- Introduce the use of bio-pesticides;
- Involve women in service delivery;
- Ensure availability of micro-credit;
- Carry out adaptive research to support the shift to market-oriented production; and
- Promote agro-forestry, off-season vegetable production and olive cultivation.

6.23.3.1 Key objectives and strategies under the SDP related to improved livestock and poultry production include:

- Improve access to animal health services;
- Increase the number of female livestock extension workers;
- Improve the condition and productivity of rangeland in collaboration with tribes, farmers, herders, research institutions and forest directorates;
- Introduce new species of fodder in collaboration with research institutions, farmers, tribes and herders;
- Enhance livestock production through breed improvement; and
- Declare 'pocket areas' for dairy production, with linkages to agroindustry for marketing service delivery

6.23.4 The proposed budget for SDP interventions in the agriculture sector is shown in the table below:

Table 6.5: Agriculture (FATA SDP budget 2006-15)

Activity	Budget (Rs million)		
	Years 1-15	Years 6-9	Total
Development of 'pocket areas'	700.0	300.0	1,000.0
On-farm water management	500.0	200.0	700.0
Land reclamation	3,160.0	2,940.0	6,100.0
Agricultural extension and institutional support	600.0	300.0	900.0
Women's extension services	250.0	150.0	400.0
Agricultural research	600.0	400.0	1,000.0
Database, management information system	5.0	10.0	15.0
Total	**5,815.0**	**4,300.0**	**10,115.0**

Source: FATA Sustainable Development Plan (2006-2015), Civil Secretariat (FATA), Government of Pakistan, 2006.

6.24 Agricultural Credit: Ensuring Farmer Security

6.24.1 Availability of credit to meet financial requirements of the farming sector is one of the key factors that play a pivotal role in the development of the agriculture sector. The SBP has, since its inception, been endeavouring to make the much needed credit available.[70] The

[70] Agricultural Credit Department, State Bank of Pakistan, November, 2008.

SBP has taken various initiatives to create an enabling environment and facilitate banks in increasing the outreach of agricultural credit since the last several years. Initiatives include induction of 14 domestic private banks in agricultural credit scheme in FY 2003/04, besides five big banks and two specialized banks. List of eligible items for agri-financing was enlarged by including more than 150 items in addition to allowing banks to provide financing for complete value chain of activities of agriculture by farmers. Wholesale financing to farmers through microfinance institutions, NGOs, etc. has also been allowed under agri-financing by banks.

6.24.2 In order to facilitate banks in diversification of their portfolios of non-crop sector and the development of specialized products, guidelines for livestock, fisheries, poultry and horticulture financing were issued. Local Credit Advisory Committees were established at 16 offices of SBP to help banks and local farming community in resolving agri. credit related issues at the grassroots level. Similarly, to ensure sustainability in flow of agricultural credit and effective implementation of SBP's initiatives, a separate Development Finance Support Department (DFSD) and its subsequent units were established at SBP BSC Offices. These units are focusing on developing a network in collaboration with local banks and farming community. The forum will provide a platform for the awareness of banks and farming community about SBP's schemes and policies on agri-finance. There has always been a great demand from agricultural customers for Islamic financing products for agriculture sector. Islamic banks and Islamic Banking Branches (IBBs) of conventional banks have also shown their great interest in adopting *Shariah*[71] compliant agriculture finance as a viable business line. Therefore, draft. Guidelines on Islamic Financing for Agriculture have been developed aimed at facilitating banks in this process.

6.24.3 Separate Prudential Regulations (PRs) for agriculture financing, prepared in consultation with banks and other stakeholders, were issued to banks to provide broader regulatory framework to banks. Banks are also allowed unsecured financing up to Rs 500,000. With the consensus of all banks, SBP has simplified/standardized agricultural loan documents for the benefit and convenience of the farming community. For production loans, number of documents have been reduced from 14 to 5, and for development loans, from 21 to 6. These documents/forms have also been translated/printed into Urdu and other regional languages for the benefit of farming community. Around 85 percent of the farming communities having land holdings up to 12.5 acres (as per Agriculture Census 2000) and majority of them have no collateral to offer. Therefore, a small farmers' scheme based on group lending methodology was introduced to address the issues of these small farmers. Under this scheme members of the group may borrow up to Rs 200,000 without any collateral from financial institutions.

6.24.4 After privatization of banks, many non-profitable rural branches had either been closed down or had been shifted to urban areas. In order to increase the rural branch network, SBP

[71] Islamic Law.

has made it mandatory for banks to open at least 20 percent rural branches while opening new ones. Moreover, to reduce operational/administrative costs of agri/rural financing and increasing the outreach of financial services to rural community, SBP has allowed banks to adopt concepts of branchless banking and open sub-branches, special booths and service centres in remote areas.

6.24.5 A Revolving Credit Scheme for a period of 3 years for production loans with one time documentation was introduced to meet the seasonal requirements of the farming/rural community and to avoid unnecessary delays in the documentation procedures. The limit automatically renews on the cleaning of the account (principle and mark-up), with date convenient to borrower, once a year. The scheme is a huge success and most of the agricultural financing products are being covered under this structure.

6.24.6 In order to facilitate farmer borrowers in meeting their credit requirement due to increase in prices for inputs like seed, fertilizer, pesticides, fuel, etc. per acre credit limit for crops, horticulture and social forestry has been enhanced by an average of 70 percent from Rabi crop FY 2008/09. These credit initiatives have paid dividend in the form of increase in agricultural credit to Rs 212 billon in FY 2007/08 from Rs 39 billion in FY 1999/00. The target for FY 2008/09 has been fixed at Rs 250 billion. SBP is looking forward to establishing a farmer-friendly market based financial sector in the country to meet the increasing credit requirements of the agriculture sector and also to meet the financing needs of rural community. The financial inclusion of rural community will ultimately facilitate meeting of national goals of agricultural growth and poverty alleviation in the rural areas.

6.24.7 The SBP is also working on a strategy to double agricultural credit disbursement and the number of agri borrowers in next 3-4 years under the Financial Inclusion Programme financed by DFID.

6.24.8 The SBP initiated training & awareness programmes at the district level wherein representatives of local banks were invited to provide farming communities details of available agri-financing facilities and to discuss issues being faced by them in this regard. Around 50 such programmes have been conducted successfully so far. For the capacity building of agricultural credit officers of banks, one week crash training programmes are being arranged at offices of SBP-BSC. In the first phase, 500 officers would be trained in 15 programs and till now around 350 agricultural credit officers of banks have successfully completed their training in 12 such programmes.

6.25 Benazir *Zarai*[72] Credit Card

6.25.1 To improve farmers' access to institutional credit, the government has decided to introduce 'Benazir *Zarai* Credit Card' for farmers/growers to enable them to avail credit facility with convenience and dignity in their respective areas. The objective of the Credit Card is to improve farmers' access, especially small farmers, to agricultural credit and enable to

[72] Agri-based

purchase quality farm inputs such as seed, fertilizer, pesticide, etc. without visiting bank branches. Under the scheme, participating banks will issue Benazir *Zarai* Card to farmers against their three years' revolving credit limits parallel to the existing chequing facility. The Card can only be used for the purchase of inputs like seeds, fertilizers, pesticides and other inputs from any of the vendors as per prescribed list. No fixed investment including purchase of tractors, farm implements etc. will be allowed through Benazir *Zarai* Card. The Credit limit will be determined based on annual inputs requirements of the farmer as per SBP per acre indicative credit limits or as prescribed by the bank. The Card holder may execute any number of transactions within the limit approved by the bank. To ensure the smooth implementation of the scheme, the government will develop a vendor network and Information Technology structure.

6.26 Crop Insurance Plan

6.26.1 Agriculture is susceptible to natural calamities. Since banks have been reluctant to adopt agricultural credit as a viable business line mainly due to non-availability of crop loan insurance in the country, the SBP formed a task force on Crop Loan Insurance Framework comprising of all stakeholders for the development of a commercially viable and sustainable Crop Loan Insurance Scheme. A framework has been finalized and largely agreed upon by banks, representatives of farming community and insurance companies.[73] The SBP Task Force will introduce mandatory CLIS for five major crops viz. wheat, rice, cotton, sugarcane and maize from Rabi 2008-09. It was also decided that the government will bear the cost of premium on account of subsistence farmers up to a maximum of 2 percent per crop.

6.26.2 Under the scheme, all agri. lending banks are required to insure the agri. production loans through any of the insurance companies offering crop loan insurance products. The risks covered include losses against natural calamities like excessive rain, hail-storm, frost, flood, drought, etc. Crop related diseases like viral and bacterial attacks, or any other damage caused to the crop like locust attack will also be covered. This scheme has been launched from Rabi season FY 2008-09. In case of natural calamity, it will help the farming community in the settlement of their outstanding loans and they will also be eligible to draw fresh loans for future crops. This scheme will not only safeguard the interests of banks and farmers, but will also save huge funds spent by the government in the shape of frequent write-offs/waivers of agricultural loans of ZTBL's borrowers.

6.27 Agriculture and Environmental Sustainability

6.27.1 The country's population is predominantly rural and dependent on agricultural lands, rangelands and forests. Natural resources and their sustainable management are, therefore, central to economic growth and people's livelihoods. The PRSP-II provides an opportunity for mainstreaming environment in all sectors and themes that target poverty reduction, thus maximizing the benefits of interventions and eliminating or minimizing the adverse impacts of the initiatives and interventions. Environment is a cross-cutting issue; the

[73] The Cabinet approved the Crop Loan Insurance Scheme (CLIS) in its meeting held on August 5th, 2008.

solution to the environmental problems lies beyond the restricted jurisdiction of environmental agencies. Environmental governance, therefore, needs to be integrated into economic decision-making at all levels. However, strategic policy making is obstructed by lack of awareness, information on several critical issues and limited data coverage. Enhancing information and data base in key environmental sectors and dissemination of environmental information should, therefore, be a high policy priority.

6.27.1.1 The poor live in places which are ecologically more vulnerable and are forced to earn their living from low-productivity natural resources. In rural areas, indoor air pollution poses a health hazard to villagers, due to which respiratory diseases are commonly found. The rural poor often live in low-lying, flood-prone areas, on steep mountain slopes or on dry land and possess low-productivity marginal land devoid of any irrigation facilities. The urban poor are found in shanty towns of big cities, which are often built on flood prone, low-lying areas or around city drains; many of the poor earn their livelihood from environmentally hazardous scavenging. Environmental deterioration in the form of land degradation, frequent flood, increased pollution and other hazards reduces the income of both the rural and urban poor making them more vulnerable to environmental shocks than the rich in both rural and urban areas. Against the background of the observation that the poor, especially in rural areas, derive a large part of their livelihood income from environmental resources, especially land resources used for agriculture, some of the practices they follow can be damaging to the environment. Clearing forest areas to create land for agricultural use, including slash-and-burn practices, is an example showing that the poor are responsible for environmental degradation. Certain consumption practices of the poor, such as damaging the forest to acquire firewood to be used for cooking and heating could also be detrimental to the environment. The urban poor, most of whom live in shanty towns, slums/*katchi abadis* often create unhygienic sanitary conditions because of their lack of access to formal toilet facilities.

6.27.1.2 The rate of deforestation in Pakistan is high. Although forests cover a relatively small proportion of land area in Pakistan, they remain a vital source of direct benefits including fuel-wood, livelihood and government revenue. Forests also provide several indirect services such as watershed protection, soil conservation, carbon sequestration and biodiversity habitat. A major immediate cause of forest loss is over exploitation for subsistence and commercial purpose. Much of the rural population relies on forest resources, while the high timber value gives perverse incentives to harvest in an unsustainable manner. The opportunity cost associated with forests loss can be large considering a wide range of benefits and services they provide.

6.27.2 **National Capacity Self Assessment (NCSA)**

6.27.2.1 The Ministry of Environment initiated the National Capacity Self Assessment (NCSA) in June 2007 with assistance from UNDP. The total cost of the project is US $1999,000 with expenditure incurred during June-December, 2007 amounting to US $27,298. The NCSA is an assessment and planning exercise to identify country level priorities and needs for capacity building to address global environmental issues, focusing on capacity requirements to implement the three 'Rio Conventions' – biodiversity, land degradation and climate change. The NCSA will come out with an Action Plan and a Final Report, which will recommend goals, objectives and strategies for national capacity development including identified priority actions, timeframe, possible funding, responsibilities and means of monitoring and evaluation of outcomes and impacts.

6.27.3 **National Land Use Plan Project**

6.27.3.1 While the original version of the project was approved in April, 2001 for a period of three years, the Rs 39.21 million worth project has been extended twice since then, and is planned to end by June, 2009. The project aims to compile and integrate isolated information about land and prepare a digital database on land resources inventory in Geographical Information System (GIS) to interpret the state of the country's environment relating to forestry, climate change, biodiversity, desertification, land degradation, soil erosion, hydrology, hydrogeology, geology and soil types, etc; and also to facilitate adoption of appropriate policy measures to address environmental threats and vulnerabilities. The action plan includes: generation of digital base maps on 1:500,000 scale; generating thematic information; and compiling data relating to depth and quality of ground water, water logging and canal commands provided through IWASRI[74] (WAPDA), etc. The National Agriculture Research Council (NARC)[75] is engaged in generating field data on agro-climate, aridity index, crop growth index, rainfall, cropping pattern, vegetation classes, population density and agro-based industries.

6.28 **Going forward**

6.28.1 In brief, the strategy for agriculture during the period of the PRSP-II will focus on increasing productivity, economizing on water, and starting to change the composition of production towards higher value-added items.

6.28.2 Crop productivity will be enhanced through development of high yielding varieties, use of improved and hybrid seed, balanced use of fertilizers and micro-nutrients, integrated pest management, and judicious application of other plant protection measures. The production of high value crops, fruits, vegetables and flowers will be increased and their export will be promoted by improving their quality. The private sector will be encouraged to establish processing, grading, packaging and cold storage facilities through provision of liberal credit and other facilities to promote exports. Additional water storage capacity will be created to bring additional area under cultivation and increase cropping intensity and productivity. Water use efficiency will be improved through precision land leveling, lining of water courses and promoting drip, sprinkler and trickle irrigation system. Timely availability of institutional credit will be ensured and the focus shifted towards disadvantaged groups. Steps will be taken for provision of cheap agricultural inputs to

[74] The International Water logging and Salinity Research Institute (IWARSI) was established in 1986, working under general supervision and control of Ministry of Water and Power through high powered Board of Directors and to be administratively controlled by WAPDA.

[75] The National Agricultural Research Centre (NARC) established in 1984, based in Islamabad is the largest research institution of Pakistan Agricultural Research Council (PARC).

farmers. Sunflower cultivation will be promoted to meet cooking oil needs. The government's decision to increase wheat procurement price is an attempt to ensure frequent supply of wheat at normal prices and maintenance of an adequate stock. The support price for wheat will be further revised before the next sowing season.

6.28.3 **Initiatives/programmes planned for the future:**

6.28.3.1 **(a) Short and medium term:**

- Improving services through transfer of technology to growers;
- Water resource management;
- Income diversification at farm and village levels;
- Improving the agricultural marketing system;
- Introduction of high value crops in horticulture and medicinal herbs;
- Promoting productivity in the livestock and poultry sectors;
- Improving the farm input-output relationship;
- Improving access to rural credit ;
- Value addition and inculcating quality improvement/technologies at farm level in the production system; and
- Replacing subsistence farming agriculture with agricultural entrepreneurship.

6.28.3.2 **(b) Long term**

- Improvement in water distribution systems, building water reservoirs, improving water resources and propagating water conservation technologies;
- Minimizing post harvest losses at the farm level including crops, livestock, fisheries and allied pursuits;
- Establishing cold chains/warehouses in the private sector to minimize post harvest losses;
- Establishing a market information system to display prices of agricultural commodities on the pattern of stock exchange; and
- Building cool chain infrastructure at ports and airports to facilitate exports of agricultural commodities.

6.28.4 In short, poverty reduction in Pakistan requires rapid growth in agriculture, which has strong potential to create jobs and associated self-employment opportunities. This situation therefore, calls for planned efforts to improve the performance of agriculture to achieve pro-poor growth; help reduce the rising trend of rural poverty in addition to enabling food security by keeping supplies intact, on the one hand, and prices in check, on the other.

Chapter 7 - Pillar IV: Integrated Energy Development Programme

7.1 Over the last 30 years, Asia's energy consumption has grown by 230 percent. Vehicle fleets are doubling every 5 to 7 years and this reinforces the urgency of producing cost-effective greenhouse gas (GhG) reduction solutions for transport. Pakistan's development, too, will demand enormous amounts of energy. Alongside other Asian countries, Pakistan must put its energy consumption on a more sustainable path. Rapid urbanization in Pakistan has brought tremendous challenges as cities work to absorb higher populations. Promoting energy efficiency, fuel diversity as well as climate change-friendly actions transcend the boundaries of energy policy and have a direct impact on the poor masses. Policies concerning the development and sustenance of transportation, technology, environment, finance, competition, and investment all have an important role to play.[76] The links between sustainable development and energy will require even greater efforts for long term energy security. Ensuring availability of usable affordable energy is therefore the bedrock of Pakistan's current and future development.

7.2 The private sector ranks problems with electricity among the top three or four most important impediments to investment (Chapter 11). The Poverty Reduction Strategy, which relies on the private sector as the main propellant of growth in Pakistan, must, therefore, pay considerable attention to developing the country's power resources. Indeed, the remit of the Strategy must be wider and must cover all forms of energy as different sources of energy are required for different purposes, including for transportation, household cooking and power generation. One of the major challenges facing Pakistan is the energy crisis that is intense, costly and multidimensional. Recent power and gas shortages underscore urgent attention to prevent serious derailment of the economy. Tackling the current energy crisis to avoid stifling of growth by rapidly adding more power while simultaneously conserving energy will be a top priority of PRSP-II.

7.3 The demand for energy increases as the growth of a country's GDP accelerates. Pakistan's Poverty Reduction Strategy is founded on regaining growth of the GDP; hence one expects the demand for energy to escalate rapidly. Based on historical trends and drawing on the experience of other fast-growing economies, Pakistan projects annual growth in energy of 7.2 percent up to 2010 and 8.8 percent thereafter.[77] According to the updated demand forecast prepared by National Transmission and Dispatch Company (NTDC), the power demand is expected to increase by 8.5 percent for the period 2008-10 and 7.7 percent for the period 2010-15.[78] Pakistan's total energy requirements by 2030 will be 361 MTOE (Million Tons Oil Equivalent) compared with 60.4 MTOE in FY 2006/07.[79]

[76] ADB & DFID, Energy Efficiency and Climate Change Considerations for On-road Transportation in Asia, (Philippines, 2006).
[77] Ministry of Petroleum and Natural Resources, Government of Pakistan, Islamabad, 2008.
[78] Ministry of Water and Power, Power Wing, Government of Pakistan, Islamabad, 2008.
[79] Ministry of Petroleum and Natural Resources, Government of Pakistan, Islamabad, 2008.

7.4 Energy Consumption

7.4.1 A structural shift has taken place in energy consumption since FY 1997/98 onwards. While the consumption of petroleum products is exhibiting a declining trend, the consumption of gas, coal and electricity is rising.

Table 7.1: Annual energy consumption

Fiscal Year	Petroleum Products		Gas		Electricity		Coal	
	Tonnes (000)	Change (%)	(mmcft)	Change (%)	(Gwh)	Change (%)	M.T* (000)	Change (%)
2002-03	16,452	-3.0	872,264	5.8	52,656	4.0	4,889.9	10.9
2003-04	13,421	-18.4	1,051,418	20.5	57,491	9.2	6,064.5	24.0
2004-05	14,671	9.3	1,161,043	10.4	61,327	6.7	7,893.8	30.2
2005-06	14,627	-0.3	1,223,385	5.4	67,603	10.2	7,714.0	-2.3
2006-07	16,847	15.2	1,221,994	-0.1	72,712	7.6	7,894.1	2.3
2007-08 (e)	18,080	7.3	1,275,212	4.4	73,400	0.9	10,110.8	28.1

Note: e - estimated for coal
*Million Tonnes
Source: Hydrocarbon Development Institute of Pakistan & Finance Division, EA Wing, Government of Pakistan, December, 2008.

7.4.2 It is essential to provide adequate energy to industry to drive economic growth and create employment opportunities; to the domestic sector for cooking and heating; and to prevent the continuing environmental degradation and deforestation by massive use of wood for domestic fuel. Per capita energy consumption in FY 2004/05 was only 14 million BTU[80] in Pakistan, compared with 92 million BTU for Malaysia and 34 million BTU for China. This figure increased to 16 BTU during FY 2006/07.[81]

7.4.3 Access to electricity in the country is quite high, but the proportion of consumers using less than 60 units per month per household is equally high. Per capita electricity consumption (402 kwh) is less than one-sixth the world average of 2,516 kwh. Consumption of electricity during FY 1997/98 to FY 2006/07 increased by an average rate of 5.5 percent per annum; and 0.9 percent during FY 2007/08.[82] Targets are to raise energy per capita consumption of electricity to 504.89/kwh in FY 2010/11 from 477.66/kwh during FY 2005/06[83]. Electricity consumption grew in all economic sectors during the last five years. The sectoral consumption of electricity by economic groups identifies the domestic sector as the largest consumer of electricity for the past many years. During FY 2007/08, the share of domestic consumption was at 45.9 percent, industrial at 28.2 percent and agricultural at 11.5 percent[84].

[80] British Thermal Units.
[81] GoP, Planning Commission, 'MTDF 2005-2010' (May 2005).
[82] Economic Survey, Government of Pakistan, 2008.
[83] Ministry of Water and Power, Government of Pakistan, October, 2008.
[84] Economic Survey, Government of Pakistan, 2008

Table 7.2: Electricity consumption by economic groups (percentage share)

Year	Domestic	Commercial	Industrial	Agriculture	Public Lighting	Bulk Supply	Traction	Supply to KESC
2002-03	44.0	5.3	28.4	12.6	0.35	5.54	0.02	3.8
2003-04	44.0	5.6	28.1	12.9	0.37	5.43	0.02	3.58
2004-05	43.5	5.8	28.1	12.5	0.41	5.17	0.02	4.54
2005-06	43.3	6.0	26.6	12.6	0.45	4.86	0.02	6.15
2006-07	43.0	6.4	26.09	12	0.47	4.84	0.02	7.27
2007-08	45.9	7.6	28.2	11.5	0.57	6.1	0.02	6.0

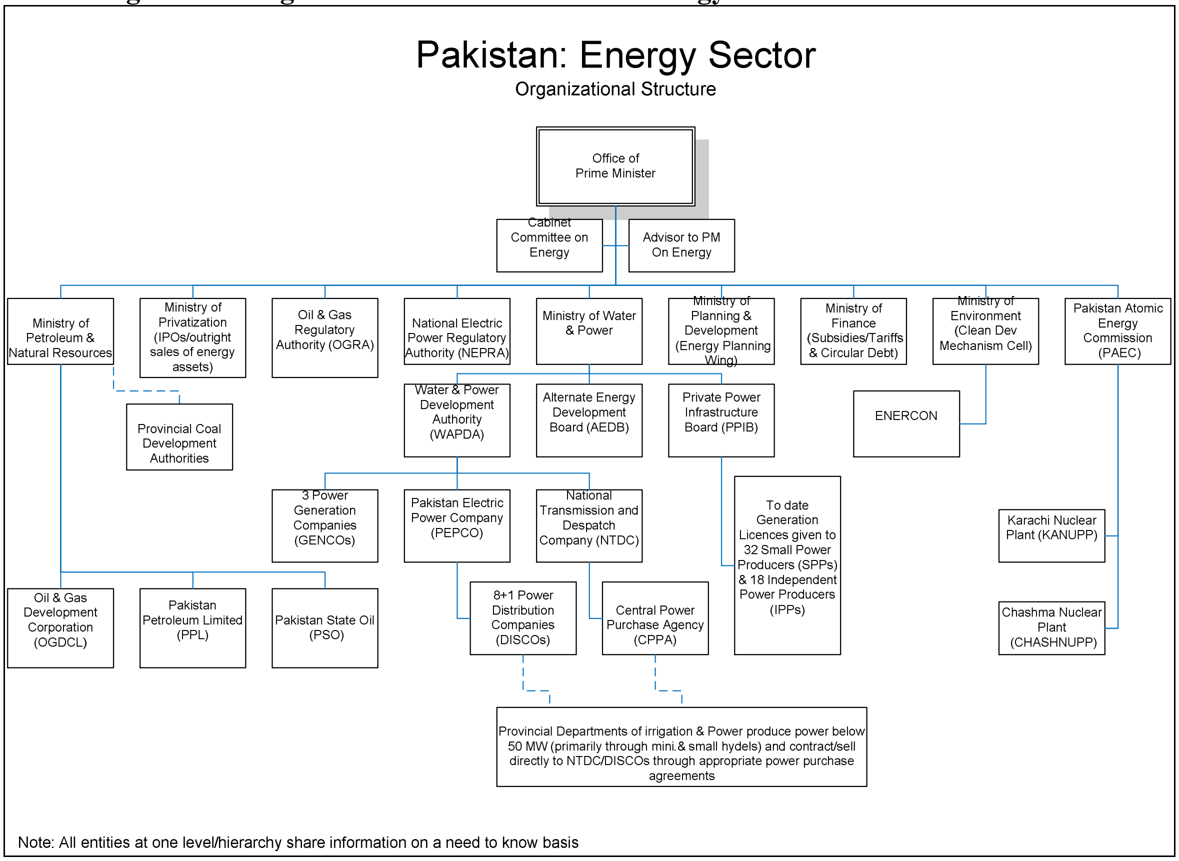
Source: Water and Power Development Authority & Finance Division, EA Wing, Government of Pakistan, December, 2008.

7.4.4 Given the rising share of energy in the total cost of production, due to high costs of primary energy, Pakistan's economy will become non competitive if it does not address energy efficiency. At the same time it must be recognized that inefficiency increases the delivered cost of energy making it less affordable unless subsidies are increased. Energy efficiency needs to be given at least as much attention as building new capacity. It is worth noting, as per the MTDF, Pakistan's steel industry uses double the amount of energy per tonNE compared to the world average. In terms of energy intensity Pakistan uses more energy per US $ of GDP compared with India, Indonesia, Malaysia and Bangladesh.

7.5 Structure of Pakistan's Energy Sector

7.5.1 Although Pakistan's energy resources are diverse (comprising power, oil, gas, coal, nuclear and renewable sources), the country is in energy deficit due to sub-optimal development, exploitation and management of energy resources. The sector remains institutionally fragmented (Figure 7.1), and lacks integrated energy planning to analyze/develop a consolidated action plan in order to address the country's energy needs during the short, medium and long term. The energy sector policy remains with the government, while the power sector is regulated by National Electric Power Regulatory Authority (NEPRA) and Oil and Gas Regulatory Authority (OGRA).

Figure 7.1: Organizational structure of the energy sector in Pakistan



Source: Asian Development Bank (ADB), Islamabad Office, November, 2008.

7.6 An Integrated Approach to Energy

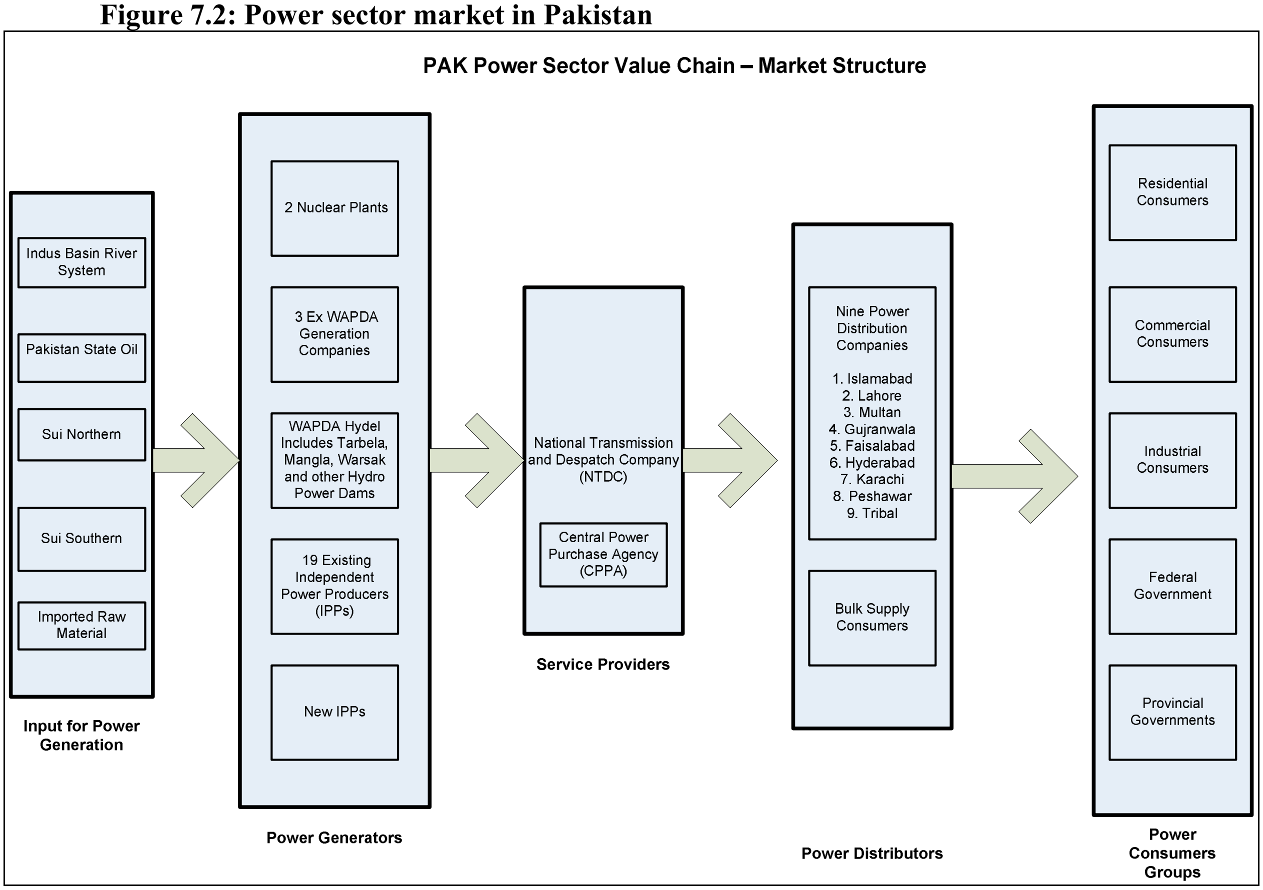
7.6.1 Energy security is becoming a major concern globally, arguably being ranked second to food security. Management of the energy sector is fragmented spread over a number of Ministries, agencies and regulators at the federal and provincial levels. No single ministry or regulatory body has over-arching responsibility for managing energy affairs. With Pakistan being a net energy importer and with energy needs being supplied from multiple sources there is scope for optimization through integrated planning and oversight of implementation. An empowered and effective link between the planners and those who implement plans will ensure improved information for decision making, realistic planning and faster implementation of projects. It should lead to faster and timely response to changes in domestic and geopolitical realities. The country needs to start thinking in terms of energy rather than gas, oil, coal and electricity. Energy is scarce and an integrated look at energy is needed to allocate scarce resource on the basis of maximum economic benefit. Such an integrated look will help develop a least cost approach to energy policy and pricing and minimize the cost of subsidies. Once true economic costs and benefits are established, issues such as pricing of peak power or using captive power can be effectively addressed.

7.7 Power sector

7.7.1 Key challenges specific to the power sector include:

- To improve supply-demand balance through additional least-cost power generation, de-bottleneck transmission and distribution systems;
- reduce subsidies and allowing cost recovery tariffs by distribution companies;
- inject cash into the sector to stem asset deterioration;
- strengthen corporate governance by discharging ownership responsibilities; and
- toughen sector policies and regulations.

Figure 7.2: Power sector market in Pakistan

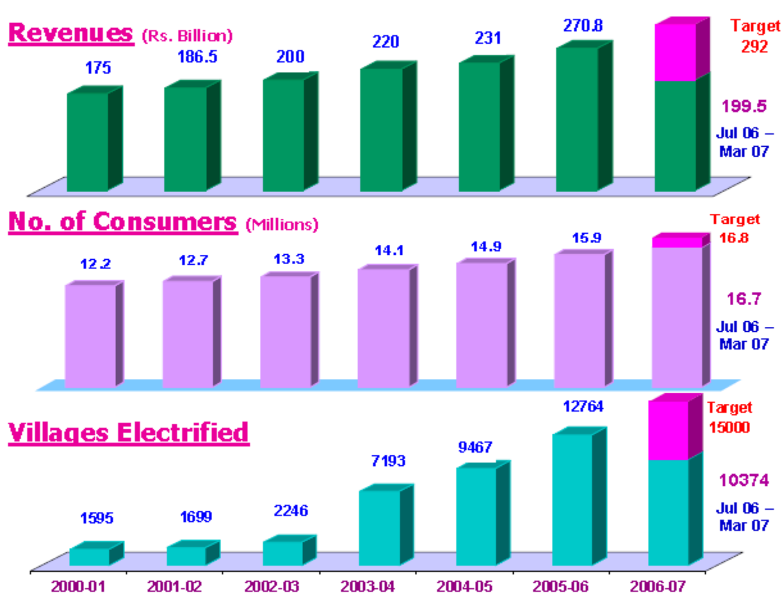


Source: Asian Development Bank (ADB), Islamabad Office, November, 2008.

7.7.2 In order to mobilize private sector investment for the power sector, an independent power projects (IPP) policy was launched in 1994 and reviewed in 1998 and 2002. A Private Power and Infrastructure Board (PPIB) was set up to provide one window support to the private sector. The government also set up the National Electric Power Regulatory Authority (NEPRA) in 1997. In 1998 the government embarked upon a programme of unbundling Water and Power Development Authority (WAPDA) through corporatization and commercialization. Pakistan's power sector has historically been dominated by public sector utility oligopolies, WAPDA and KESC. Over the years, these institutions emerged as large, monolithic, vertically integrated utilities with overstaffing, financial and technical inefficiencies, and a lack of competitive spirit. WAPDA owns about 59.6 percent of the country's total power generation capacity and serves about 88 percent of all the electricity customers in the country.[85]

7.7.3 The government privatized KESC and reorganized WAPDA into nine distribution companies called DISCOs, one National Transmission and Dispatch Company (NTDC) and four thermal generation companies called GENCOs. Hydroelectric power development and operation functions remain with WAPDA. In order to carry out this restructuring and re-organization, a facilitation/management company owned by the government called the Pakistan Electric Power Company (PEPCO) was incorporated in 1998. In order to take the reform process to the next level, the government has separated the chairmanship of WAPDA and PEPCO. The nine DISCOs, NTDC and GENCOs work independently incorporated with the Securities Exchange Commission of Pakistan (SECP) as public limited corporate companies under their own Board of Directors with equal representation of members from the private sector including the Chairman. The DISCOs' loss reduction projects coupled with the introduction of competition in power and in natural gas supply are all efforts towards reducing energy costs.

Figure 7.3: WAPDA - Overview of performance[86]



7.7.4 During the last five years especially, the government has made strenuous efforts to expand the production of electricity and to increase access to this resource. Total electricity generation increased from 67,500 Gwh in FY 2000/01 to 87,992 Gwh in FY 2004/05 and 1.7 million new consumers were added in the WAPDA and KESC systems. In financial terms, an amount of Rs 73.4 billion was utilized for the power sector during FY 2001-05. The total installed

[85] Economic survey, Government of Pakistan, 2008.
[86] WAPDA (2007).

capacity of WAPDA stood at 11,363 MW during FY 2007/08 (Table 7.3). Of this, hydel power accounts for 55.6 percent and thermal for 44.4 percent. The total installed capacity of IPPs is 5,760 MW (29.4 percent) followed by KESC's (1,690 MW) and nuclear power (462 MW). The share of public sector in total installed capacity is 70.6 percent while private sector accounts for 29.4 percent.

Table 7.3: Total installed generation capacity (MW)

S.No	Power Company	Installed Capacity 2006-07	Share (%)	Installed Capacity FY 2007-08	Share (%)	Change
1	**WAPDA**	11,363	58.5	11,654	59.6	2.6
	Hydel	6,463	56.9*	6,480	55.6*	0.2
	Thermal	4,900	43.1*	5,180	44.4*	5.7
2	IPPs	5,859	30.1	5,760	29.4	-1.7
3	Nuclear	462	2.4	462	2.4	0
4	KESC	1,756	9	1,690	8.6	-3.8
	Total	**19,440**	**100**	**19,566**	**100**	**0.65**

Note: * Share in WAPDA system
Source: Hydrocarbon Development Institute of Pakistan & Finance Division, EA Wing, Government of Pakistan, December, 2008.

7.7.5 Several public sector power projects including Allai Khwar (121MW), Khan Khwar (72MW), Dubair Khwar (130MW), Golan Gol (106MW), Malakand-III (81MW), Keyal Khwar (130MW) and Jinnah low head (96MW) are at different stages of implementation[87]. In addition, hydel projects, namely Malakand-III (81MW) in NWFP, Battar (4.8MW) in AJK and Naltar (18MW) in Northern Areas under the provincial programme have been approved for implementation.

7.7.6 Immediate future investment plans of DISCOs include the Power Distribution Enhancement Project funded by ADB for eight DISCOs (LESCO, GEPCO, FESCO, IESCO, MEPCO, PESCO, HESCO and QESCO). Twenty percent of the project cost will be borne by the DISCOs' own resources. The total project cost is worth Rs. 20.4 billion. The World Bank funded Electricity Distribution and Transmission Improvement Project for four DISCOs (LESCO, IESCO, MEPCO and HESCO) and NTDC will cost US $256 million (US $1 = Rs. 60.9). The investment plan for GENCOs is as follows:

Table 7.4: Investment Plans of GENCOs for the PRSP-II Period (2008-11)

Sr. No.	Project	Fuel	Capacity (MW)	Expected Commercial Operation Date	Project Cost (Rs. billion)	Exchange Rate (US $1 = Rs. 1)	Entity
1.	Nandipur Power Project	Oil	425	Dec 2010	22.36	61	GENCO-III
2.	Chichoki Mallian Power Project	Gas	525	Mar 2011	31.22	62	GENCO-III
3.	Guddu Power	Gas	750	Apr 2011	43.00	61	GENCO-II

[87] Please refer to chapter 10 for investment plans for these hydropower projects.

	Project						

Source: Ministry of Water and Power, Power Wing, Government of Pakistan, December, 2008.

7.8 Energy Crisis

7.8.1 The link between sustainable development and energy will require even greater efforts for long term energy security. Crisis management including installation of rental power plants in the private sector and reduction of peak demand through energy conservation and load management measures, since one MW reduced is in fact one MW generated. Short term measures include installation of new power plants in the public sector and fast-track power generation capacity enhancement through addition of 2000 MW in GENCOs and additional rental plants of 1300 ME before the end of FY 2008-09. Energy Management and Conservation (EMC), PEPCO has set up a special EMC Cell, while the Ministry of Water and Power has set up a Power System Operation Committee and Power Planning Committee to resolve related matters and undertake comprehensive planning on power issues on a consultative basis with relevant stakeholders. Medium term measures include a combination of supply side as well as demand side actions further supplemented by a continuing Energy Conservation Plan (discussed later in the chapter). With these efforts, decrease in the energy gap is aimed to be reduced by 500-1000 MW by 2008-09 while the goal of complete elimination of the gap will occur during the PRSP-II period.[88]

7.8.2 Over a longer period, large coal based plants with a total capacity of 3000 MW by FY 2011/12, followed by large hydel power plants (5000) MW by FY 2013-15 are essential for ensuring lower cost generation in lieu of the current high cost of fuel oil and rental based power plants[89]. The following table illustrates details of NTDC's Power Distribution Enhancement Project, 20 percent of which will be funded by NTDC's own resources whereas 80 percent of the cost will be borne out of lending from ADB.

Table 7.5: Costing Details of Power Distribution Enhancement Project of NTDC (2008-11)

Power Distribution Enhancement Project Tranche-1 PC-1 cost	Rs 15.6 billion
ADB	US $226 million
Power Distribution Enhancement Project Tranche-2 PC-1 cost	Rs 25 billion
ADB	US $220 million

Source: Ministry of Water and Power, Power Wing, Government of Pakistan, December, 2008.

7.8.3 In light of the government's role to ensure adequate supplies of energy to meet the growth needs of the economy, the government has several dams lined up for completion as described in Table 7.6.

[88] Ministry of Water and Power, Government of Pakistan, October, 2008.
[89] Ibid.

Table 7.6: Power projects planned for the PRSP-II period

Key Interventions	Targets				Outcomes
		2008-09	2009-10	2010-11	
Power projects/Dams[90]: **Thermal power projects** to generate 2000-2500 MW energy under various stages of implementation at: Chichoki Mallian, Nandipur, Guddu, Dadu and Faisalabad **Hydel power projects:** Large dams under construction to be completed during 2013-2018: Kurram Tangi (83 MW); Akhori (600 MW); Munda (740 MW); Diamer Bhasha (4500 MW) Public sector hydropower projects under construction: Neelum Jhelum, Golan Gol--106 MW (detailed engineering and tender documents completed), Keyal Khwar--130 MW (feasibility study completed), Malakand-III--81 MW (partly commissioned)	Medium sized hydropower dams to be completed	Mirani; Sabakzai; Satpara (15.8 MW); Mangla Dam Raising Project (120 MW addl. capacity)	Khan Khwar (72 MW); Jinnah (96 MW); Gomal Zam (17.4 MW)	Allai Khwar (21 MW); Dubair Khwar (130 MW)	Additional hydopower power generation, as well as, live storage for agriculture, development of fisheries

Source: Ministry of Petroleum & Natural Resources and Ministry of Water & Power, Government of Pakistan, October, 2008.

7.9 Efficient Procurement of New Energy Generation

7.9.1 Pakistan has one of the most advanced Public Private Partnership programmes in the power sector with about 30 percent of its generation capacity being in the private sector. It has also gradually expanded the scope of this programme from thermal to hydro and wind power. The response of the private sector continues to be positive.

7.9.2 However a lack of proper planning for additional capacity and timely action may be resulting in suboptimal pricing. The power policy envisages procurement of private generation capacity through competitive as well as negotiated basis. However, due to delayed and reactive rather than proactive action to capacity demand, the government continues to find itself in a situation where it does not have time for competitive bids and has to contract new capacity on a cost plus model. The current practice results in a higher level of investment over a shorter period which pushes up price due to higher country risk perceptions and available funds for the country. A more level investment demand would reduce these risk perceptions.

[90] Although these projects will be completed during intervals well after the PRSP-II timeframe, they have been incorporated in the policy since work has already started on them and annual expenditures/allocations have been devised.

7.10 Village Electrification

7.10.1 The government is determined to spread electricity to all parts of the country especially the rural areas. The village electrification programme is an integral part of the Poverty Reduction Strategy and seeks to increase the productive capacity and to raise the social economic standards of the population living in far-flung. The target is to electrify all the villages in the country by 2010.

Table 7.7: PRSP rural electrification allocations up to FY 2006-08 (Rs million)

	Provisional Expenditure		
	2005-06	**2006-07**	**2007-08**
Rural electrification	1,000	2,499	2,748

Source: Finance Division, Government of Pakistan, 2008.

Table 7.8: Village Electrification (number of villages)[91]

Year	Addition During the Year
1997	1,383
1998	1,232
1999	1,109
2000	1,595
2001	1,674
2002	2,246
2003	7,193
2004	9,467
2005	12,764
2006	14,203
2007-08	12,230

7.10.2 In the eight years prior to FY 2003/4, the number of villages electrified increased at an annual rate of only 3.3 percent; during that period 16,637 villages received electricity. In the three subsequent years, the rate of village electrification accelerated sharply to 11.6 percent per annum and provided electricity to 25,788 villages. The number of electrified villages has increased from 117,456 on 30th June 2007 to 129,686 by FY 2007/08. Moreover, local stakeholders have been invited to review the programme; future village electrification progress will be verified by district governments and they will be engaged in implementing the programme. Rs 2,499 million of PRSP expenditure was spent on this purpose during FY 2006/07, while Rs 2,748 million was spent during FY 2007/08.

7.11 Oil and Gas

7.11.1 The Oil and Gas Regulatory Authority (OGRA) has been set up to regulate the petroleum, oil and gas activities and look after the interests of consumers. Government Holdings (Pvt.) Limited has also became operational which handles government's participation in petroleum exploration joint ventures.

7.11.2 The Iran-Pakistan-India (IPI) gas pipeline project, currently under approval by the government, is an arrangement under which Iran would provide 2.1 billion cubic feet of gas per day in the first phase, and 3.2 billion cubic feet during the second phase, to Pakistan.

[91] Source: Water and Power Development Authority, Government of Pakistan, 2008 & Finance Division, EA Wing, GoP, December, 2008.

The construction work of the pipeline, worth approximately US $3 billion, will begin next year, while the first gas delivery is expected in 2012. Regional linkages will be established and possibilities explored for importing power from Central Asian Countries. Current linkages with Iran will be expanded for importing power particularly in remote areas of Balochistan.

7.11.3 In order to augment the transmission system of gas utilities, the Gas Infrastructure Development Project has been completed. About 1 billion cubic feet of gas per day was injected into the system for supply to both the power sector and industry. Moreover work on the 817 km cross-country White Oil Pipeline has also been completed. Utilization of Compressed Natural Gas (CNG) was encouraged in the transport sector to improve urban air quality and reduce carbon emissions. About 650,000 vehicles would be converted on CNG. The Government issued directives to promote CNG in the transport sector as an alternate fuel. About 700 CNG stations are aimed to be established in different parts of the country. The use of CNG would be expanded as about 100,000 cars and 10,000 buses would be added every year to the existing stock of the country. A programme of dedicated CNG city buses would be undertaken, initially in federal and provincial capitals, and subsequently, the programme will be extended to other urban centres.

7.11.4 The main objectives of the CNG Policy, initiated by the government in 2007 are: to encourage CNG as a substitute of liquid fuel to reduce import bill; to provide cheaper and environmental friendly fuel; to discourage mushrooming growth of CNG outlets, with the announcement that there should be at least one km distance between two CNG stations; enforcing better industry discipline & safety culture in the CNG sector; introducing CNG technology for import of natural gas; using CNG for town gasification where supply of pipeline gas is not viable. Other gas initiatives include the Underground Gas Storages (UGS) Project. The ultimate goal of these efforts is: to increase exploration and production of crude oil, coal and gas; enhance the number of wells drilled; increase the use of Liquefied Petroleum Gas (LPG) supply (tonnes/day) to overcome energy shortage; and to promote the use of CNG in the transport sector as an alternate fuel.

7.12 Petroleum Exploration and Production (E&P) Policy 2008

7.12.1 The Government of Pakistan (GoP) is committed to accelerate an exploration and development programme in order to reverse the decline in crude oil production, to increase the domestic gas production and supply and to reduce the burden of imported energy which otherwise will have adverse effect on the balance of payments & trade. The Petroleum Exploration and Production (E&P) Policy, initially approved by the government in November, 2007, unfortunately could not take off due to the following reasons; seismic and E&P work could not be undertaken in new areas to assess potential due to the law and order situation in the prospective areas particularly Balochistan and NWFP provinces, and the non-availability of rigs in the country. However, the Ministry of Petroleum has prepared a new Petroleum (E&P) Policy, 2008, which has been circulated to the relevant stakeholders and will be resubmitted for approval by the government shortly.[92] The E&P Policy will establish related policies, and a tax and pricing regime for the E&P sector. The offshore Petroleum Policy was revised and production-sharing formula introduced to attract private investment in high risk offshore petroleum exploration. To make the refinery operations competitive and to provide a level playing field for the public and private sectors, government permission will not be required for setting up new refineries or expanding the existing ones. Principal objectives of this Policy include:

- **To accelerate E&P activities in Pakistan** with a view to achieve maximum self sufficiency in energy by increasing oil and gas production and, therefore, to reduce the current onerous burden on the balance of payments and trade;
- **To promote direct foreign investment in Pakistan** by increasing the competitiveness of its terms of investment in the upstream sector without reducing tax revenues;
- **To promote the involvement of Pakistani oil and gas companies** in the country's upstream investment opportunities;
- **To train Pakistani professionals in E&P sector to international standards** and create favourable conditions for their retention within the country;
- **To enable a more proactive management of resources** through establishment of a strengthened DGPC and providing the necessary control and procedures to enhance the effective management of Pakistan's petroleum reserves; and
- **To undertake exploitation of oil and gas resources in a socially**, economically and environmentally sustainable and responsible manner. Estimates for drilling in the E&P sector under the Policy are illustrated in Table 7.9 below:

Table 7.9: Estimates for drilling in the E&P sector during the PRSP-II period

Description	**2008-09**	**2009-10**	**2010-11**
Drilling of oil and gas wells	60	65	70
Enhancing indigenous gas production (MMCFD)	4100	4200	4300
Enhancing indigenous oil production (BOPD)	71000	73000	75000

Source: Ministry of Petroleum and Natural Resources, Government of Pakistan, October, 2008.

7.13 Enhancing Coal Based Generation

7.13.1 With rapidly declining domestic natural gas resources, there is a need to reassess the economics of alternatives particularly the use of domestic and imported coal. The development of domestic coal has unfortunately suffered partly due to multiple and overlapping responsibilities and to a certain extent owing to efforts to integrate mining and

[92] Ministry of Petroleum and Natural Resources, Government of Pakistan, Islamabad, October, 2008.

power production. At the same time, imported coal was seen as a replacement for domestic coal and thus not encouraged when in reality imported coal is a substitute for imported oil and both domestic and imported coal are needed if Pakistan's cost of power generation is to be competitive. Countries like China and India have also entered the international coal market to ensure long term supplies as part of their energy security plan. It may be noted that the world's coal reserves to production ratio are 5 times that of oil and three times that of natural gas.[93] Pakistan's initiative of starting work on 2000 MW based on imported coal is in the right direction and it needs to build further on this initiative. Development of domestic coal should be addressed in a more systematic manner including the option of segregating mining from power generation where initial cost of mining development may be high as in the case of Thar. Enhanced use of coal would not only diversify Pakistan's fuel base but will also reduce the cost of power generation and improve the country's competitiveness.

7.14 Energy Conservation Programme

7.14.1 An energy conservation programme will be undertaken including enactment of necessary laws by Ministry of Science and Technology and ENERCON (National Energy Conservation Centre, Ministry of Environment), for energy efficient building designs, use and manufacturing of energy efficient appliances. Co-generation technologies to conserve energy would be promoted. ENERCON would develop a mechanism to monitor strict compliance of energy conservation laws. The power sector is one of the major contributors of emission of greenhouse gases accounting for over 80 percent of total carbondioxide (CO^2) emission. The main source of these emissions is due to heavy use of fuel oil in power generation. During the MTDF period (2005-10), conversion of existing thermal power stations from fuel oil to natural gas would substantially reduce the CO^2 and particulate emission.[94] It is estimated by National Energy Conservation Centre (ENERCON) that energy conversion and implementation of low cost and medium cost measures at the national scale can bring about a saving of around 250,000 tonnes of oil equivalent i.e. an estimated saving of about Rs. 4 billion per annum. The cost of retrofit measures would only be a fraction of the cost of these savings. The Pakistan Council of Renewable Energy Technologies (PCRET) has also designed five types of efficient cooking stoves suitable for rural areas. These cooking stoves, which provide fuel saving against traditional stoves in the range of 25 to 45 percent, would also be marketed.

7.14.2 Pakistan is responding to its energy development challenge by pursuing a wide range of domestic and imported energy options. These include import of gas as LNG and through pipeline and import of power from Central Asia & Iran. At the same time, development of significant but challenging Thar coal is being pursued. In addition, two 1000 MW private sector power generation projects based on imported coal, are also at advanced feasibility stages. A number of Independent Power Projects (IPPs) projects have been contracted and are in different stages of development. The Government has also come out with a new

[93] Asian Development Board (ADB), Islamabad Office, November, 2008.
[94] GoP, Planning Commission, 'MTDF 2005-2010' (May 2005).

policy to encourage investment in hydrocarbon exploration. Renewable Energy (RE) projects are being promoted with a target of 10 percent of energy mix to be met from renewable sources by 2015. A number of energy efficiency projects are at an early stage of development. A strategy is being developed to finance large hydropower projects.

7.14.3 Major issues include the slow development rate of indigenous resources, including hydel, coal, oil, gas and renewable, which has aggravated the overall supply position. The lingering deadlock over major reservoir dam/power projects has virtually held hostage the development of huge hydro resources. The non-availability of feasibility studies of potential sites has further added to the delays in utilization of hydel resources. In addition, relatively limited infrastructure has hindered the development of oil and gas in the country. Recognizing the importance of exploitation of renewable energy, projects totaling 800 MW are also envisaged for implementation during 2005-10. The local production of oil and gas would start declining due to depletion of resources from the year 2010. There would also be a deficit of gas unless considerable contribution is made from new discoveries. In case the gap is not met through indigenous supply, there will be need to import gas, and the requisite infrastructure would have to be placed in a timely manner. There will be a gas and petroleum products deficit throughout the PRSP-II period which will be met through imports. The current coal deficit of about 3 million tonnes per annum (including 1 million tonnes for Pakistan Steel Mills) will remain to be met as local coal cannot be used due to its quality constraints. The planned import of natural gas as liquefied natural gas (LNG) and also through pipelines is aimed at bridging the gap between demand and supply. Here, the trade/transport/energy/industry corridor being designed from the new port of Gwadar to the north of the country and beyond to China and Central Asia will play an important role.

7.14.4 The strategy for the power sector comprises four main elements. The **first** is a much higher rate of investment in order to generate and distribute more power. Several power generating stations have been improved (see previous sections in this chapter), while others are in various stages of preparation. Table 7.10 shows the future power generation plan of Pakistan.

Table 7.10: Power generation plan (2005-30)

	Nuclear	**Hydel**	**Coal**	**Renewable**	**Oil**	**Gas**	**Total**	**Cumulative**
Existing								
2005	400	6,460	160	180	6,400	5,940	19,540	
Addition								
2010	-	1,260	900	700	160	4,860	7,880	**27,420**
2015	900	7,570	3,000	800	300	7,550	20,120	**47,540**
2020	1,500	4,700	4,200	1,470	300	12,560	24,730	**72,270**
2025	2,000	5,600	5,400	2,700	300	22,490	38,490	**110,760**
2030	4,000	7,070	6,250	3,850	300	30,360	51,830	**162,590**
Total	**8,800**	**32,660**	**19,910**	**9,700**	**7,760**	**83,760**	**162,590**	

Sources: Planning Commission of Pakistan & Economic Survey, Government of Pakistan, 2008.

7.14.5 To overcome the growing shortage of electricity; gas, oil and coal-based power generation can help Pakistan to meet its requirements in the short-to-medium-term. Due to escalating oil prices and shortage of gas supply, coal-based electricity generation is the best option as Pakistan possesses 185 billion tonnes of coal reserves. The government has planned for transmission of an additional 2,200 MW within a period of 12 months by April 2009. These projects comprise 81 MW of hydel and 1,007 MW of thermal power in the public sector and 1,020 MW in the private sector.[95] The government has also launched effective conservation measures which include distribution of 10 million energy saver bulbs to consumers. These measures are expected to save about 1,000 MW at peak hours. In the medium term, small hydro dam projects can make significant contribution to the national energy supply, while in the long run hydel power generation and alternative renewable energy can solve these problems.

7.14.6 The **second** element in the Strategy relates to finance. The total investment for the power sector during the MTDF is estimated at Rs 1102 billion, and of which the government expects to mobilize Rs 445 billion from the private sector. The overall investment level will be kept under constant review, and in case the private sector falls short of mobilizing expected resources, the government is preparing a contingency strategy that includes, inter alia, offering enhanced sovereign guarantees.[96]

7.14.7 Certain strategic actions need to be taken in parallel and on a priority basis to arrest energy shortages and to support related initiatives since the energy sector requires huge financial resources. There are limits to raising funds against the government's contingent liability and steps are required to strengthen the revenue and cash flows of the sector entities and improve their credit ratings. This financial weakness has placed an unsustainable burden on the government's budgetary position, impacting the entire economy. The government's initiative in encouraging Public Private Partnerships is the right step in this direction. The success in attracting private investment to a certain extent is dependent on the financial strength of the contracting public sector given its tendency to cause delays and attempt partial implementation of necessary and agreed reforms. In the power sector distribution companies have not been able to charge cost recovery rates, whereas generation companies and IPPs have had real cost adjustments for their tariffs. The deficit amount is covered by the government as a subsidy to electricity customers. However, the total cost of this subsidy, along with the subsidy in tariffs is not sustainable.[97] Alongside, the government is encumbered with liabilities to oil companies for differential between the regulator approved prices and consumer prices on petroleum products. The absorption of the increase in oil prices by the government is straining its budgetary position and negatively impacting the ability of the public sector to carry out necessary capital and attract private investments. The recent adjustment to petroleum prices and electricity tariffs is a step in the right

[95] Finance Division, Corporate Finance Wing, Government of Pakistan, December, 2008.
[96] This is keeping in mind the limit of state guarantees needing to be below 2 percent of GDP annually by law and the planned PPPs in others areas generating contingent liabilities. Source: MTDF (2005-10), Planning Commission, Government of Pakistan.
[97] Source: Asian Development Bank (ADB), Islamabad Office, November, 2008.

direction, while the accumulated debt of the sector needs to be restructured. The investment plans of IPPs, which amount to approximately US $4 billion are illustrated below:

Table 7.11: Expected Investment in IPPs in next 3 years (2008-11)

Sr. No.	Name of IPP	Installed Capacity (MW)	Fuel Switching	Total Life Span	Capital Cost (US $ million)	Commercial Operation Date	Location
1.	Sapphire Electric Company Ltd	209	Gas & RFO	30	203.0	20.06.2009	Sheikhupura
2.	Saif Power Generation	209	Gas & RFO	30	199.70	Aug 2009	Sahiwal
3.	Halmore Power Generation Co.	209	Gas & RFO	30	110E + $79.44	Dec 2010	Bhikki
4.	Star Power Generation Ltd.	133	Gas & RFO	25	196.39	Mar 2010	Jarwal Sindh
5.	Fouji Foundation Power Co.	179	Gas & RFO	25	216.81	Jul 2009	Dharki
6.	Orient Power Company Ltd.	212.7	Gas & RFO	30	182.07	Mar 2010	Baloki
7.	Attock Generation Ltd.	150	RFO	25	148.6	Jan 2009	Rawalpindi
8.	Engro Power Project	117	Flared	25	228.97	July	Ghotki Sindh
9.	Atlus Power Project	225	RFO	25	228.26	Feb 2009	Sheikhupura
10.	Nishat Power	150	RFO	25	203.84	Dec 2009	Pattoki
11.	Nishat Chunian	117	RFO	25	203.84	Jun 2010	Pattoki
12.	Liberty Power	225	RFO	25	239.81	Dec 2010	M-3 Industrial State Faisalabad
13.	HUBCO Narrowal	200	RFO	25	274.25	Mar 2010	Narrowal
14.	Rental Power Sumandri Road	200	RFO	3	135.0	Mar 2009	Faisalabad
15.	Rental Power Guddu	200	Gas	3	72.0	Mar 2009	Guddu
16.	Rental Power Multan	225	RFO/Gas	4	208.0	Apr 2009	Multan
17.	Sahuwala Sialkot	150	RFO/Gas	4	165.0	Apr 2009	Sialkot
18.	6 Wind Power Projects	300	-	25	720.0	2010	Sindh Province
Total: US $4026 million							

Source: Ministry of Water and Power, Power Wing, Government of Pakistan, December, 2008.

7.14.8 Another source of finance as well as of policy and technical advice is the international development community. In order to meet the additional power generation requirement of 143,310 MW during 2005–2030, an investment of about US $150 billion will be required.

The average government investment per year is planned at US $2 billion, with the balance of US $4 billion per year met through international development agencies and the private sector (including through BOT projects and Public Private Partnerships).

Box 7.1: Private Sector Investments -- Potential Pipeline

The Asian Development Bank is Pakistan's single largest development partner in the energy sector followed by the World Bank and JBIC and has strong presence (through investment projects and analytical and project preparatory assistance) across the power supply chain in the country.

(i) Axor/Dawood Wind Power Project: The project will be a 50-MW wind power IPP in Southern Sindh. Tariff for the project has been notified and the project's CCP stands approved.

(ii) Rajdhani Power Project: Hydro IPP following ADB's participation in the New Bong Escape Hydro IPP. No major environmental risks.

(iii) LNG Project: Integrated LNG project for supplying gas to Sui Southern Gas Company distribution network.

(iv) Landhi Cattle Colony Biofuel Project: Involves converting (currently polluting) dung from 400,000 cows to 25MW of electric power, 2,000tpd of fertilizer, and 1.1 mtpa of carbon emission credits. The cost of the project is US $100 million. The project is currently in pilot stages.

Source: Asian Development Bank (ADB), Islamabad Office, November, 2008.

7.14.9 The **third** prong in the strategy is strengthening of institutions. Public Sector companies such as Sui Northern Gas Pipelines Ltd (SNGPL), Sui Southern Gas Company Ltd (SSGCL) and other energy sector entities will be privatized during FY 2009/10.[98]

7.14.10 In 1998 the government unbundled WAPDA, splitting it into companies that are expected to be leaner and more agile in responding to changing circumstances. However, the successor companies have not yet been given financial autonomy, and WAPDA continues to tightly manage the affairs of the power sector. The main efforts during the PRSP, therefore, will be directed towards deepening sector structural reforms by enhancing the corporate autonomy of WAPDA's successor companies (especially in distribution). In particular, the government will transfer all responsibilities for financial management of sector revenues from consumers and the government budget (in the form of subsidies) to the distribution companies. Other objectives of the strategy are to strengthen the management and operation of the wholesale market, and to improve sector governance and regulation in order to increase the efficiency of the sector. One way of doing this could be to reduce peak loads by shifting usages from peak to of-peak times and thereby deferring construction of new facilities. This shift could be achieved through the use of time-of-day or seasonal tariffs.

7.14.11The **fourth** critical element in the government's strategy is to diversify the energy mix. Pakistan's energy sources include hydropower, coal, oil and gas, uranium, and alternate

[98] Privatization Commission, Government of Pakistan, 2008.

energy sources such as the sun and the wind. The projected composition and utilization of energy sources from 2005 to 2030 are detailed in Table 7.12 and Figure 7.4.

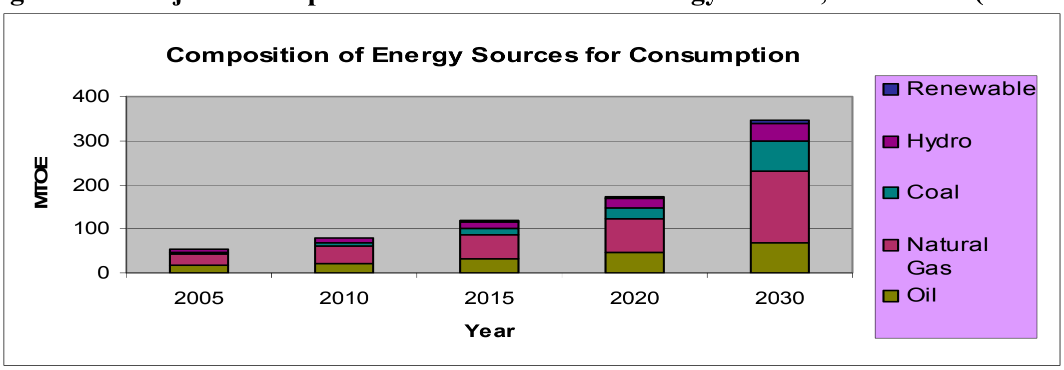
Table 7.12: Energy mix and demand projections, 2005–2030 (MTOE and percent)

	Current		Short Term		Medium Term				Long Term			
	2004		2010		2015		2020		2025		2030	
Total MTOE	50.8		79.39		120.18		177.35		255.37		361.31	
Oil	15.20	30%	20.69	26%	32.51	27%	45.47	25.7%	57.93	22.7%	66.84	18.5%
Natural Gas	25.45	50%	38.99	49%	52.98	44%	77.85	44%	114.84	45%	162.58	45%
Coal	3.30	6.5%	7.16	9%	14.45	12%	24.77	14.0%	38.28	15%	68.65	19%
Hydro	6.43	12.7%	11.03	13.9%	16.40	13.6%	21.44	12.1%	30.50	12%	38.93	10.8%
Renewable	0.00	0.0%	0.84	1.1%	1.60	1.3%	3.00	1.7%	5.58	2.2%	9.20	2.5%
Nuclear	0.42	0.8%	0.69	0.9%	2.23	1.9%	4.81	2.7%	8.24	3.2%	15.11	4.2%

Source: Planning Commission, MTDF 2005-2010.

7.14.12 The current energy mix includes 50 percent natural gas, 30 percent oil, 12.7 percent hydroelectricity, 6.5 percent coal, and 0.8 percent nuclear. The natural gas reserves are expected to start declining after 2010. Pakistan will, therefore, have to focus on energy conservation and shift the balance of energy production from oil to nuclear, wind, solar and other alternative energy sources. The strategy seeks to diversify the energy mix by expanding the share of coal, nuclear and renewable energy from the present combined share of 20 to 36 percent by 2030, even as the amount of energy grows from 55 MTOE to 361 MTOE in 2030.

Figure 7.4: Projected composition and utilization of energy sources, 2005–2030 (MTOE)



Source: Planning Commission, MTDF 2005-2010.

7.15 Subsidies

7.15.1 In order to ease the burden on public finances the government will reconsider the question of power sector subsidies, which currently amount to about 1 percent of GDP. The government is managing Rs 121 billion tariff differential shortfall for FY 2008/09. Out of this, the government is providing Rs 65 billion while the remaining will be passed onto consumers.[99] Average annual subsidy given to lifeline consumers is Rs 10.35 billion out of which Rs 3.04 billion have been built in the tariff. The government has a firm commitment to remove all subsidies on oil and electricity by end 2008 and June 2009 in pursuance of which, 31 percent increase in electricity tariff was already made in September, 2008, while the petroleum subsidy was brought down to less than Rs 7/litre from a high of Rs 50/litre.[100]

7.16 Renewable Energy Sources

7.16.1 The objectives of policy for the Development of Renewable Energy for Power Generation, 2006 include increasing the deployment of renewable energy technologies in Pakistan so as to provide a higher targeted proportion of the national energy supply mix and also help ensure universal access to electricity in all regions of the country. As a first step, Alternative Energy Development Board (AEDB) has been established to facilitate development of renewable energy i.e. solar energy, wind energy, and bio-fuels. The authorities will accelerate programmes for the use of alternate energy (especially wind), which have the potential to provide more than 5 percent of the electricity supply needed in 2030.

7.16.2 **Wind Energy:** Since 2001, global wind capacity has nearly doubled to 47,760 MW[101] and is cheaper than natural gas. Pakistan has some excellent sites to exploit wind energy. A section of the coastal area of Sindh has been identified as having wind power potential of 50,000 MW. With improved site studies, better project planning, R&D and learning, cost of wind energy projects can be reduced to acceptable levels of around US 6.0 cents/kwh and even below. The government is preparing a contingency strategy that includes, inter alia, offering enhanced sovereign guarantees. Moreover, managing power projects up to 50 MW have already been delegated to the provinces.

7.16.3 **Solar Energy:** Pakistan has not so far used its solar potential to save on conventional energy, although its central and southern parts can be used for solar thermal power plants. Despite the high generation cost of solar power at present, the mid-term prospects are promising due to the expected technological improvements and economies of mass production. AEDB will also undertake a comprehensive plan for the development of solar products like solar lights, solar fans, solar cookers and solar geysers through the participation of private sector.[102]

7.16.4 **Bio-fuels:** Pakistan has started work on bio-fuels (ethanol and bio diesel) for provision of efficient and sustainable energy. Under AEDB a pilot project of using Ethanol as an alternative fuel for vehicles has been launched in cooperation with HDIP and PSO. Furthermore, a pilot project for production of bio-diesel has been successfully implemented and using local agriculture bio-diesel for village electrification. The government has

[99] Ministry of Water and Power, Power Wing, Government of Pakistan, October, 2008.
[100] Finance Division, Corporate Finance Wing, Government of Pakistan, December, 2008.
[101] Megawatts.
[102] GoP, Planning Commission, 'MTDF 2005-2010' (May 2005).

introduced 'The National Policy for Power Co-Generation' by sugar industries (the Co-Gen Policy). Co-Generation is a highly-efficiency energy system that produces both electricity (mechanical Power) and valuable heat from a single fuel source. Pakistan has a potential of generating more than 3,000 MW of electricity through co-generation from its existing sugar industry.

7.17 **Energy Security Plan (ESP)**

7.17.1 Considering the critical importance of maintaining energy efficiency and security for ensuring sustainable growth, a Task Force was set up by the government to prepare a comprehensive report, based on which the government approved the Energy Security Plan (ESP), 2005-15 on 15th February 2005. Salient features of the ESP include:

- Increasing exploratory efforts to significantly enhance the annual production levels of gas and oil. Offshore exploration will also be intensified;
- Improving and expanding oil-gas distribution networks, both within the country and internationally;
- Facilitating Oil and Gas Development Corporation and other local oil and gas exploration companies in entering into joint ventures for overseas projects for securing oil and gas reserves;
- Diversifying the energy mix, by expanding the share of coal, nuclear and renewable energy from its current combined share of 20 percent to 36 percent by 2030, even as the amount of energy grows from 55 MTOE to 361 MTOE in 2030;
- Accelerating current programmes in alternate energy (especially wind), which have the potential to provide more than 5 percent of the electricity supply needed in 2030 as incorporated in the ESP;
- Promoting extensive use of coal-fired plants based on indigenous and imported coal, with strong policies for making its use eco-friendly. Carbon capture and sequestration will be aggressively promoted;
- Increasing storage capacity, so that strategic reserves which currently stand at 29 days of demand or less are brought closer to the United States' 60-day supply by 2015 and Europe's 90 days by 2030;
- Developing hydropower resources being cheap and eco-friendly;
- Reducing vehicle emissions through accelerating the use of mass transit systems in major cities to meet the mobility needs of the public as well as hybrid vehicles;
- Promoting efficient use of energy through energy conservation and demand management measures;
- Building up the local power engineering industry with power plant equipment, steam turbines, and generators; and
- Initiating research in emerging thrust areas such as fusion, fuel cells, and hydrogen for energy generation and storage.

7.17.2 During the last four years 48 oil/gas discoveries were made in the country. Out of these production from 19 discoveries have started whereas the other discoveries are at appraisal/development stage. It is expected that oil/gas extraction from 16 fields will start in 2009. These discoveries have so far resulted in 2.949 TCF of gas and 948 million US barrels of oil. Another component of the Energy Security Plan is to expedite development of Tal (district Kohat), which has the potential to meet the entire energy demand of North Pakistan. In this regard, Manzalai well is producing gas since February, 2005. Current production is 21.5 MMCFD gas and 224 barrels of condensate; the second phase of the development plan is expected to be completed in the first half of 2009. Makori field of Tal block is also currently producing 30 MMCFD of gas and 2256 barrels of condensate; development will be completed in 2011. Exploration of Manikhel field is expected to start in July 2009 and will be tentatively completed within a period of two years.[103]

7.17.3 With reference to the country's present power shortage, new power plants will be installed on emergency basis, which would start generating 220MW by the end of 2008. An austerity campaign will be launched to save power, through which 500MW electricity is aimed to be saved. Water course lining and urgent construction of small water dams will further overcome the problem of water and power shortage. The government will initiate 'Electricity Distribution and Transmission Project' (mentioned above) and 'Power Transmission Enhancement Investment Programmes' jointly with the World Bank and the Asian Development Bank (ADB). PEPCO has been directed to ensure provision of 10 million energy saving bulbs at a reasonable price. Capacity of Thar-Coal Power Project will be enhanced to produce electricity from 5,000 MW to 20,000 MW.

7.17.4 Through electricity market development, the government aims to promote the efficiency of electricity generation, transmission, distribution, export import and consumption by developing reliable, fair and stable relationships among licensees. The market rules from the framework which define the rights and obligations between electricity participants include: criteria for participation; rights and obligations of participants; roles and responsibilities of the CPPA and the system operator; commercial arrangements and dispute management. Such a development will help to gradually develop competition in the power sector by creating the necessary environment for attracting investment.[104]

7.17.5 With assistance from the Asian Productivity Organization (APO), Japan and GTZ Germany, the National Productivity Organization (NPO) team (see chapter 8 on competitiveness) has conducted energy audits in 11 textile units, which have been termed highly successful by entrepreneurs and the business community. Recognizing the importance of the project in light of the prevailing energy crisis in the country, the government has played a very positive role and sanctioned Rs 39.68 million for NPO to continue with the implementation of best practices of the energy efficiency programme in

[103] Ministry of Petroleum & Natural Resource, Government of Pakistan, October, 2008.
[104] Ministry of Water and Power, Power Wing, Government of Pakistan, December, 2008.

the textile sector and enlarge its scope to expand the operation in more industries based on its institutional strength, experienced team and overall mission.[105]

7.18 The overall current status in the energy sector is as follows:

- Government road map to eliminate the current circular debt in the sector, as well as timeline to address power subsidies. Petroleum subsidies have already been removed;
- Energy efficiency and conservations strategy; renewable energy policy and roadmap;
- Power sector reforms – creation of CPPA, unbundling and corporatization of power providers;
- Regional energy trade – imports of power and gas from Central Asia, Iran and SAARC countries;
- Integrated energy modeling;
- Private Sector – LNG options, imported coal power generation;
- Investment programme in power generation, power transmission and power distribution sectors;
- Privatization road map;
- Carbon credits regime;
- Hydel development programme – linking Northern Areas with national grid to promote private sector hydel generation and electricity trade within the country;
- Transmission infrastructure for power imports from Iran (which has been recently agreed at Presidential level); and
- Expedite development of Renewable Energy; mini-small run of river hydros to meet local demand are already being developed with the assistance of ADB.

7.19 Poverty Reduction and Environmental Sustainability: The Nexus

7.19.1 Development based on utilization of natural resources, pressures of population growth and a subsequent increase in demand and poverty can all take a heavy toll on environmental assets. Conversely, the degradation of natural resources can have a devastating impact on the poor given that they tend to be strongly dependent on the exploitation of such resources. Environment is a cross-cutting issue which runs across all PRSP-II pillars. While linkages between environmental sustainability and agricultural development (chapter 6), industrial competitiveness (chapter 8) and infrastructure planning (chapter 10) have been catered to in various chapters, details of new initiatives that aim to promote environmental sustainability are discussed in this section.

7.19.2 Environment degradation is a major cause of poverty in Pakistan which costs the country around 6 percent of GDP, or about Rs 365 billion per year. These costs fall disproportionately upon the poor. The most significant causes of environmental damage in Pakistan include illness and premature mortality caused by indoor and outdoor air pollution

[105] Ministry of Industries, Production & Special Initiatives, Government of Pakistan, October, 2008.

and lead exposure, which represent almost 50 percent of the total damage cost. Diarrheal diseases and typhoid due to inadequate water supply, sanitation and hygiene are another significant cause of environmental damage amounting to about 30 percent of the cost of environmental damages. The remaining 20 percent of the total cost results from reduced agricultural productivity due to soil degradation, particularly salinization, erosion, and water logging, which has a drastic effect on the livelihoods of the rural poor.

7.19.3 Environmental degradation has a far-reaching impact on the health of the population, which inturn has a direct effect on the productivity of the country's labour force, its competitiveness and the overall potential for economic growth. Environmentally related factors cause roughly one third of all child mortality in Pakistan, which is the highest in South Asia. High children mortality and morbidity rates, and the impacts of environmental quality on cognitive development of children reduce their opportunities to attend school and become skilled workers, hence limited their ability to escape the poverty cycle they have been trapped in from generations.

7.19.4 **National Environmental Policy, 2005**

7.19.4.1 Pakistan's institutional environmental framework has evolved since the adoption of the Pakistan Environmental Protection Ordinance in 1983. Currently, the National Environmental Policy (NEP) of 2005 constitutes the Government's overarching strategy for achieving the goals of sustainable development. However, NEP implementation and enforcement of environmental regulations has been slow, as evidenced by dismal environmental conditions, which are worse in Pakistan than in other similar or lower income countries, particularly when measured in terms of environmental health indicators. Key constraints that hinder the environmental sector's capacity include weaknesses in the institutional and regulatory framework, limited human, technical, and financial resources, and gaps in incentives and accountability.

7.19.4.2 The National Environment Policy covers not only the standalone environmental focus of PRSP but extends it to other relevant sectors and themes linking them with mainstreaming environment. The Policy is a valuable and timely contribution and a prelude to poverty-environment focus of PRSP-II. For example, the policy mainstreams environment in the energy sector by: (i) formulating energy conservation guidelines and audit standards, (ii) strengthening financial mechanisms, institutions, and associated policies and regulations to provide innovative lending specially in the demand side efficiency improvement, (iii) developing and implementing a plan for conversion of public transport to CNG, (iv) promoting renewable forms of energy (wind, solar, biomass, biogas, and others) at a wider scale.

7.19.4.3 The Pakistan Environment Protection Act of 1997 transferred environmental management powers to provincial governments. While major environmental policies and guidelines are dictated at the national level by the MoE and Pakistan EPA, it is the role of the provinces to implement and enforce them. However, there is currently little coordination between federal and provincial agencies, and limited coordination between provincial authorities and district as well as sub-district-level authorities. Institutional mechanism need to be strengthened to involve environmental management agencies in a consultative process for priority-setting, development of long term action plans, and assessment of performance/impacts of specific initiatives. Inter-sectoral coordination for the oversight of cross-cutting issues, as those outlined in the NEP, is limited to the establishment of Focal Points within other non-environment ministries.

7.19.4.4 The development of large hydropower resources will involve resettlement of the displaced people and give rise to other environmental and social issues. Similarly, the development of coal mining and coal use in power generation will have local, regional and global environmental impacts. Pakistan needs to strengthen its policy and institutional framework and capacity to mitigate these negative impacts in line with the best international practices. Integrating these practices into the project process from planning to implementation will improve the long term sustainability of these projects.

7.19.4.5 In order to address linkages between environmental protection, sustained economic growth and poverty reduction, efforts will be undertaken to strengthen the institutional capacity for environmental management, consistent with the provisions of the NEP, both at the federal and the provincial levels. This will include providing federal and provincial governments with the tools and resources needed to identify and develop priority setting and coordination mechanisms, increase the effectiveness and efficiency of the national environmental management system, and engage a broad range of stakeholders to continuously improve environmental policies.

7.19.4.6 Making an efficient use of the country's scarce resources, priority will be given to address the causes of environmental degradation that affect primarily the poor and the environmental risks that have been identified as the leading causes of children mortality such as air pollution and inadequate water supply, sanitation, and hygiene. Actions undertaken to arrest environmental degradation will be consistent with the MDGs. Considering the potential of climate change to reverse progress in achieving the MDGs, a climate change strategy will be developed to identify priorities for action to increase private and public sectors' abilities to mitigate and adapt to the environmental and socio-economic impacts of climate change while simultaneously contributing to address the national environmental challenges identified by NEP. These efforts will aim to take advantage of opportunities to access carbon financing in various sectors, including carbon sequestration through afforestation and reforestation.

7.19.4.7 Taking into account the importance of developing a solid infrastructure base, another priority will be to develop the institutional capacity to manage the environmental effects of the development of infrastructure and key economic sectors. This will include the strengthening of the Environmental Impact Analysis (EIA) system and the adoption of environmental management systems that contribute to enhance competitiveness.

7.19.4.8 In response to the cross-cutting nature of environment, coordination mechanisms will be strengthened to foster collaboration among governmental agencies to incorporate environmental considerations in the sectors that can have a more important impact in poverty reduction. Areas that will be targeted include the development of policies aiming to enhance industrial competitiveness while simultaneously yielding environmental benefits, through the adoption of practices that foster energy efficiency, quality control, Corporate Social Responsibility and compliance with the environmental standards of export markets.

7.19.5 PRSP Alignment with UN MDG 7

7.19.5.1 The PRSP has aligned itself with Millennium Development Goal 7, which is specific to environmental sustainability. Its targets include integration of the principles of sustainable development into country policies and programmes and reversing the loss of environmental resources including: biodiversity conservation, climate change mitigation and adaptation, phasing out ozone depletion substances; sustainable access to safe drinking water, sanitation and hygiene; controlling outdoor and indoor air pollution, reduction of vulnerability to natural disasters, and significant improvement in the lives of slum dwellers e.g. by providing access to secure tenure.

7.19.6 The government has declared 2009 the 'National Year of Environment.' The Fourth report of the Intergovernmental Panel on Climate Change (IPCC)[106] suggested that South Asia is one of the world's regions more at risk from climate change in terms of adverse impacts to the poor. The socio-economic costs of climate change-related impacts can be significant for Pakistan, and also have the potential to severely reverse the progress made by the country on development and poverty alleviation. Potential consequences of changes in climate patterns may include: flooding followed by reduced availability of fresh water as a result of glacier melting in the Himalayan-Hindu Kush mountain ranges, lower rates of rainfall in arid and semi-arid zones, declining agricultural yields, and growing incidence of diseases linked to rising temperatures and rainfall variability such as diarrheal diseases. The power sector is one of the major contributors of emission of greenhouse gases accounting for a large percentage of total CO^2 emission. The main source of these emissions is due to heavy use of fuel oil in the power generation. During the period 2005-10, conversion of existing thermal power stations from fuel oil to natural gas would substantially reduce the CO2 and particulate emission.[107] In October, 2008, the Planning Commission of Pakistan constituted a 'Task Force on Climate Change', which includes representatives from the Commission, WAPDA, Ministry of Environment, Pakistan Meteorological Department, Global Change Impact Studies Centre, LEAD Pakistan and United Nations Environment Programme (UNEP). The Terms of References (TORs) of the Task Force are as follows:

- To contribute to the formulation of a climate change policy that would assist the government in pursuing the goal of economic growth by appropriately addressing environmental challenges including: measures for ensuring water security of the

[106] "Climate Change 2007", Fourth IPCC Assessment Report.
[107] GoP, Planning Commission, 'MTDF 2005-10' (May 2005).

country through planning; coordinating in-depth studies of the impact of climate change and the melting of Himalayan glaciers on the Indus River inflows; and policy guidelines to ensure food and energy security security of the country in the wake of overall warming, the changing temporal and seasonal water situation in the Indus River System, and the rise of sea level caused by global warming;

- To assess existing institutional capacities of various organizations and recommend measures for their strengthening; and
- To recommend measures for enhancing understanding and awareness of issues pertaining to climate change among all stakeholders including the general public.

7.19.7 While significant investment in infrastructure development is needed to enhance Pakistan's competitiveness, it is equally crucial to improve environmental quality and achieve progress in terms of environmental health. In the long-term, the sustainability of infrastructure investments and their influence on development and economic growth will be a function of the extent to which their associated environmental impacts are evaluated and, if necessary, mitigated. A process of thorough assessment of the risks, potential alternatives and long-term monitoring actions for new infrastructure must be an integral part of the overall national planning process, and the institutional framework must be set up to guarantee coordination between agencies to: (i) develop and put in place such process given the specific context of the country; and (ii) ensure that the process is consistently carried out.

7.19.8 **Environmental Fiscal Reforms (EFR)**

7.19.8.1 Environmental fiscal reform (EFR) is an important policy instrument that can address environmental hazards by making greater use of tax sources, cost recovery and removing environmentally harmful subsidies. Some key factors of degradation of the environment are market failure (under pricing, under-valuation), institutional failure (e.g. property rights) and policy failure (perverse incentives, deliberate under-pricing or bias). The EFR refers to the introduction, application and a range of taxation and pricing measures including: (i) tax on natural resources extraction; (ii) removal of environmentally damaging subsidies; (iii) Introduction of specific product taxes, levies and user charges; (iv) pollution charges; and (v) reforming other taxes in favour of the environment. More specific uses of EFR in Pakistan include:

- User charges to consumption of water, energy and other resources;
- Minimization of subsidies to reduce inefficient energy and water use e.g. tubewells and electricity;
- Subsidy on energy and water efficient technologies for poor households e.g. efficient stoves; energy efficient insulation, siding and windowing; clean fuels substituting fuelwood, efficient water and energy appliances; and
- Payment for environmental services (e.g. compensating the farmers for water shed management practices to reduce silting of mega dams).

7.19.8.2 The Global Environmental Facility (GEF), UNDP, UNICEF, European Union, the World Bank, Asian Development Bank are amongst the multilateral development partners and CIDA, RNE, SDC, NORAD and DFID are the major bilateral development partners that have made substantial financial contribution to support the country's environmental projects. Major achievements related to environmental sustainability in Pakistan include:

- CNG stations and conversion of vehicles to CNG;
- Environmental awareness;
- The ever increasing use of information technology and government disseminating Information through websites;
- Creation of enabling environment for the private sector and civil society for enhancing their contribution to environmental sustainability; Promoting Corporate Social Responsibility (CSR), etc.;
- Large-scale poverty reduction demonstration projects in rural areas focusing on community participation and sustainable use of natural resources, e.g. Mountain Areas Conservancy Project-MACP, Environmental Rehabilitation in NWFP and Punjab Project-ERNP, Protected Areas Management Project-PAMP and Pakistan Wetlands Conservation and Management Project-PWP);
- Supportive role of civil society environmental/rural development organizations;
- Gradually increasing use of environmental impact assessment for investment programmes; and
- Integrating environment in disaster management.

7.19.9 National Environmental Information Management System (NEIMS)

7.19.9.1 In Pakistan, environmental data is collected, compiled and published by a host of organizations, which includes federal agencies, provincial agencies, research institutes and NGOs. The Ministry of Environment has a vision which includes focusing on establishing a reliable database of country's environmental resources, monitoring of environmental information to ascertain trends and provision of timely and accurate environmental data to users. The overall objective of the project worth US $2.1 million[108] running over a duration of 4 years, is to contribute to promotion of sustainable development through building national capacity in developing, managing and utilizing environmental information for informed decision-making.

7.19.9.2 Major objectives include reviewing and analyzing the current state of environmental data/information management, establishing institutional and technical frameworks for

[108] Funded by Royal Netherlands Embassy and UNDP.

NEIMS, developing an agency specific and inter-agency database, and integrating application of the database with existing projects.

7.20 Energy is the lifeline of economic development. Pakistan's integrated energy development programme and its related policy/institutions and regulatory framework are thus, an essential part of the government's overall infrastructure development plans and will be a major initiative targeting improvement in the competitiveness of the private sector, removing infrastructural bottlenecks to sustain and strengthen private sector led growth.

Chapter 8 - Pillar V: Making Industry Internationally Competitive

8.1 Improving the competitiveness of an economy requires action on many fronts. The country must ensure a stable macroeconomic environment, improve its infrastructure, strengthen its human resources, make its institutions responsive to changing requirements, and take other steps to reduce the cost of doing business. These topics are discussed in different chapters of this document. This chapter outlines the broad strategy that will be followed regarding the key elements that bear on the competitiveness of the country.

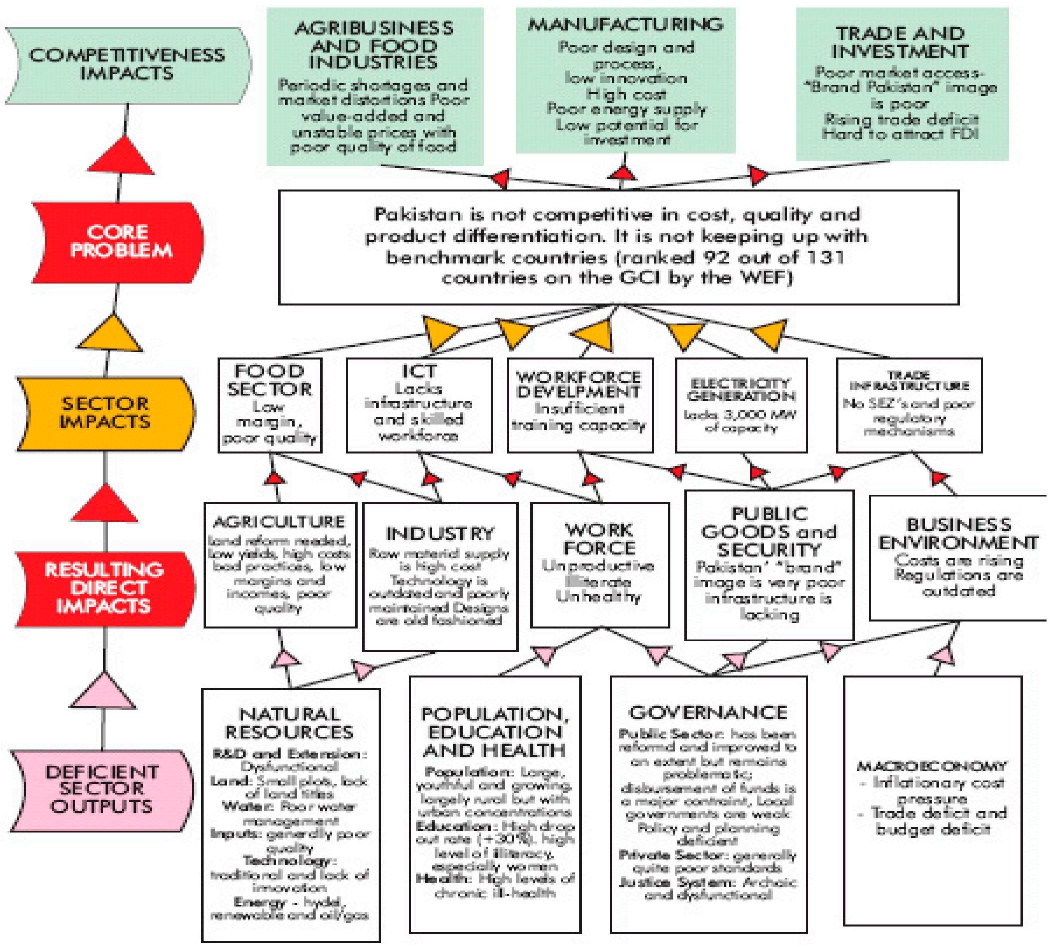
8.2 A strategy for improving competitiveness involves several different actors and must be sustained over the long run. A competitiveness strategy is not a once-for-all exercise, but rather is a continuous process that requires an institutionalized way of involving the different players.

8.3 The government plans to institutionalize the process and to ensure that a continuous and long-term look is taken of competitiveness by establishing a Trade Competitiveness Forum. This body would incorporate representatives from the public sector, the private sector, as well as from civil society and academia. The Forum would ensure a strong public-private dialogue and sustained interaction among governmental and other public agencies. It could also help with two crucial interfaces: (i) between the private and the public sector to ensure that key constraints encountered by the private sector are addressed by the government. In a sense, this would replicate some of the procedures undertaken by countries — especially France, the Netherlands, Korea, and Japan (for industrial planning) — that practice some form of 'indicative' planning; (ii) between different elements of the government, where there is a need for an entity to advocate and support reforms by a range of line administrations. The government will look into the issues (such as the identity of the key stakeholders, the checks and balances on such an institution to function effectively, how to provide expertise and economic intelligence to this group, etc.) connected with the establishment and functioning of such a Forum.

8.4 The competitiveness of an economy is closely related to productivity, especially firm-level productivity compared with costs. The immediate source of Pakistan's competitiveness weakness is that its wages are broadly similar to those in China or India, but it has much lower factor productivity. Moreover, it has about the same factor productivity as Bangladesh but its wages are nearly 50 percent higher. As a result, it has trouble competing with any of these neighbours.

8.5 The smaller contribution of productivity to the growth process in Pakistan than in several of its neighbours is also well documented. Studies of Pakistan's growth performance over the period 1960-2005 show that while capital accumulation and labour force expansion explained about 80 percent of the GDP growth rate, growth in total factor productivity (TFP) provided a significant contribution of 20 percent. However, the contribution of TFP growth fluctuated a good deal. In the 1980s, TFP growth explained nearly 38 percent of the GDP growth rate, but this fell to only 18 percent in the following decade. Between 2001-2005, TFP growth recovered somewhat and contributed 22 percent.

Figure 8.1: Problem tree illustrating main competitiveness issues faced by Pakistan



Source: Competitiveness Support Fund, "*The State of Pakistan's Competitiveness Report 2008*", Government of Pakistan, 2008.

8.6 Micro-level investigations reiterate the importance of improvements in the investment environment for firm-level productivity growth. A study by the World Bank on growth and export competitiveness in Pakistan pointed out that improvements in some aspects of the investment climate (such as reduction in power outages, days required to clear imports and exports through customs, better access to financing, reduction in management time dealing with regulations, etc.) could sharply increase the productivity of firms.

8.7 Some of the results could be quite spectacular. The report estimated that if the quality of the investment environment in Pakistan were to match that of Shanghai, then the productivity of Pakistan's textile firms operating in Karachi would on average improve by

81 percent; the rate of return to capital by 36 percent; and wages would rise by 23 percent. The report went on to point out that the increased profitability would in turn encourage more investment, leading to faster capital accumulation and output growth. And, of course, since technology generally comes embodied in physical capital, a higher rate of capital accumulation would provide the country with greater access to technology.

8.8 Even without going to the level of China, much could be accomplished simply by bringing the rest of Pakistan to the level of its best performing areas. There are regions of Pakistan in which the investment climate is much better than in the country as a whole. If the country as a whole adopted the practice of its best-performing regions, the business environment would improve very substantially. The World Bank estimates that if each Pakistani region adopted Lahore's regulations on starting a business; Peshawar's regulations on dealing with licenses, employing workers, and enforcing contracts; and Karachi's regulations on bankruptcy, taxes, and property, Pakistan's ranking would jump from 74th to 52nd on the World Bank's index of the ease of doing business. Such an improvement would play a major role in encouraging business investment and absorbing technology, and thus increasing productivity and competitiveness.

8.9 The strategy for increasing productivity and thereby building a more competitive economy that will be followed during the period of PRSP-II rests on action in five broad areas: (i) infrastructure and services; (ii) product and factor markets; (iii) market governance; (iv) selective direct interventions; and (v) attention to specific problems encountered by Small and Medium Enterprises (SMEs). Actions to address all these areas, however, must take place within the framework of stable macroeconomic conditions.

8.10 Macroeconomic stability provides an environment in which businesses can be reasonably assured of the continuity of policies, the functioning of institutions, and the durability of key economic variables such as the exchange rate and the interest rate. A balance in the fiscal accounts also provides reassurance that the requirements of public sector borrowing will not crowd out the private sector from the financial markets. These factors help to minimize risks to businesses. A reduction in risks gives businesses the confidence to create capital assets for the long term and to feel it is worthwhile to invest in training labour. The outlook for the macroeconomy and the policies to be pursued during PRSP-II are elaborated in Chapter 4. To the extent that these policies aim at expanding exports in order to narrow the current-account deficit, the issues examined in the present chapter feedback into the macroeconomic discussion.

8.11 Brief details on the strategy for increasing productivity are as follows:

8.11.1 **Infrastructure and services**

8.11.1.1 Pakistan must substantially improve its infrastructure and basic services so as to reduce the cost of doing business. The parts of the infrastructure that would have the greatest impact on increasing productivity are power, transport, and telecommunications. Issues related to the development of a world-class infrastructure are discussed in chapter 10; the present chapter touches only upon the highlights of the strategy**.**

8.11.1.2 **Power:** Surveys of the private sector consistently put power shortages among the top three or four most serious problems. Indeed, as the GDP growth rate accelerates, the demand for energy can be expected to increase rapidly. Pakistan's total energy requirements by 2030 will be 361 MTOE. In brief, the strategy comprises a much higher rate of investment, a strengthening of the main institutions (such as WAPDA's successor companies), and a diversification of the energy mix to increase the share of coal, nuclear, and renewable energy.

8.11.1.3 **Transportation:** Value-added in transport in all its forms contributes about 10 percent to the GDP and accounts for over 6 percent of employment. Improved competitiveness of the economy demands increased productivity in all the elements of the transport sector—roads, railways, ports and aviation.

8.11.1.4 **Road transport:** Road transport accounts for 90 percent of the country's passenger traffic and 96 percent of its freight. Despite its crucial importance, the public transport system has received insufficient investment and suffers from neglect of essential maintenance. It is clear that without a carefully thought out strategy, the sector in its existing shape will not be able to support a sustained growth of GDP. The strategy for the development of the sector during the PRSP-II period comprises four main elements: (a) a comprehensive investment programme, projected at US $6 billion; (b) a complete overhaul of the logistics system that will include reforms to procedures, services, and infrastructure; (c) a prioritization of investment and institutional reform, with the main emphasis on improvements along the National Trade Corridor (the north-south axis that links Pakistan's major ports with its main industrial centers and neighboring countries); and (d) a significant expansion and upgrading of the rural roads network.

8.11.1.5 **Ports:** It is obvious that if Pakistan is to become more competitive in international trade, then it will have to improve the working of its ports. The strategy for accomplishing this is being developed in the form of a master plan that will include projects to reduce costs; improve logistics; outsource several port activities such as dredging, piloting, and the operation of tugboats to the private sector; and improve cost recovery so as to strengthen port finances.

8.11.1.6 **Railways:** The strategy envisages a railway system that is increasingly commercially-oriented. The main focus will be on increasing the efficiency of the railways and reducing government subsidies. Increases in efficiency are expected to come through strategic investments in physical facilities; making finances, especially of loss-making services, more transparent; and opening the track to private operators by implementing a track access policy that is currently being developed by Pakistan Railways.

8.11.1.7 **Aviation:** It is recognized that roads, railways, and ports are the most important elements in Pakistan's transportation system. However, there are expanding areas in which high value-added items can best be transported by air; these include fresh fruits, flowers, electronic parts, surgical instruments, and so on. A number of these items are already being exported to the Middle East and to Europe by air, and Pakistan's share in these markets can be significantly increased if transport costs are reduced. The strategy for the aviation sector includes construction of new airports and upgrading of some of the existing facilities. The policy will also open skies to private sector airlines for operating on international routes.

8.11.2 Product and Factor Markets

8.11.2.1 The second broad area that the strategy to improve competitiveness must address is to make product and factor markets more competitive and flexible.

8.11.2.2 **Product markets:** The most effective way to make product markets more competitive is to adopt a trade policy that levels the playing field between domestic and foreign producers. Pakistan has been moving quite vigorously towards liberalizing its trade regime with the government fully recognizing the benefits that accrue to a more open economy.

8.11.2.2.1 In general, most non-tariff barriers have been removed with the exception of some that have been retained for moral and religious reasons. Import and export procedures have been liberalized while a legal framework has been put in place that protects domestic industry from internationally-recognized unfair trade practices, such as dumping. As a result, maximum tariffs have been scaled down from as high as 225 to 25 percent.

8.11.2.2.2 Due to Pakistan's dependence on agriculture and agricultural-based manufacturers (such as cotton textiles), considerable attention will be paid to restructuring trade in agricultural products. The Poverty Reduction Strategy envisages special efforts to increase access of Pakistan's agricultural exports to international markets. Towards this end, the government is entering into negotiations with Pakistan's trading partners to persuade them to reduce their import tariffs on items that are of particular interest to Pakistan; these include fruits and vegetables, meat products, cereals, dairy products, and processed hides and leather. More specifically, the trade strategy during the PRSP-II period will:

- Maintain open markets. The country recognizes that it has gained in knowledge and efficiency by opening its markets to international trade, and this openness will be steadily increased during the period of the PRSP-II;
- Emphasize quality improvement. The government will work with Pakistani industries and the global community to ensure that domestic producers are able to achieve the standards imposed internationally relating to quality, responsiveness, labour, the environment, product origin and security in transport;
- Expand and modernize the framework for special economic zones, export processing zones, industrial parks, and IT-enabled service exports; and

- Encourage export industries to identify unnecessary policy, regulatory, institutional or other bottlenecks that stand in the way of efficient production and export. The government will then reduce these constraints especially where multiple industries have identified similar bottlenecks.

8.11.2.2.3 Competition in the domestic market will not be neglected either. The poverty reduction strategy aims to increase this competition in two principal ways. First, the government will continue its privatization programme with particular vigour. This has already picked up speed — from the programme's inception since 1991, the government has completed 175 transactions (total value Rs 287 billion), half of which were done between 2002–2007.

8.11.2.2.4 The second measure will be to diminish the major impediments to domestic competition, whether they are due to physical shortages (such as deficiencies in infrastructure) or to more intangible reasons (such as legal constraints on the exit and entry of firms, or the inadequate functioning of institutions, such as the commercial legal system or the financial sector). Business indicators in the Global Competitiveness Index (GCI) place Pakistan's private sector behind its international rivals in business activities such as corporate governance, staff training, quality control, process innovation and maintenance, and ability to respond to consumers' requirements. Pakistan's ranking dropped from 91st place in 2007 to 92nd place in 2008 amongst 131 countries. This is not to say that all enterprises fail in these respects—there are world class Pakistani companies that export globally (for example, a state-of-the-art sugar refinery was recently shipped to Europe) but the majority of firms are unable to meet the standards needed to compete globally. During the period of PRSP-II, the government will devote particular attention to the 'software' side of the equation, offering fiscal incentives and support for more training, quality control, and innovation by private firms.

8.11.2.3 **Factor Markets**

8.11.2.3.1 **Labour:** A competitive economy requires a well-functioning market for labour. Creating and maintaining such a market calls for a judicious balance. Workers must be protected from arbitrary or discriminatory actions by employers; they must be provided adequate measures of health, safety, and environmental standards; and they should be provided wages commensurate with their productivity. On the other hand, excessive labour regulation raises the costs of hiring and using labour, and can thereby stifle job creation.

8.11.2.3.2 Labour regulation in Pakistan is more pervasive than those of its neighbours. Pakistan's overall indicators for restrictiveness of employment laws are the highest in the South Asian region and much higher than those for the fast-growing East Asian countries. As a consequence, employers tend to evade labour laws on the books by relying more on temporary workers than those in neighbouring countries, for example, the share of temporary workers in Pakistani businesses in 2006 was nearly 36 percent, compared with 15 percent in India and 3 percent in Bangladesh. Another unfortunate consequence of raising the cost of labour is that fewer jobs are created than the increase in the labour force and, indeed, than the increase in the GDP. Thus, from FY 1993/94 - FY 2005/06 employment increased at an average rate of 2.4 percent a year, compared with a growth in the labour force of 2.7 percent and a GDP growth of 3.6 percent. A World Bank study found that the slow rate of job creation was not compensated for by improvements in the quality of jobs — wages in existing jobs remained low and stagnated in real terms during this period. This is a matter of concern from the point of view of poverty reduction as incomes in a modern economy are principally derived from jobs. It is also a matter of societal disquiet, because the burden of unemployment falls disproportionately on youth — particularly the urban educated youth — and on women.

8.11.2.3.3 The strategy for making labour markets more flexible during the period of the PRSP-II follows a multidimensional approach. The strategy will look into the following areas and make appropriate recommendations:

- Hiring and firing costs: The labour strategy will examine measures to reduce the time required to resolve industrial grievances and to set a fair level of severance pay. At present, severance pay as a proportion of base wages for a given period of continuous employment in Pakistan is twice the rate in India or Bangladesh;
- Redundancy as fair grounds for dismissal: Employers have repeatedly stressed that if they cannot fire excess workers (subject, of course, to the legal requirements of giving notice and providing financial compensation) in times of slack demand, they will be less likely to hire in times of high demand. This hurts both the worker and the employers by restricting job growth and decreasing the ability of the firm to expand. In Pakistan's neighbourhood, Malaysia, Thailand, and Vietnam are some economies that permit redundancy as grounds for reducing employment;
- Time limits on term contracts: Pakistan permits term contracts for a maximum of only nine months for temporary jobs. This inflexibility limits the creation of jobs, thereby reducing incomes and making it more difficult for workers to break out of poverty;
- Compliance costs associated with labor regulation: Surveys of firms in all the provinces of Pakistan have shown that employers considered existing practices of labour inspection, compliance with safety regulations, working condition norms, and so on are conducted in an uncoordinated, apparently haphazard and intrusive manner. These increase the costs of using labour and thereby act as a brake on the growth of employment; and
- Vocational and technical training: A strategy is being developed to reform and strengthen the system of vocational and technical training, both for youth of school age and for the substantial numbers, who have dropped out of school but are seeking entry to productive jobs.

8.11.2.3.4 A number of steps — principally the Labour Protection Policy, the National Labour Inspectorate, and the Employment and Service Conditions Act — have been taken to address the foregoing issues. The Labour Protection Policy, 2006 covers four main areas:

- Basic rights, such as the right to join a trade union and bargain collectively, equal treatment and non-discrimination, the absence of forced labour, and the absence of child labour;
- Working conditions, including minimum wages and above minimum wage issues, allowances and benefits, hours of work, overtime work, rest breaks and leave arrangements, including annual leave, sick leave and special leave issues, and job security provisions;
- Working environment, including protection against the effect of hazards in the work place involving issues of work safety as well as protection from work-related diseases and illness; and
- Social security, including protection against the effects of economic and social hardship resulting from a reduction in earnings because of work accidents, work illness, unemployment or retirement.

8.11.2.3.5 National Labour Inspectorate, in conformity with the International Labour Organization (ILO) Convention 81, is to place inspection under the supervision and control of a central authority. This is an extension of the Labour Inspection Policy approved in 2006 which: (i) introduced a range of approaches to labour inspection that were flexible, transparent, fair, and impartial; (ii) supported the extension of labour protection services to persons engaged in informal economic activities; and (iii) encouraged the private sector to participate in providing a range of inspection services. However, the capacity of the labour inspection machinery remains constrained. The authorities will convert inspection policy to model regulation and will undertake other reforms that will serve the purposes intended by inspection but without the disruption caused by the present practice.

8.11.2.3.6 The government will pass and implement the Employment and Service Conditions Act (ESCA) 2008. This Act aims at consolidating a number of related laws and at the same time increasing flexibility in the labour market. It spells out (i) conditions of employment; (ii) regulations relating to wages and bonuses, and minimum wage determination; (iii) priority of wages over other debts; (iv) liability of principal employer and contractor; and (v) punishment and termination of employment. Every worker is to be provided with an order in writing specifying the terms and conditions of service and the manner in which contracts are to be terminated by either party. The Act prohibits the employment of:

- a child for any reason whatsoever;
- a young person in any occupation identified as hazardous;
- a woman in any part of a mine that is below ground; and
- a woman in a mine above ground between 7 pm to 6 am, except those who do not perform manual work.

8.11.2.3.7 **Land:** The high price of land is frequently cited as an important deterrent to establishing new manufacturing facilities. This is particularly the case in the traditional industrial centres, such as Karachi and Lahore. The government has begun to address this issue along two paths.

8.11.2.3.8 The first path concerns zoning land and reserving it for industry, and by setting up industrial estates that will provide land for manufacturing enterprises at reasonable rates. Such estates have already been established in Korangi and Port Qasim for Karachi and in the neighbourhood of Lahore, while that in Multan is being doubled in size. Similar measures are underway in Faisalabad, Sialkot, Peshawar, Hub, Rahim Yar Khan, and Gwadar. The government is acquiring land for industrial estates near other cities in all the provinces; over 30 such estates are planned for the period covered by the PRSP-II. Some of these estates have already become operational, for example, all 667 plots in the Sundar Industrial Estate have been sold; 40 factories have started production; 105 are under construction; and another 125 are being processed for permission to start construction.

8.11.2.3.9 **Special Economic Zones (SEZs):** The second route consists of setting up Special Economic Zones (SEZs).[109] These Zones are intended to generate employment, attract foreign investment, increase exports, build clusters, and transfer technology and skills. In setting up such Zones and associated industrial parks and clusters, the government will ensure that land is available to the participating enterprises at reasonable rates.

8.11.2.3.10 The Poverty Reduction Strategy envisages that SEZs and associated industrial parks and clusters will play an important role in increasing the competitiveness of Pakistan.[110] The planning of SEZs will take into consideration the unique geographical, social and political characteristics of each location. There are already some excellent examples of industrial parks, such as the 'Marble City' and the Lasbela Industrial Estate in Balochistan. The government has also declared that the area around Gwadar Port city will be an SEZ. Cluster development in the Punjab — e.g. in Sialkot, around Sargodha, and in the 'Textile City' of Faisalabad — has been extremely successful. Furthermore, the National Industrial Parks Development and Management Company (NIPDMC) has been established as a Public Private Partnership to foster the approach. Initial activities include Korangi Industrial Park and Bin Qasim Industrial Park in Karachi in addition to others being developed in Peshawar and Bahawalpur. Industrial parks are planned during the PRSP-II period for Jhang, Rahim Yar Khan, Sialkot, Gujrat, and other cities.

8.11.2.3.11 The hallmarks of successful SEZs include high-quality infrastructure; a well thought out plan for attracting industry; carefully crafted incentive policies; access to a productive labour pool; a critical mass of support industries; streamlined bureaucratic processes; and a suitable regulatory framework. For SEZs to succeed, they also require support for factors that lie beyond their designated borders and authorities. These factors are regional and societal and can only be provided by the government at the national level.

[109] The term SEZ itself encompasses a range of nomenclatures because zones can function as Industrial Estates, Industrial Zones, Industrial Parks, Economic Development Zones, Free Trade Zones and Export Processing Zones.
[110] The term SEZ itself encompasses a range of nomenclatures because zones can function as Industrial Estates, Industrial Zones, Industrial Parks, Economic Development Zones, Free Trade Zones, and Export Processing Zones.

8.11.2.3.12 There is considerable movement towards having zones bring in labour by integrating residential, retail, and recreational components to the SEZ. By providing a decent living environment, workers can be attracted to a zone on the outskirts of a city or another region entirely through the prospect of a better quality of life. These types of development require larger investments and higher risk, thus the government must provide the necessary support to ensure that they are designed and executed using best practices exhibited by successful mixed-use zones.

8.11.2.3.13 The government has evolved a model of Private Public Partnership for effective development of SEZs. In order to work together for the development of different sectors, a model has been adopted for their promotion, giving the lead role to the private sector allowing space for free market mechanism to take its due course while the government assumes its role of a facilitator. Through joint efforts of SMEDA and USAID, the following Sector Development Companies have been set up with the aim that the government will provide resources for the implementation of sector strategies through these companies.

Box 8.1: Industrial Growth through Public-Private Partnerships

The Government of Pakistan has established independent companies as subsidiaries of the Pakistan Industrial Development Corporation, which are based on the principle of public-private partnership and has kick started the much needed industrialization process in provincial headquarters and prominent urban industrial clusters. Progress is as follows:

- **National Industrial Parks (NIPs) Development and Management Company:** The NIPs was established in March, 2005. The main objective of the company is to develop new industrial parks and upgrade older ones, and to manage infrastructure within the industrial parks through the respective Board of Management. Current projects under the development phase include: Korangi Creek Industrial Park (Karachi), Bin Qasim Industrial Park (Karachi), Auto Cluster Industrial Park (Sheikhupura) and Marble Cities (Risalpur and FATA).
- **Pakistan Gems and Jewellery Development Company (PGJDC):** The PGJDC will work across regions to establish Pakistan as an internationally competitive, world-class hub for precious stone-cutting, jewellery designing and manufacturing. It aims to enhance the value chain from mine to market through facilitation, technology up-grading, skill development and marketing/branding. In order to achieve its objectives, the Company has come up with a Sector Development Project, which includes establishment of Gems Exchanges, Development of Cutting and Polishing Centers, Quality Control Hallmarking for Gold Jewellery and Gem Testing Laboratories for Certification, undertaking Marketing and Branding Initiatives and conducting Geological Surveys for scientific quantification of deposits and identification of new ones. The total cost of the project is Rs 1400 million. ECNEC approved the project in September, 2007 and an amount of Rs 250 million was allocated through PSDP during the FY 2007/08. The Company has now started work on the project components and is in the process of establishing Common Facility and Training Centers at Karachi, Lahore and Gilgit and Gems labs at Peshawar and Quetta.
- **Technology Up-gradation and Skill Development Company (TUSDEC):** The TUSDEC was incorporated in January, 2005 by the Securities and Exchange Commission of Pakistan (SECP). Since inception, TUSDEC has been developing technology database and support for technology acquisition. Projects being implemented by TUSDEC under sponsorship of Ministry of Industries & Production include:
- **2 Tools, Dies and Mould (TDM) Centers** at Karachi and Gujranwala aim to provide local state-of-the-art design, training, consultancy and manufacturing facilities, as well as, practical demonstration of modern technology applied to TDM in Pakistan. The TDM Centre at Karachi, at Rs 450 million initiative, is

operational and has started providing services.

- TUSDEC has also initiated a 3-year project to establish **Computer Assisted Design (CAD) / Computer Assisted Manufacturing (CAM) Centers** throughout the country at different strategic locations with a total cost of Rs 321.12 million. This project is being implemented by National Institute of Design and Analysis (NIDA) at Lahore, while TUSDEC is monitoring progress. CAD / CAM Centers at Lahore, Quetta, Sialkot, Peshawar and Karachi are already operational.
- Following the earthquake in October 8, 2005, a Rs 200 million worth project is underway to establish eight **Skill Development Centers (SDCs)** at Batgram, Khaki, Bagh and Muzaffarabad with two SDCs in each of the approved areas. The objective is to expdite rehabilitation in the earthquake stricken area on a 'Teaching Factory' concept with free of cost courses in 14 different disciplines. Two SDCs at Batagram and Khaki are operational with free of cost training being provided to students in construction, hospitality and tourism.
- **Technical Up-gradation of the Garment Industry,** a Rs 286.74 million project, under TUSDEC is providing consultancy services and technical guidance. Seventeen foreign experts have been engaged with various areas of expertise such as dyeing and finishing, knitting, sewing, industrial engineering, printing, design and mechanical maintenance, etc.
- **Pakistan Stone Development Company (PASDEC):** The PASDEC, established as a public Ltd. Company in June, 2006, is a subsidiary of the Pakistan Industrial Development Corporation. Achievements include model quarries and upgrading machinery pools at Risalpur (Punjab) and Khuzdar (Balochistan), Common Facility and Training Center in Marble City in Gaddani and establishment of Marble Cities in FATA (300 acres of land), Risalpur (180 acres of land) and Karachi (300 acres of land at Northern Bypass). A Marble Mosaic Display Center has been proposed, which will also be a selling point.
- **Pakistan Hunting and Sporting Arms Development Company (PHSADC):** Formed in September, 2006, main objectives include; (i) upgrading existing traditional "Cottage Level" skill available in the hunting and sporting arms industry of Pakistan. There will be special focus in Dera Adam Khel (DAK) to develop it into an organized industrial cluster. It aims to help Pakistan acquire significant share in the World Hunting, Sporting Arms and Accessories trade market; (ii) maintaining warehouse, display centre and weapons archives and library; (iii) development and export of copies and replicas of vintage weapons, spares and equipment and arranging and facilitating seamless exports; (iv) undertaking capacity and quality building initiatives at DAK by developing Common Facility and Training Centre and Industrial Estate and Gunsmith School in Peshawar; and (v) overall supervision and monitoring of hunting sporting arms and accessories industries.

Source: Ministry of Industries and Production, Government of Pakistan, 2008.

8.11.2.3.16 Apart from availability, another major weakness bedevils the land market. Perhaps the most formidable constraint to the efficient functioning of land markets is the failure of the land management system to establish ownership in urban properties. The system of maintaining land records contains much ambiguity and multiplicity of authorities, each with its own systems and procedures for determining title or regulating property transactions.

8.11.2.3.17 In Pakistan the records of rights in land are essentially of the fiscal variety. The person mentioned in the records is liable for land revenue or property tax. Pakistani law does not view registration or any other record of rights in land as a guarantee from the government or its agencies that the person mentioned in the records of any agency is the rightful owner. In transactions involving property transfers, the documents of 'title' provided by the seller to the buyer do not certify title. These are private documents that confirm one of the transactions in the entire chain of transactions. By entering the transaction in respect of any property in the official records, the Registrar only confirms that the transaction has been recorded and does not provide any guarantee for either the validity or the accuracy of the document. Moreover, many of the transactions relating to an immovable property do not require to be registered; for example, under Islamic law, immovable property can be transferred to someone verbally.

8.11.2.3.18 This deep-seated problem has existed for a very long time. The government proposes to examine solutions to this issue in some detail (including those tried out in other countries), and will take significant steps during the PRSP-II period. Elements of the solution include the creation of a centralised registry system, staffed by trained manpower, and provided with adequate finance, hardware and software.

8.11.2.3.19 **Finance:** The government will continue to modernize the banking sector and adopt measures to improve the working of the financial system; these issues are discussed in detail in Chapter 8. The government will monitor movements in credit provided to the private sector as a percentage of GDP as one important gauge of the efficiency of the financial system. Foreign direct investment has been used to great effect to increase jobs and introduced new technology in many countries. The government will consult with foreign investors already in Pakistan to identify ways to encourage more investment by these firms, as half the incremental foreign investment tends to come from those already here.

8.11.3 Market Governance

8.11.3.1 The experience of rapidly growing countries demonstrates that the surest path to developing a more competitive economy is to use a market-responsive private sector as the main engine of growth. The economic history of Pakistan reiterates this conclusion. The government, therefore, intends to push vigorously to enable this sector to play its due role in driving the economy. This does not mean that the role of the government is abridged rather the role becomes more nuanced. In the economic sphere, the government will act as a referee, ensuring that the rules of a responsible competitive market are observed and that the drive for private profit does not come at the expense of the country's fundamental social objectives. The challenge for the government is to provide the space for the private sector to develop, to provide public services and administrative frameworks that underpin private sector development, to police markets to limit anti-competitive and unethical behaviour, and to provide support that allows the private sector to build its own capabilities and stand on its own feet.

8.11.3.2 These issues are generally considered to fall under ‘governance’a term which itself is very wide, and has been used to cover anything from the country's law and order situation to considerations of national ideology and identity. This chapter touches rather more narrowly on topics that have a direct bearing on business competitiveness. These comprise the judicial system, the bureaucracy, tax administration, and measures that have been taken to ensure a healthy, contested economy. Moreover, this chapter touches only upon some of the highlights connected with the foregoing subjects; issues relating to the commercial judicial system, the bureaucracy, and tax administration are discussed in more detail in chapter 12 on governance.

8.11.3.3 **The Judicial System:** Pakistan's judicial process works slowly and, as a consequence, the costs of accessing justice mount up. The case backlog — around half of which concerns disputes of a commercial nature — in the High Courts of Sindh and the Punjab numbers over one hundred thousand, and for the lower courts in millions. The costs comprise not only the financial expense of hiring lawyers and ancillary staff for extended periods, repeatedly traveling to the courts, and so on, but also the opportunity costs occasioned by the owners and senior managers of businesses having to neglect their duties at frequent intervals in order to prepare for and to appear in courts. Moreover, the implementation of court decisions can be very slow, and add substantially to the costs of even successful litigation. The World Bank estimates that it takes, on average, almost one-third of the contract value to enforce a contract.

8.11.3.4 The uncertainty and the long delays in repossessing collateral impacts with particular severity on transactions in the financial sector. Financial institutions and leasing companies are therefore reluctant to deal with parties whom they do not know well, or they require excessive amounts of collateral, guarantees, and security. Many firms, especially the smaller enterprises, are not able to provide these and hence must forego access to the financial sector or can only do so to a very limited extent. The judicial delays, higher costs, and the inability to readily obtain adequate funds from the financial system can greatly restrict the capacity of enterprises to expand or to obtain improved technology, and this can severely constrain their potential to increase their productivity and competitiveness.

8.11.3.5 The government, in conjunction with international agencies, has started programmes to reduce these delays and to improve access to justice. These programs not only add to the hardware of the judicial system — in the shape of more and better court buildings, computers, etc — but also to its software in the form of more and better trained and better paid judges and support staff, and revisions to procedures to speed up the legal process. This process will be vigorously pursued during the period of the PRSP-II, but one must recognize that completion of the entire undertaking will take several years.

8.11.3.6 **Competition:** In addition to the strategies and policies identified throughout this chapter, competitiveness will also be enhanced through a new competition law passed in 2007 and by the creation of the Competition Commission of Paksitan. The law provides equal opportunities for all entities to participate in economic activities and mandates much stiffer penalties for monopolistic behaviour than were previously prescribed under the Monopolies and Restrictive Trade Practices Ordinance, 1971. The Competition Commission will monitor the state of competition, weed out practices that interfere with contestability, and generally ensure that the economy continues to develop rapidly in the direction of market responsiveness. Key principles embedded in the new competition law and in the institutional framework for its application include the following:

- **Nondiscrimination:** The law's nondiscriminatory approach makes its interpretations predictable and transparent, which should increase confidence in its application;
- **Protection of competition, not competitors:** The assessment of competition in the law tolerates single firm growth on the principle that competition law should not punish those who have gained dominance by innovating and using resources efficiently and have not resorted to exclusionary and anticompetitive tactics; and
- **Integrity in the application of law:** This includes (i) a collegiate body of commissioners possessing integrity, stature, ability, substantial experience and (collectively) a range of relevant expertise; (ii) transparency and speed in the investigation of serious infractions without undue burdens on individuals and businesses; (iii) public proceedings with safeguards for proprietary information; (iv) published decisions subject to review on appeal; and (v) annual reporting based on third party audits.

8.11.3.7 Enhancing Pakistan's global competitiveness requires not only establishing an environment to spur the productivity of firms but, just as importantly, ensuring that new entrepreneurial, productive firms can easily enter the market while unproductive, loss-making enterprises exit in an expedient and orderly way.

8.11.3.8 On the entry side, Pakistan has made some improvements in procedures for a business to register as a limited liability company. According to the *Doing Business* indicators, the time and cost to register a business has fallen from 53 to 26 days. While this was a major improvement at the time, since then there has been little movement in shortening the time and lowering the cost. It still remains a cumbersome process as compared with many countries globally. Moreover, the other aspects of starting a business — obtaining a construction license, acquiring land, getting utility connections — is fraught with long delays and can be subject to "speed payments."

8.11.3.9 The Government of Pakistan has commissioned two studies to examine some of the aspects associated with entry: an *Investment Climate Assessment* which takes the perspective of the firm, and a *National Doing Business Study* which examines localized differences in the practice of starting and operating a new business. At the same time, the Competition Commission of Pakistan is conducting competition impact assessments to examine public and private sources of barriers to entry into key sectors. Based on this analytical work, the government will have a comprehensive understanding of the barriers to entry and will be better able to ensure that new entrepreneurs can enter the market as easily as possible.

8.11.3.10For the economic structure to remain flexible and competitive, it is also important to reduce the barriers that impede the exit of unsuccessful firms. The principal barriers to exit have been identified as the regulations relating to employment and labour compensation.

8.11.3.11A weakness in the legislation relating to the exit of enterprises is that, for all practical purposes, the relevant Ordinance regards the solution for a company under financial distress not as rehabilitation but as liquidation. Moreover, the process of liquidation provided under the Ordinance is cumbersome and time-consuming.

8.11.3.12 Many of these shortcomings will be rectified during the PRSP-II period. The World Bank will provide assistance in developing a code dealing with insolvency and credit rights. It is expected that the Ministry of Finance will receive detailed recommendations on these matters by mid 2009. The liquidation/winding up of banks, including special provisions for more quickly completing disposal proceedings, has been included in the draft Banking Act, 2006, which is expected to attain the force of law during the period of the PRSP-II. However, the government recognizes that these enterprises remained uncovered, and for that reason it will act expeditiously.

8.11.3.13 The government will target for reform other badly designed or outdated regulations that restrict the competitive advantage of Pakistani commercial enterprises. The reform process will avoid procedures that impose unnecessary transaction or compliance costs for firms, will not become an obstacle to beneficial mergers and acquisitions, and will not stand in the way of gaining efficiencies from linkages between companies. Under the Poverty Reduction Strategy, the government will increasingly play the role of a referee who will establish a level playing field for all enterprises, who will enforce the rules, and who will ensure that the thrust for private profit does not come at the expense of society's most cherished goals.

8.11.4 **Selective Direct Intervention**

8.11.4.1 In addition to the economy-wide policies to enhance productivity and growth that has been described earlier, Pakistan will consider a range of more focused enterprise and worker interventions to support product diversification and global competitiveness in specific product niches. These interventions will be carefully previewed in order to ensure that they do not work against efficiency or distort market signals. Pre-requisites to maximize the effectiveness of interventions and be able to spot and correct inevitable failures include:

- an institutionalized and inclusive process of consultation with the private sector in the design, monitoring and evaluation of interventions;
- transparency in the subsidies involved in the interventions, including regarding the beneficiaries;
- clear, measurable, and transparent indicators of success of each intervention;
- arms-length relations between the government and the private sector; and
- a public governance set-up that ensures that the government is bound by sufficient accountability to be able to prevent capture and to interrupt failing interventions.

8.11.4.2 Interventions could include:

8.11.4.2.1 **Improved quality systems and standards for a competitive edge, including environment management and social development standards:** The government will improve the diffusion and absorption of metrology, standards, testing and quality services to enterprises.

8.11.4.2.2 **Promotion of global knowledge flows and technology for development:** Given the important role that public goods play in helping to create and commercialize knowledge for development, and in helping to improve the capabilities of enterprises to better absorb existing knowledge, Pakistan will consider:

- risk-sharing competitive matching grant funding of early-stage enterprise-driven R&D;
- matching grant support to enterprises with advisory, strategic, and legal inputs for the appropriate use of domestic/global IPR protection;
- an appropriate build-up of capabilities of diaspora networks; and
- the use of government procurement as an instrument to stimulate productivity upgrading by raising the bar on 'sophisticated demand' requirements.

8.11.4.2.3 **Other direct export promotion activities:** Other specific policies to support exporters that Pakistan will examine include:

- a single and strong Export Promotion Agency focused on non-traditional export promotion, with a special attention to large firms that are not yet exporters, and with a large share of the executive board in the hands of the private sector;
- a strengthened Export Processing/Economic Zone programme to test and showcase additional facilitating policies;
- a strengthened linkage programme, helping build up the capacities of smaller upstream and downstream firms to meet the requirements of larger (as well as FDI) exporters and global buyers; and
- a programme of cooperation with strategic working groups from export-oriented industries. Under these initiatives, the industries will be challenged to come up with strategies for boosting their competitiveness in a manner that does not rely on subsidies and protection in order to compete in world markets. The strategies could include labour training; research and development; design improvement; branding; technology acquisition; supply chain management; and other initiatives.

8.11.4.2.4 **Ensuring 'opportunities for all' through improved safety nets and worker training:** In addition to enterprise support programmes, Pakistan will also consider complementary worker support to help displaced workers, the unemployed, and existing workers requiring skills upgrading meet the challenges of globalization, such as:

- strengthened social safety nets to support workers in transition between jobs and those suffering prolonged unemployment and dislocation from trade, including a means-tested cash transfer programme targeted to the poor (for more details, see chapter 5 on social protection); and

- matching grant support for enterprise-based training programmes (only 15 percent of the 2,300 manufacturing enterprises from the World Bank's latest Enterprise Survey provide in-service training in India, but those that do are roughly 25 percent more productive).

8.11.5 Small and Medium Enterprises (SMEs)

8.11.5.1 Inadequacies of the infrastructure, inflexibility of product and factor markets, and the unsatisfactory working of some key elements of governance, impact on the productivity and competitiveness of all enterprises in Pakistan. However, larger enterprises, because of their more plentiful resources and greater ability to lobby the government for special treatment, are much better able to deal with these shortcomings. The deficiencies, therefore, impact disproportionately on the smaller enterprises.

8.11.5.2 Increasing the overall productivity of the economy will require attention to the major issues that impact disproportionately on the SMEs. Two important structural facts of Pakistan's economy are that SMEs account for about 95 percent of all enterprises, and that in general larger firms are more efficient than smaller. The government will, therefore, seek to remove the main constraints that restrict the growth of the SMEs so that these enterprises can expand and reap the benefits of economies of scale. The enlargement of these firms will not only increase their competitiveness, but by expanding the numbers of productive jobs it will contribute directly to reducing poverty.

8.11.5.3 What gives urgency to devoting special attention to the SMEs is that they account for nearly 95 percent of the 3.2 million business enterprises in Pakistan. They contribute over 30 percent to the GDP, account for around one-fourth of export earnings, and provide about 80 percent of the nation's jobs.

8.11.5.4 **Constraints on the growth of SMEs:** Studies show that in Pakistan, as in most other countries, larger firms are more profitable than smaller. This, therefore, raises the question: why do SMEs not grow to a size at which they can reap the economies of scale? A complete answer could encompass a rather large number of reasons, such as an inclination on the part of some SME owners to restrict their enterprise to a size that remains comfortably within their (or their family's) span of control, or the desire to 'remain below the government radar' so as to more easily evade regulations relating to minimum wages, safety, location, and so on.

8.11.5.5 However, the three most frequently cited constraints are finance, market environment, and access to technology. The evidence is especially clear where finance is concerned — according to studies conducted by international organizations, banks provide only 7–8 percent of the total funding requirement of SMEs. Access to finance as the single most important impediment to growth was also highlighted by the Lahore University for Management Sciences (LUMS) in a 2006 study on 'Barriers to SME Growth in Pakistan: An Analysis of Constraints.'

8.11.5.6 The recommendations by a government task force on the three fore-mentioned issues are described below. However, since the availability of finance is cited in studies on Pakistan and most other countries as the single most important constraint on the growth of SMEs, it is worth exploring the reasons for that difficulty in a little more detail.

8.11.5.7 The key problem regarding finance for SMEs is structural, and arises from what is known as 'asymmetric information'. This means that the borrower (i.e. the SME) knows more about the financial condition of his enterprise than does the lender. The latter must expend resources in order to ascertain the exact position and, given the relatively small size of the individual loans required by SMEs, in many cases the amount of money that has to be spent in conducting the enquiry is large in relation to the size of the loan. Because overhead costs per loan are relatively fixed, the smaller size of loan can render it unprofitable for the lender to make the investigation, and the loan is, therefore. not made.

8.11.5.8 When loans are extended, smaller firms are regarded as riskier borrowers and charged higher interest rates. The perceived risk of lending to SMEs is accentuated by the slow working of Pakistan's legal system, which makes it time-consuming and expensive for a lender to repossess collateral in the event of a default. It is, therefore, not surprising that a survey found that 57 percent of new investment by SMEs and 67 percent of working capital came from internal finance or retained earnings, while only about 7 percent of funds for new investment or working capital came from banks and other financial institutions.

8.11.5.9 The State Bank of Pakistan has issued separate prudential regulations for SMEs that permit banks and other financial institutions the option of extending credit to SMEs on the basis of cash-flow evaluations, in addition to the normal assets/collateral-based lending. The latter, which explicitly links loans to the liquidation value of assets, works against SMEs because they tend to be asset and collateral poor.

8.11.5.10The government will intensify its efforts to provide SMEs suitable locations to work in and opportunities to benefit from economies of scale, both external and internal. Industrial estates (discussed above) have been encouraged as has the development of clusters to overcome problems of scale. Organizations such as the Small Business Support Fund (SBSF), the Agribusiness Support Fund (ASF), and the Competitiveness Support Fund (CSF) will all contribute to supplying SMEs with capital and technical expertise.

8.11.5.11A number of significant measures have already been taken to support SME development. The SME Policy of Pakistan was approved by the Federal Cabinet in January 2007 after a two-year round of consultations in which over a thousand stakeholders participated. The SME Policy outlines priorities and provides recommendations in the following areas:

8.11.5.11.1**(a) Business environment:** The aim is to create a more favourable business climate for SMEs by simplifying the process of complying with regulations. The fiscal, labour, and enterprise regulations of the Federal and Provincial Governments do not provide for a focus on SMEs that is in line with their specific needs. The support and grievance redressal regime of the government does not differentiate between enterprises on the basis of their size, thus making it difficult for SMEs to access public support programs and the attention of public authorities when competing for them with the large firms. Some policy recommendations specific to SMEs that were made by a government task force are listed below:

An SME Act be promulgated that (among other issues related to SMEs) identifies fiscal, registration, labour, and inspection laws that may be simplified for Small and/or Medium Enterprises;

A periodic review of labour legislation be undertaken with a view to relaxing the applicability of certain laws for SMEs for a specified period of time;

An SME Desk be established at the Federal, Provincial, Banking and Tax Ombudsman Offices for addressing SME grievances;

A minimum quota be established for allocation of land in the Industrial Estates and Export Processing Zones (EPZs) for SMEs at a concessional rate (on a now profit no loss basis) as compared with the cost offered to large scale enterprises; and

A regulatory regime for specialized sectors (such as mining) in provinces be developed with the specific requirements of SMEs in mind.

8.11.5.11.2 **(b) Marketing**

Encourage establishment of SME sector-specific export marketing companies by providing matching grants for international marketing research, preparing marketing strategies, packaging, branding, participating in and conducting trade fairs, and undertaking promotional and marketing activities;

Offer matching grants for developing 'world-class' trade and product directories for major SME clusters;

Compile and disseminate data on local markets using manufacturers, distributors and retailers data;

Support SME associations in exploiting local market opportunities by holding domestic product exhibitions; and

Provide annual SME Awards for outstanding performance in domestic and international markets, technology innovation, HRD practices, etc.

Box 8.2: Dignified employment for the poor

Aik Hunar Aik Nagar (AHAN):

'Aik Hunar Aik Nagar' (AHAN) aimed at enhancing non-farm rural based income has been launched to serve as a vehicle for the development of rural areas. It enhances and encourages local people's creativeness and entrepreneurial initiations in production and development of competitive products and marketing from the community. The project specifically targets poverty alleviation and encourages income generation activity in rural areas, increasing employment opportunities, reducing gender discrimination, narrowing the gap between urban and rural population while mitigating migration trends in rural areas. The main objective of the project is to develop sustainable market driven interventions in rural areas aiming to enhance employment opportunities and increasing income in the informal rural markets thus leading to rural poverty alleviation. AHAN has initiated pilot projects in various non-farm/rural segments across Pakistan e.g. Textiles-Handicrafts, Ceramics & blue pottery, and Silverware & silver jewelry products. The AHAN Project has now been registered as a not-for-profit organization under section 42 of Companies Ordinance, 1984 to pursue the intended objectives at a broader level. Project updates till date are as follows:

Table 8.1: Project details of 'Aik Hunar Aik Nagar' (AHAN)

Sr. No.	Region	No. of Projects	No. of direct Beneficiaries			Estimated Business Generated upto 31-03-08
			Male	Female	Total	
1	Balochistan	6	304	547	851	76,000
2	NWFP	12	1,425	420	1,845	2,806,645
3	Sindh	18	106	341	447	800,875
4	Punjab	10	390	353	743	2,598,950
	Total:	46	2,225	1,661	3,886	6,282,470

Source: Ministry of Industry, Productiona and Special Initiatives, Government of Pakistan, 2008.

Women Business Incubation Centre (WBIC):
According to the Economic Census of Pakistan 2005, there are 70,658 women owned businesses operating across the country. This represents 3% of total enterprises in Pakistan. Most women owned businesses are small in size. Women Business Incubation Centre (WBIC) Lahore, an initiative of SMEDA, being funded through Public Sector Development Programme (PSDP), Government of Pakistan, provides 'hands-on support' to Women Entrepreneurs (WEs). It offers a conducive business environment with in-house business support services exclusively for women entrepreneurs. The Centre has been operational since February 2007. WBIC provides offices, exhibition/display facility and business development services including training to WEs under one roof. WBIC is expected to serve over 1,000 women managed small businesses dealing in manufacturing, services and non-traditional products in three years.

Source: Ministry of Industry, Productiona and Special Initiatives, Government of Pakistan, 2008.

8.11.5.11.3 **(c) Technology upgrading**

- Research projects supporting R&D in areas of special interest to SMEs be instituted by Ministry of Science & Technology, Higher Education Commission, Pakistan Software Export Board, Ministry of Information Technology, and others;
- Technology Innovation Centers be established that offer technology upgrading, R&D and design-related services to SMEs; and
- Pilot projects for upgrading technology for major SME clusters be launched on a cost-sharing basis.

8.12 Trade Policy FY 2008/09:

8.12.1 Pakistan's heavy reliance on imported fuel and food commodities like wheat and sugar placed huge pressure on its balance of payment reserves as the import bill soared. With the aim to mitigate the negative effects of this situation by pursuing the ongoing export led growth strategy more vigorously the new Trade Policy intends on bridging the trade gap by focusing on reducing the cost of doing business, enhancing productivity and competitiveness of our manufacturing sector. The Federal Export Promotion Board (FEPB), chaired by the Prime Minister, is the highest export related decision-making body. The Board will be reconstituted to make it more proactive. The Trade Dispute Settlement Organisation, under the administrative control of Ministry of Commerce, will be set up to deal with trade disputes arising from export activities. Legal cover, in consultation with the Law Division will be worked out. The newly constituted Trade Development Authority of Pakistan (TDAP) has so far not been able to come up to expectations. A summary will shortly be submitted to the Cabinet with a draft bill for approval of the National Assembly proposing amendments in the current TDAP law. The new export strategy has been designed in a manner so that:

- Instead of providing cash incentives or subsidies to exporters, emphasis would be to support their capacity building in areas like productivity enhancement, and in providing training facilities to upgrade human resource skills;
- Diversification will be encouraged via proposals drawn up specifically to promote higher trade in agricultural products. In the manufacturing sector this diversification policy will also facilitate SMEs. The advantage of this approach is that SMEs create more employment with less investment and they can trigger the production of higher value added, innovative and knowledge based products; and
- Enhancing competitiveness of exports will be a major objective of the export policy. Various measures have been announced to simplify procedural requirements including reducing costs through comprehensive zero-rating of various export sectors.

8.12.2 **Zero-rating of exports**

8.12.2.1 To reduce the cost of doing business the government has decided to completely zero-rate exports by refunding the whole amount paid as indirect taxes on inputs used for manufacturing for exports. To encourage value added products, particularly those being produced by SMEs, the drawback rate has been increased by 1 percent of FOB value on this account for 14 products: (i) tents, canvas and tarpaulin, (ii) electric machinery, (iii) carpets, rugs and mats, (iv) sports goods, (v) footwear, (vi) surgical goods/medical instruments, (vii) cutlery, (viii) onyx manufactured, (ix) electric fans, (x) furniture, (xi) auto parts, (xii) handicraft, (xiii) jewellery, and (xiv) pharmaceuticals. In addition to existing ones, TDAP will establish the flowing new export clusters: surgical instruments in Sialkot; gloves and personal protective equipment in Sialkot; sports wear in Sialkot; leather and leather products in Sialkot and Charsadda; sports goods in Sialkot; weaving and textile processing sector in Faisalabad; light engineering sector in Gujranwala; auto parts in Lahore; ceramics in Multan and Halla; Ajrak and bangles in Hyderabad/Halla; and embroidery in Balochistan. UNIDO will provide training to Cluster Development Agents and Coordinators who will work in these clusters.

8.12.3 Leather industry

8.12.3.1 In accordance with the Trade Policy FY 2008/09, currently available 6 percent markup support on loans for setting up in-house effluent treatment plants has been increased to 8 percent or 50 percent of the markup, whichever is lower. Only three years ago, leather and leather products joined the billion dollars export club. These fetched US $1.2 billion export in FY 2007/08 up almost 20 percent over US $1 billion in FY 2006/07. Leather exports appear to be coming under dark clouds of global recession. However, the footwear segment offers some light in the tunnel. Footwear export has managed to make some inroads in European markets but without any presence in the US where annual demand for shoes is more than US $10 billion. China controls over 50 percent of the US market followed by Brazil which shares around 7 percent. Supply orders from the US are very big and at much competitive rates. While the shoe industry is gradually coming of age, it still does not have the capacity to service such huge orders.

8.12.4 Industry and Environmental Issues

8.12.4.1 Industrial development has been associated with some of Pakistan's most significant environmental challenges, which are expected to intensify in the future. In addition to industry's contribution to air pollution, it is estimated that industrial wastewater accounts for as high as 30 percent of total wastewater generated. Currently, there is little investment in environmentally sound technologies despite strong evidence pointing at the significant health and economic benefits that would result from the employment of cleaner production methods. The industrial sector however, offers opportunities to develop strategic actions that can reduce the costs of environmental degradation while simultaneously contributing to enhance the country's competitiveness, such as the adoption of practices to foster energy efficiency, quality control, Corporate Social Responsibility, and compliance of environmental and social standards of export markets. As a consequent step, the Trade Policy FY 2008-09 has, in compliance with the Montreal Protocol, banned import of CFC gas based refrigerator and freezing equipments. In order to avoid any possibility of misuse, import of CFC based compressors has also been banned. Details of government efforts to promote environmental sustainability were given in chapter 7.

Chapter 9 - Pillar VI: Human Development for the 21st Century

9.1 Along with meeting basic needs, sustainable human development is a fundamental right of all citizens of Pakistan, as guaranteed in the Constitution. Human development is also an essential prerequisite and a major engine for reducing encompassing an improvement in all aspects of the quality of life of citizens, and is, therefore, an important pillar of the government's Poverty Reduction Strategy. The PRSP-II envisages that the ongoing demographic transition in Pakistan has created a window of opportunity in the form of changing age structure and declining child dependency to invest more in human development, focusing on education, skill development, health, family planning, nutrition, safe water and sanitation and redressing gender inequalities. As in East Asia, this investment should lead to sustained high economic growth and poverty reduction.

9.2 Pakistan has made progress in areas of human development in recent years. However, these improvements have been particularly slow in reducing both child, infant and maternal mortality, in enhancing the provision of reproductive health services, increasing primary and secondary school enrollment and retention rates. The government is aware that these indicators are not improving rapidly enough, while gender and urban/rural disparities remain important issues of concern. With the current rate of progress, it may be difficult to achieve many MDG targets set for education, health and population sectors. It has, therefore, adopted human resource development as a priority area and the country's development strategy envisages massive investment in strengthening its human resource base to produce a skilled and competent workforce that can respond to the increasing demands of a steadily growing economy.

9.3 Population size presents a big challenge as it becomes the denominator for all investments and is the deflating factor for all efforts to improve socio-economic indicators. Currently there is an opportunity of significant changes in the age composition due to fertility decline and resultant fall in the dependency ratio which will influence the development framework and the achievement of numerical targets in education, skill investment, employment, health and population welfare. During the period of the PRSP-II, and beyond, there will be a rise in the proportion of the working age population in relative terms to the school age population. There is an urgent need to capitalize on this potential opportunity which also coincides with the goal of achieving the MDGs, and of catching up with South and West Asian neighbouring countries in terms of human development indicators.

9.4 The extent of gender inequality that cuts across all the human development indicators is a serious issue requiring immediate redress through strongly stated political commitment before the policy or planning stages. Gender equality is a basic human right, and it also has serious social and economic implications for the entire society. Empowering women through provision of primary and reproductive health care; and through eliminating the gap in enrollments and retention rates; and redressing the even larger gap in labour force participation, are key affirmative action measures for a comprehensive poverty reduction strategy. They will also allow the harnessing of the potential of that half of the population which hitherto has not been adequately recognized and involved in the development of the country. The PRSP-II endorses this mainstreaming approach by aiming to create an environment that is more welcoming to women, by focusing on policies and legislative reforms that result in improvements in women's human development indices.

9.5 Major levers required are to ensure: (i) catching up to increase enrollments and to capture out-of-school children; (ii) ensuring that the fertility decline is rapid and continuous; (iii) ensuring a rapid decline in infant and child mortality with an improvement in their nutritional status; and (iv) enhancing employment opportunities for youth particularly for young women. Investments *now rather than later* in terms of financial outlay, innovative programmes, harnessing support in private and non-governmental sectors, and creating strong inter linkages between major sectors that fall under the broad umbrella of human development will pay off huge dividend economically and socially. The private sector and NGOs will be encouraged to continue to play a dominant role alongside the government to cover some of the gaps in health, education and population sectors without the latter abdicating its fundamental obligations.

9.6 **(1) Education**

9.6.1 Sustainable development begins with the development of a nation's human resources. The experience of all countries that developed rapidly shows that the acquisition of knowledge and its effective utilization is a key driver of economic growth and poverty reduction. Indeed, after the eradication of extreme poverty and hunger, the most important of the MDGs is the attainment of universal primary education. The government has, therefore, adopted human resource development as a priority area and the country's development strategy envisages massive investment in strengthening its human resource base to produce a skilled and competent workforce that can respond to the increasing demands of a steadily growing economy.

9.6.2 Education forms the key to sustainable economic development. In Pakistan, the progress of the last sixty-one years has been below par and has become a matter of concern for all. Resultantly, the provincial and federal governments have in the last few years raised the political commitment to education and some changes have begun to manifest themselves.

9.6.3 The Constitution of Pakistan sets out a broad based egalitarian view of education, based on values, and responding to the requirements of economic growth. 'Article 38 (d)' speaks of instilling moral values and of providing education to all citizens irrespective of gender, caste, creed, or race. 'Article 37(b)' explicitly states that the state of Pakistan shall endeavour "to remove illiteracy and provide free and compulsory secondary education within minimum possible period."

9.6.4 The subject of education falls within the 'Concurrent List' of the Constitution where both the federal and the provincial levels have the right to legislate. Under the present arrangement, provinces have autonomy in planning and implementation in all areas of education except curriculum preparation and approval of textbooks. The last two functions are undertaken by the federal government. The National Education Policy (NEP) is also prepared at the federal level through provincial inputs.

9.6.5 The provinces play a key role in education service delivery. Therefore, to improve access to education and bring improvements in quality, the provinces are implementing their programs for education reforms. The main elements of the provincial efforts include targeted interventions with an initial focus on improving public sector schools. Many are targeted at girls or geographically vulnerable areas.

9.6.6 In addition to the provinces, there are three special areas the Federally Administered Tribal Areas (FATA), the Federally Administered Northern Areas (FANA) and the Islamabad Capital Territory (ICT). All these areas fall within the jurisdiction of the Federal government but they have autonomous directorates that run education in their respective areas. The only exception is the Federal Directorate of Education that runs education for ICT, which is an attached department of the Ministry of Education.

9.7 An Overview of the Sector

9.7.1 There has been a steady improvement in access to primary education during the past few years. Primary Net Enrolment Rates (NER) have risen from 42 percent in FY 2001/02 to 56 percent in FY 2006/07 while primary gross enrolment rates (GER)[111] have risen from 72 to 91 percent during the same period. At the middle and secondary (Grade X) level, GER has risen from 46 percent to 51 percent and from 42 percent to 48 percent respectively. However NER at both middle and secondary levels have remained stagnant since 2005. Adult literacy has increased to 55 percent and female literacy, while very low at 42 percent in FY 2006/07 has shown an improvement of 31 percent from FY 2001/02. The share of the private sector in education service delivery has expanded considerably, with a significant presence of low cost schools in rural and urban areas. The private sector now accounts for over 36 percent of total enrolments, and 37 percent of all private sector enrolments (over 4.5 million children) are now in rural areas.[112]

9.7.2 There has also been progress in closing the gender gap in urban enrolments at primary, middle and secondary levels. However, overall net primary level female enrolment at 51 percent is still 9 percentage points less than male enrolment as female rural enrolment at 46 percent lags behind male enrolment of 57 percent. While enrolment trends are improving in all provinces, there are considerable inter-regional disparities. Primary net enrolment in Punjab is 62 percent compared to 41 percent in Balochistan. Balochistan also has wide gender and rural-urban disparities. Net primary female enrolment is 32 percent in Balochistan, which compares unfavorably to the national average of 51 percent. NWFP

[111] Primary Net enrolment rate (NER) denotes primary age children (5-9 years) enrolled in schools. Gross Enrolment Rate (GER) is always higher as includes overage and underage children.
[112] Source – PSLM and National Education Census.

also falls 10 percent below the national average. Access to middle and secondary levels is restricted, and poses a major challenge in the forward looking agenda.

9.7.3 While enrolments are increasing, low quality remains a challenge for education managers. The Government has introduced certain initiatives to improve the quality of education. The National Education Assessment System (NEAS) tests students in key subjects in Grade IV and Grade VIII. These show low levels of learning across the country. Not only are the results below the mean, the average score for mathematics has declined from 421 to 404. Student performance in language is better than mathematics, particularly in Punjab where the score is above the mean. In addition to the difference in learning across rural/urban schools, there is considerable disparity among provinces, with Sindh and NWFP reporting the lowest achievement scores in language and mathematics.

9.7.4 Education sector funding has improved but remains below the level of expenditures in comparable countries. The share of expenditure on education is at 2.48 percent (public sector) of GDP in FY 2006/07, increased from 1.79 percent of GDP in FY 2001/02.

Table 9.1: Education financing (percent)

Year	Recurring	Development	Total	Percent of GDP	Private Sector	Percent of GDP*
2000/01	69.5	6.4	75.9	1.82	16.8	2.22
2001/02	70.4	8.5	78.9	1.79	22.0	2.28
2002/03	79.5	10.4	89.9	1.86	26.3	2.41
2003/04	94.3	30.0	124.3	2.20	31.1	2.75
2004/05	106.6	33.3	139.9	2.13	36.0	2.67
2005/06	128.9	41.9	170.8	2.21	40.7	2.74
2006/07	160.0	56.6	216.6	2.48	45.5	2.96
2007/08	191.0	65.0	256.0	2.44	-	-

Source: Demands for grants, Budget books of Government of Punjab, Sindh, NWFP, Balochistan & AJ&K, Federal Ministries/Divisions, District Governments.

9.7.5 The education budget as percentage of total government budget has also been increased from 11.2 percent in FY 2001/02 to 14.1 percent in FY 2006/07.

Table 9.2: Education budget as percentage of total government budget[113]

Year	Percentage
2000/01	11.7
2001/02	11.2
2002/03	10.0
2003/04	13.2
2004/05	12.5
2005/06	12.0
2006/07	14.1

[113] Source: Pakistan Economic Survey FY 2006/07, Finance Division & Financing of Education in the Public Sector, Ministry of Environment, GoP, 2008.

9.7.6 To respond to the challenges faced by the education sector, Ministry of Education has developed a new NEP for guiding education sector development in the country. This NEP articulates two overarching priorities: (i) improving access to education for all to help Pakistan come closer to the MDGs and to achieve Education For All (EFA) goals of universal primary enrolment, including removing urban-rural and gender imbalances; and (ii) enhancing the quality of education and student learning at all levels (including higher education). The Policy recognizes that improvements in governance and management underpin any improvements in the sector.

9.7.7 **Issues in Education**

9.7.7.1 Education is a huge sector with many interlinked issues. For the purpose of this paper the issues have been divided into four broad areas:

- Governance;
- Access and Equity;
- Literacy and Non-Formal Education; and
- Quality.

9.7.7.2 **Governance:** Pakistan has a very large population and hence a huge education sector. The education department is by far the largest, in terms of personnel, in every province. Given the huge numbers, governance becomes a critical but difficult process. Some of the key areas under governance and management that need redressal are:

- Lack of clarity in inter-tier roles and responsibilities;
- Fragmented governance and planning; and
- Poor management capacity.

9.7.7.2.1 At the federal level the draft NEP, and earlier the White Paper on Education, have called for clear demarcation of roles and responsibilities between the federal and provincial (and area governments) and then between the provincial and the district levels. The Inter-provincial Education Ministers' Conference (IPEM) is the forum for inter-provincial and Federal coordination. While it has been functioning for some years now it suffers from absence of an institutionalized mechanism and its functionality depends on the goodwill of the incumbent set of ministers.

9.7.7.2.2 To overcome this issue, a proposal for institutionalization was sent to all provincial and area governments by the Ministry of Education (MoE). All federating units have agreed with the fundamental principle although details need to be finalized before formal institutionalization is possible.

9.7.7.2.3 Education works as an integrated system, but presently suffers from issues of fragmented governance. At the federal level it is being dealt with by at least four different organizations with no coordination mechanism: MoE, Higher Education Commission (HEC), Ministry of Special Education and National Vocational and Technical Education Commission (NAVTEC). Similarly with some variations the sector remains fragmented at the provincial level also again with little or no coordination.

9.7.7.2.4 As already mentioned, education is a very large sector. This creates serious management issues. Over the years there has been a weakening of management capacity due to expansion on the one hand and the absence of trained specialized managers on the other. Teachers with some seniority are appointed as managers. Most of them do not have adequate training for the position. The problem permeates all levels starting from Executive District Officer (Education) right to the school level where most head teachers do not have relevant training or competence for the job. The effective mobilization of community to participate in school management also remains a challenge.

9.7.7.2.5 An important area of governance is meritocratic recruitment and deployment of teachers. The problem appears as a collective legacy of many years. On the positive side there is increased recognition of the problem and some efforts are under way to reduce and eventually eliminate the problem.

9.7.7.2.6 Given that development partners play a very important role in supporting education development in Pakistan, an area of focus for both the government as well as the development partners has been to improve aid effectiveness. Over the years there have been issues of overlap and non-coordination of support from development partners. Now efforts are underway in all provinces to rectify the situation.

9.7.7.2.7 Sector planning is considered a pre-requisite for alignment of objectives, harmonization of procedures & approaches and coherent policy and financing arrangements in education sector development. The government recognizes the importance of shifting from a fragmented project mode development to sector-wide approaches for education sector development. In this context, the draft National Education Policy Implementation Framework provides guidelines for the development of sector plans for each sub-sector of education.

9.7.7.2.8 The Government of **Punjab** has initiated strict measures for meritocratic recruitment of teachers and has also established a database that contains information on teachers' deployment in the Punjab Education Management Information System (EMIS). The Project Management Implementation Unit (PMIU) manages a number of areas through an overall plan. An important component includes monitoring to check teacher absenteeism. A separate management cadre is also being developed.

9.7.7.2.9 The Government of **Sindh** is working on an overall education sector plan to improve. The province also plans to introduce reforms to improve the functioning capacity and accountability of provincial and district education management. There is also focus on improving the effectiveness of school management committees and instituting meritocratic recruitment of teachers as well as improving their accountability. In 2007, new Recruitment Rules to ensure merit and transparency in recruitment were notified.

9.7.7.2.10 The Government of **NWFP** is in the process of preparing a sector plan for education to improve donor harmonization and aid effectiveness. Partnership agreements have been made with five districts to implement some innovations to improve management. The Education Sector Reform Unit has been established to improve planning and monitoring of service delivery. Revised guidelines for utilization of budgets have been issued to the parents-teachers associations to improve their effectiveness. The government of NWFP has approved the preparation of a management cadre. A proposal will be sent to the Provincial Public Service Commission.

9.7.7.2.11 The Government of **Balochistan** has also introduced a meritocratic system for teacher recruitment. It is also planning to prepare a sector-wide plan to improve management efficiency.

9.7.7.3 **Access and Equity:** There has been a steady improvement in access to primary education during the past few years. Primary Net Enrolment Rates (NER) have risen from 42 percent in FY 2001/02 to 56 percent in FY 2006/07 while primary gross enrolment rates (GER) have risen from 72 percent to 91 percent during the same period. At the middle and secondary (Grade X) level, GER has risen from 41 percent to 51 percent and from 42 percent to 48 percent respectively.

9.7.7.3.1 Taking PSLM FY 2004/05 indicators for education as the baseline, the Ministry of Education will aim at attaining the targets for educational enhancement given in Table 9.3. Both the Gross and the Net Enrolment Rates (GER and NER) will be enhanced during the next five years with further reduction in the gender gap in primary education. Dropout rates will be reduced for both boys and girls. The overall literacy rate will be increased to 62 percent by FY 2009/10.

Table 9.3: Final Outcome Targets of PRSP-II **(percent)**

Indicator	PSLM FY 2004/05			Projection/Target FY 2009/10		
	Male	Female	Total	Male	Female	Total
Gross enrolment ratio-primary (percent)	94	77	86	100	90	95
Ratio of girls to boys (GPI) enrolled in primary			0.819			0.90
Gross enrolment ratio-middle	51	40	46	65	56	60
Ratio of girls to boys (GPI) enrolled in middle			0.784			0.85
Net enrolment ratio primary	58	48	52	69	61	65
Literacy rate 1D+	65	40	53	70	54	62

Literacy rate 15+	63	36	50	68	48	58
Students dropout rate from primary	43.92	39.07	42.09	23	17	20

Source: Pakistan Education Statistics FY 2004/05.

9.7.7.3.2 To achieve these outcomes, the NEP emphasizes the need for: (i) system level reforms which set the priorities for the sector; and (ii) implementation level reforms that deal with the individual sub-sectors of education, ranging from early childhood to adult learning. The system level reforms address financing for the sector, which while increasing, falls short of the requirements. It remains far below the level of expenditures of countries with similar rates of economic growth and per capita incomes. The strategy emphasizes the need for sustaining the required levels of financing for the education expenditure program, both at the federal and provincial levels, with the target of increasing allocations to 7 percent of GDP by 2015.

9.7.7.3.3 In **Punjab**, the government has addressed the issue of access through provision of free tuition up to matriculate level, free textbooks provision up to primary level and provision of missing facilities. In addition to these, girls stipend programmes (for middle school) have been successfully implemented in poorer districts to increase female enrolment and redress the gender inequality.

9.7.7.3.4 The Government of Punjab has also used PPPs for increasing access. This has been done through the Punjab Education Foundation. The Foundation, among other initiatives, has introduced the concept of paying fees for poor students enrolled by private school.

9.7.7.3.5 In **Sindh** also, tuition free education and provision of free textbooks have been important incentives to increase access. Additionally the province has also successfully conducts its girls' stipend programme to encourage female education. Additionally the government is providing school rehabilitation fund for improving physical conditions. The provincial government also works in partnership with the private sector to increase access. Sindh Education Foundation has two programmes in this regard: the Adopt a School Programme; and Support to Private Education Institutes Programme (SPEIP).

9.7.7.3.6 The **NWFP** also provides tuition free education. Additionally free textbooks are made available to all public school students from grades 1-12 and a girls stipend programme has also been implemented for grades 6-10. Terms of Partnerships have been signed with districts that include, among other initiatives, the issue of provision of missing facilities. The provincial government has also recruited more teachers to redress the issue of a teacher student ratio.

9.7.7.3.7 In **Balochistan,** free textbooks are being provided up to class 10th in addition to tuition free education. The provincial government plans to expand this to grade 12. There is a paucity of teachers for which the government plans to recruit 2500 teachers, including 1500 for primary schools. It also plans to expand tertiary level institutions and provision of quality education institutions in the form of 11 cadet colleges, with the assistance of the Federal government. The Balochistan Education Foundation has also been working with community to open community schools to increase access through PPPs.

9.7.7.3.8 **Literacy and Non-Formal Education:** Pakistan has a literacy rate of 54 percent which is an issue of serious concern as over the years the sector has either not been given adequate attention or has seen implementation failure of a number of initiatives. The sector has been receiving increased attention over the last few years. At present there are eleven major programmes with the total outlay Rs 3 billion FY 2005/06.[114]

Table 9.4: Ongoing programmes in literacy and non-formal education (Rs million)

Sr. No.	Programme	Agency	Amount
1	President Education Sector Reform Programme (PESR)	Federal Government	100
2	Adult Literacy Programme	National Commission for Human Development (NCHD)	1,000
3	100 percent Literacy in 4 Model Districts Mandi Bahauddin, Khushab, Khanewal and D.G.Khan	Punjab Literacy and Non-Formal Education Department	245
4	Crash Literacy Programme for Women in 10 Districts of Southern Punjab Lodhran, R.Y.Khan, Rajanpur, Bahawalpur, Bahawalnagar, Layyah, Muzaffaragarh, Multan, Vehari and Bhakkar	Punjab Literacy and Non-Formal Education Department	28
5	Literate Punjab Programme 100 percent Literacy in 10 Union Councils of Each of 31 Districts of Punjab	Punjab Literacy and Non-Formal Education Department	331
6	Establishment of Provincial Literacy Management information system (LITMIS) Unit	Punjab Literacy and Non-Formal Education Department	12
7	Post Literacy and continuing Education Programme 5 Centres for Matriculation Pilot Project in Faisalabad	Punjab Literacy and Non-Formal Education Department	2
8	Literacy for All (LFA) Programme	Elementary Education Foundation (EEF) NWFP	352
9	Non-Formal Basic Education Schools Project	Federal Ministry of Education	500
10	District Governments Programmes for Literacy and Non-Formal Education	District Governments	230
11	NGOs and INGOs Programme (Estimated Budget) – LIFE	Federal Government/UNESCO	200
Total			**3,000**

9.7.7.3.9 The outlay for the above projects remains below the requirement. There is a need for all governments (federal/provincial) to increase priority for literacy. This requires launching a Total Literacy Programme (TLP) which will take at least one union council from each district and adopt a model union council approach focusing on:

[114] Education For All, MDA Country Report 2008.

- Establishment of adult literacy centers by adopting integrated approach i.e. basic literacy, functional literacy (post literacy) and income generating skills;
- Establishment of non-formal basic education schools for out of school children and child labour;
- Universalization of Primary Education (UPE) in respective union councils; and
- PPPs.

9.7.7.3.10 In addition to the above, Pakistan has, for the first time, developed a curriculum for literacy along with guides to assist implementation.

9.7.7.8 **Quality:**

9.7.7.8.1 **Curriculum:** As shown by results of NEAS and PEAS quality of educations remains a concern for the country. There has been an increase in attention to this area but much more needs to be done. The main components impacting quality are: curriculum; textbooks; teachers; assessments; and school environment. The Federal government prepares the curriculum and the provincial governments prepare the textbooks. However, the final approval of textbooks lies with the federal government.

9.7.7.8.2 Starting with curriculum, the Federal government has revised curricula for 24 subjects and introduced standards based curricula in these. Revision process for other subjects continues. The USAID through its ED-LINKS programme has assisted the Ministry of Education (MoE) in developing National Teacher Pacing Guides for new curriculum.

9.7.7.8.3 Additionally, in recognition of the changes in the modern world, the MoE plans to realign the curriculum to the knowledge era. Creations and sharing of knowledge will be key assets to this era. Designing education for the knowledge era will involve the followings:

- To define a curriculum for the compulsory school years that is foundational for lifelong learning;
- To design a curriculum that is free from the shackles imposed by the use of schools as a fitting and sorting devices for limited territory places;
- To design and develop assessment practices which measure what we value rather than value what we can currently measures; and
- To continue to develop educational practices for transformative learning.

9.7.7.8.4 **Textbooks & Learning Materials:** To improve the quality of textbooks, the MoE has introduced National Textbook & Learning Materials Policy in 2007. It will provide a choice to learners and healthy competition among publishers. The schools will have the opportunity to choose from a set of textbooks as opposed to the current situation of a single prescribed textbook. With competition it is expected that the quality of textbooks will also improve.

9.7.7.8.5 Under the new policy, MoE will introduce a well regulated system of competitive publishing of textbooks and learning materials while promoting PPPs. There is also a provision in the policy to transform Textbook Boards into competent facilitating, regulating and monitoring authorities which shall review and approve textbooks for use in schools in their respective areas of jurisdiction.

9.7.7.8.6 Salient Provisions include:

- Establishment of an "Inter-Provincial Standing Committee on Textbook Policy" to regulate operational and procedural issues, and monitor and coordinate further implementation process;
- Formation of a Provincial Committee to select and prescribe textbooks for use in public schools in the respective province or areas of jurisdiction;
- Federal and Provincial Governments will increase public investment in school libraries and school educational materials, teacher resource books and guides, and will provide adequate regular budgets to schools for that matter; and
- Resource Centers will be established at Federal and Provincial levels with the support of Federal Government through development partners.

9.7.7.8.7 Already the provincial governments have embarked on implementing the policy and private publishers are involved in preparation of textbooks. The Government of Punjab has also initiated a programme for improving capacity of the private publishers to develop textbooks. Government of Sindh has also initiated work on development of multiple textbooks.

9.7.7.8.8 **Teachers and Teachers Professional Development:** Quality, status and conditions of teachers remain a challenge. There are weaknesses and gaps in the quality of teacher training, and in the system of teachers' professional development.

9.7.7.8.9 The majority of teacher educators and teacher training institutions are out of touch with the day-to-day realities of student needs and classroom experiences. In fact, teacher training programmes are supply-driven, lecture-oriented, and not in line with the much needed professional development of teachers. The programmes focus on addressing the symptoms of the problems rather than the root causes. However, a number of recommendations exist, made by line departments, donor agencies, head-trainers and teachers themselves. These have been collated to formulate a Strategic Framework for Teachers' Professional Development.

9.7.7.8.10 The MoE's 'Strengthening Teacher Education in Pakistan' (STEP) programme is to completely overhaul the teacher education system in terms of policy, organization, jurisdictional and institutional roles and responsibilities, contents and delivery at the school level. To improve the quality of teacher's training, the setting up of standards for teacher's certification and accreditation at national level as well as the policy framework gets significant importance. The specific objectives of STEP are the followings:

- To support development of a national policy framework for teacher education;
- To support establishment of a national body for teacher certification and accreditation of teacher training institutions and programmes;
- To strengthen the networks of teacher's professional development initiatives and institution and PPPs; and
- To identify, scale up and disseminate information on best practices in teacher training and education.

9.7.7.8.11 The Government of the **Punjab** has developed a cluster based teacher professional development process with delivery system centered in the district. The modules and other software as well as planning is housed in the Department for Staff Development.

9.7.7.8.12 The Government of **Sindh** is initiating work on teachers' professional development to establish a competency based teacher education and continuous professional development.

9.7.7.8.13 The Government of the **NWFP** has been working through a cascade model for teachers training for the last many years.

9.7.7.8.14 **Assessment:** Assessments remain a very weak link in the education delivery chain. Over the years the assessment style has encouraged rote learning. The Federal Board was one of the first ones to change the assessment mechanism to move towards an examination system that tests concepts rather than simple information. A number of Boards in the country are now replicating this model.

9.7.7.8.15 The Government of Punjab has established the Punjab Examination Commission to revamp the assessment system in the province. It is still in a nascent state and will require sometime before it can be evaluated. However, it expected to improve the quality of assessment in the province and provide a good example for others to follow.

9.7.7.8.16 A number of reforms have been proposed in the draft NEP to improve the assessment systems. These include moving towards curriculum based assessment and also rationalizing the number of examination boards to reduce standardization issues.

9.7.7.8.17 For overall system assessment and measurement of quality, the National Education Assessment System and the Provincial Education Assessment Systems for all provinces and area governments were initiated with the assistance of the World Bank in 2005. It was a pioneering effort in the country as previously the only measure of quality was the local examination systems which themselves suffered from issues of standardization. In any case these were specific to certain levels in the education system and their purpose was primarily to test the student for the next level.

9.7.7.8.18 The government has taken over the recurrent budget while the World Bank and Department for International Development continue to fund the development components. Currently NEAS has not been able to develop linkages with system inputs to identify weaknesses and propose system changes. There are plans to institutionalize the results into a feedback mechanism for all qualitative inputs like curriculum, textbooks and teacher training.

9.7.7.9 Inclusion of Marginalized Children

9.7.7.9.1 The inclusion of marginalized children into mainstream education is placed on high priority. Rural girls with disabilities are doubly discriminated against — disability and gender.

9.7.7.10 Education Sector in Federally Administered Tribal Areas (FATA)

9.7.7.10.1 The Federally Administered Tribal Areas are some of the most underdeveloped regions of Pakistan and thus need special focus. Only 17 percent of the overall population is literate and among women literacy is as low as 3 percent. The low level of literacy is a significant cause for concern, along with poor enrolment and high dropout rates. For both boys and girls, factors that deter primary enrollment and discourage continuation into secondary schooling include poverty, the perceived low economic impact of education, improperly sited schools where they are most needed. An overly theoretical curriculum coupled with poorly trained teachers, makes schooling less engaging for students.

9.7.7.10.2 Among girls, enrolment is affected by the shortage of girls' school and female teachers, as well as social factors such as early marriages, cultural taboos and tribal enmities that make travel hazardous. Poverty also affects girls more severely, since poor families who may be able to invest in some education for their children will invariably award priority to sons.

9.7.7.10.3 Federal government programmes address quality assurance, school rehabilitation, training and resource centers, technical and science education, adult literacy, and the Education for All Programme. Other federal initiatives include streamlining *madrassah*; introducing the use of information technology; scholarship for girls, talented students and teachers; and training of school teachers. The Sustainable Development Programme (SDP) for FATA envisage following objectives and strategies for development and progress of Education sector.

9.7.7.10.4 The SDP aims to improve the functioning of the education system in order to make education a major agent of change in the tribal areas. To achieve this objective, the following broad strategic measures are required:[115]

- Enhance awareness of the value of education;
- Increase access to education at all levels, and across all agencies;
- Raise the number of local teacher's particularly female teachers;

[115] For details of SDP please see chapter 6.

- Substantially decrease dropout and repetition rates;
- Promote the acquisition of basic knowledge and skills;
- Regularly assess classroom teaching and student learning; and
- Develop accountability mechanisms for effective monitoring and evaluation.

9.7.7.10.5 Under these strategic measures, a detailed set of priority interventions in various sub-sectors of education including: enrolment; capacity development; governance, student learning and empowerment; and job relevance and role of private sector have been designed.

9.7.7.11 **Technical and vocational education and training (TVET)**

9.7.7.11.1 **Issues**

9.7.7.11.2 The Technical and Vocational Education and Training (TVET) system has remained fragmented, supply-driven, and lacking a national direction. The education strategy for the PRSP-II period envisages a major overhaul of the system.

9.7.7.11.3 The philosophy behind the strategy for reforming the TVET system is to change it from a supply-driven system to one that responds to the demand of the marketplace. The strategy envisages the following major initiatives during the PRSP-II period: (i) adoption and implementation of a National Qualifications Framework to ensure coherence of national qualifications within the TVET system; (ii) shift to a system that is competency-based rather than curriculum-based; (iii) to create a PPPs, in which the private sector can give much clearer and more definite indications of the skills that they are seeking; and (iv) to make a significant increase in the budget of the system so as to improve its physical infrastructure and to attract the requisite amount and quality of teachers.

9.7.7.11.4 In order to cope with the requirements of fast developing economy, to gear up employment generation and meet the challenges of Word Trade Organization and globalization, it was absolutely imperative to realign Technical and Vocational Education & Training (TVET) system in the country to cater for these requirements. National Vocational and Technical Education Commission (NAVTEC) was established in 2006 to oversee:

- Policy and Planning;
- Standards setting and Regulation;
- Curricula Development;
- Certification and Accreditation;
- Demand Assessment and Research; and
- Others such as facilitating PPPs, establishing national and international linkages, coordination with provincial governments, training of trainers etc.

9.7.7.11.5 The National Vocational and Technical Education Commission is assisting provincial governments in the area of skill development, facilitating PPP at the national level, coordinating national sectoral training policies and acting as a catalyst. The NAVTEC is paying special attention to creation of linkages with the labour market. One of the intended directions of the Commission's work will be to transform the current supply driven TVET system into a demand driven one. The TVET trainees can thus be ensured of their employability in the labour market.

9.7.7.12 **The Way Forward for TVET**

- TVET institutes will be subject to performance evaluation by provincial authorities based on expected outcomes, which will include development of linkages with local industry;
- A TVET Quality Council shall be set up to oversee the operation of the quality training framework. This Council will work according to clearly defined powers and functions. Uniform national standards for registration of training providers will be framed while actual registration will remain with provincial governments. A system of federal audits will be introduced for quality assurance of the system. 'Employer Satisfaction Surveys' will be carried out to guide major policy decisions regarding relevance and quality;
- Competency standards for TVET teachers and assessors will be developed. To remain current with industry practices, two weeks' attachment in industry in a year of a TVET teacher will be compulsory;
- The Apprenticeship Ordinance, 1962 will be revisited and stakeholders consulted, in order to make it more attractive for the industry as well as trainees. Incentives will be introduced for employers and apprentices, rather than coercion and control. The new apprenticeship model will have a support system: for attracting new apprentices and where viable, for providing incentives to employers and benefits (such as stipends, tools allowance) to apprentices. The qualifications earned by an apprentice will be reflected in the National Qualifications Framework. Incentives will be targeted to encourage apprenticeships in areas in which skills are short;
- Currently only 3 percent of all students enrolled at all levels of education pursue a career path by choosing the TVET stream of education. It is intended to double this percentage during the PRSP-II period, and to aim that by the year 2030 at least 50 percent of students should be expected to choose a career through this system;
- The TVET coverage will be extended to 100 percent of tehsils all over the country;
- Females account for only about 30 percent of students enrolled in TVET programmes. By expanding the number of scholarships for female students and bringing in more female teachers, the aim is to raise this to 35 percent (of a substantially larger total) by the end of the PRSP-II period, and thereafter to keep increasing it until by 2030 females account for 50 percent of enrollment in the TVET sector;
- Currently only 3.45 percent of the pubic sector budgetary allocation for Education goes to TVET. This allocation will be doubled by the end of the PRSP II period and steadily

increased in each subsequent PRSP period so that it reaches 40 percent by 2030;

- Regulations will be reformed so that TVET institutions become more autonomous in their day-to-day operations. TVET institutes will be able to retain part of their earnings generated through commercial activities;
- A National Qualifications Framework will be adopted to ensure coherence of all national qualifications within the TVET system;
- Introduction of TVET at the secondary school level will be encouraged so that an increasing percentage of school pass-outs enter the TVET stream each year;
- A sector-based approach will be adopted to measure demand in sectors of importance. This will be done through research led or undertaken by Sector Skills Councils supported by the government. Research into demand for skills will feed into national and provincial training plans. Demand for skilled labour abroad, especially in countries where Pakistani labour force is exported, will also be assessed;
- Access to TVET will be increased. Each district of Pakistan will have at least one technical education institute and each tehsil of Pakistan will have at least one vocational training institute. While expanding the geographical coverage of the TVET, it will be ensured that training in the new TVET institutes conforms to the needs of the local economy; and
- Regions such as Balochistan, Federally Administered Tribal Areas (FATA), and Northern Areas have a relatively low coverage of TVET compared with other regions and provinces. Special seats in TVET institutes, country-wide, will be reserved for youth from disadvantaged regions. To ensure their employability at home and abroad, apprenticeships of shorter duration will be arranged in industrial areas. Flexible learning methods will be used to reach far-flung communities.

9.7.7.13 Higher Education

9.7.7.13.1 The Higher Education Commission (HEC) aims at creating the necessary foundations on which excellence can flourish and Pakistan can enter effectively into the global knowledge-based economy. Three major issues need to be addressed in order to develop the higher education sector. These are: (a) access; (b) quality; and (c) relevance to national needs.

9.7.7.13.2 The present MTDF of HEC aims at increasing the access to Pakistan's higher education institutions by doubling the enrolment (from 341,168 in 2007 to 513,533 in 2010). This will be achieved by increasing the capacity of existing higher education institutions and, where necessary, establishing new ones.

9.7.7.13.3 The present quality of higher education falls short of requirements. Not a single Pakistani University is ranked among the top 500 of the world. A number of steps to improve quality are planned, which include: faculty development; infrastructure improvement; attainment of excellence in research; and making the system relevant to national priorities.

9.7.7.14 **Faculty development**

9.7.7.14.1 At present, out of 7000 faculty members in Pakistani universities, only 1700 have PhD degrees. Each of the 60 public sector universities needs to have a faculty of at least 300–400 persons with a PhD (i.e., at least 15–20 per department) before it can be regarded as a genuine university. For this purpose an additional 15,000–20,000 persons will need to be sent for PhD level training to suitable foreign institutions in fields of national priority. This foreign PhD level training will help to develop a cadre of highly qualified men and women who can carry out teaching and research in universities and also act as consultants to industry. This foreign PhD level training, combined with the indigenous PhD programme and the foreign faculty-hiring programme, will provide the core element of quality human resources essential for public sector university education.

9.7.7.15 **Infrastructure upgrading**

9.7.7.15.1 Each public sector university will be upgraded in terms of availability of books, journals, scientific equipment, consumables, teaching aids, and high-speed Internet connectivity. It will also be equipped with sports and other facilities so as to provide the requisite environment for quality education.

9.7.7.16 **Research quality**

9.7.7.16.1 International linkages, access to research grants and post-doctoral training programmes will also help to improve quality. Governance; financial management systems; curricula; examination system; and quality assurance systems in the universities will be constantly improved in order to bring these to international standards.

9.7.7.16.2 The Pakistan Educational Research Network (PERN) will be expanded and its performance further improved so that the materials available on the internet can be readily accessed, and faculty resources can be shared through video-conferencing.

9.7.7.16.3 **Relevance to National Priorities**

9.7.7.16.4 In order to transform Pakistan into a ‘knowledge-economy,’ specific projects and programmes have been identified as priority national programmes. The human resource development effort will be tailored to meet the human resource requirements of these programmes. These include transition of the agriculture sector to one that is engaged in high value-added production, information technology, biotechnology, engineering sciences, pharmaceuticals, material sciences, basic sciences, social sciences, economics, finance, and other disciplines.

9.7.7.16.5 The curricula for these fields have already been modified in consultation with experts and the private sector to make them relevant to market demands and the needs of the society as well as emerging international opportunities. During the PRSP-II period, these curricula will progressively be adopted by higher education institutions; the HEC will monitor and ensure that this is done. The establishment of technology parks, business incubators, and funding of joint projects with industry are expected to transform the universities to creative and vibrant institutions where new ideas are born and transformed into commercial products and processes.

9.7.7.16.6 The role of education in poverty eradication, in close cooperation with other social sectors, is crucial. No country has succeeded if it has not educated its people. Not only is education important in reducing poverty, it is also a key to wealth creation. As investment in education as a poverty reduction strategy can enhance the skills and productivity among poor households, on the one, and eliminate role of poverty as a constraint to educational achievement as children of poor households receive less education, on the other. The PRSP-II presents a holistic medium term policy framework covering all the tiers of education sector with an aim to achieve MDG targets for education, thus leading to creation of knowledge economy and a more prosperous future.

9.8 (2) Health

9.8.1 The Universal Declaration of Human Rights states, "Everyone should have access to health care, education, water and sanitation and, when times are hard, social security." The health-poverty nexus is well established. Ill health contributes to poverty: 'catastrophic costs' of illness which can rapidly plunge households into poverty; reduced earning capacity when ill; and the need to consider how this impacts on adult men, who are likely to remain the main income earners in many households; and the burden of caring for the sick, which falls unduly on women. Poor people suffer disproportionately from disease; and women and children are particularly vulnerable.

9.8.2 Health Status of the People of Pakistan

9.8.2.1 Pakistan's estimated population of 163.8 million is growing at an annual rate of 1.9; the total fertility rate is currently reported at 4.1, which is 30 percent higher than its South Asian neighbours. Both the Infant Mortality Rate (IMR) and Under Five Mortality Rate (U5MR) have steadily declined since 1990; however, the rate of decline over the last fifteen years has been considerably slower than its South Asian neighbours — IMR declined by 21percent in Pakistan during 1990 and 2005, less than half the decline in Bangladesh and Nepal where IMR declined 46 and 44 percent respectively — and Neonatal Mortality Rate has remained relatively intransigent. In addition, available data suggest that there has been no change in malnutrition levels in children, with the percentage of under-five children who are under-weight ranging from 33-45 percent. This snapshot of health status indicates that Pakistan is far from achieving the health related MDG targets. To achieve these targets Pakistan will have to significantly improve the performance of its health sector.

9.8.2.2 Despite the slow progress towards health related MDGs and other health outcomes, there is evidence that Pakistan has made some level of progress particularly at the intermediate outcome level. This can be attributable, in part to the increase in public expenditure on health as envisaged in the I-PRSP and PRSP-I and to the sustained focus on prevention and control of preventable diseases. Expansion of the Lady Health Workers Programme in the rural areas has contributed to improving primary health care, although many gaps still remain to be addressed. In addition, intermediate maternal and child health outcomes have also shown improvement during the last five years; this is evidenced by the increase in antenatal and post natal care — ANC increased from 35 to 61 percent and PNC increased from 9 to 22 percent during this period of time, as reported by the PSLM surveys. Similarly, skilled attendance at birth increased from 24 to 36 percent during the last five years; the percentage of fully immunized children increased from 53 to 76 percent, and TT2 coverage in women improved from 35 to 58 percent during the same timeframe.

9.8.2.3 In addition, recent reports of the TB case detection rate at 69 percent and cure rates at 87 percent are encouraging despite limitations of the reporting system in terms of its inability to take into account cases which report to private sector healthcare providers.

9.8.2.4 Despite these achievements, the sector continues to face significant challenges, which pose an impediment to progress. Key issues are summarized below:

9.8.3 Key Issues and Challenges

9.8.3.1 Slow progress in achieving health specific MDGs and other health outcomes remain the major challenge faced by the health sector. This can be attributed to contributing factors both external and internal to the sector. External factors largely include causes implicit in the social determinants of health; these include illiteracy, unemployment, gender inequality, social exclusion, lack of access to safe drinking water and inadequate sanitation and food insecurity; the stresses of urbanization and a range of environmental determinants of health add to these challenges. Inherent factors contributing to inadequate performance of the health sector are deep rooted. These include weak management and governance systems; partially functional logistics and supply systems; poorly motivated and inadequately compensated staff, lack of adequate supportive supervision, lack of evidence based planning and decision making, low levels of public sector expenditures and their inequitable distribution. As a result coverage and access to essential basic services remains limited and unequal with poor quality of services which are generally perceived to be less responsive to community needs. The key programmatic and management challenges for the sector can be summarized as follows:

9.8.3.2 Limited coverage of quality services

9.8.3.2.1 The delivery and coverage of quality essential health services needs to be ensured on a universal basis especially in rural and underdeveloped areas**.** Access issues emerge as a result of staff unavailability; absenteeism; security risks; poor supervision; and interrupted supply chains. Additional investments in the health sector are needed to offer and ensure better access to quality essential services, which should include reproductive and child health, nutrition and control of communicable diseases as well as the emerging challenge of non-communicable diseases (NCDs) and to develop strategies to address risk factors related to NCDs and injuries. Health delivery system is not properly equipped to deal with emergency and disaster situations. All these issues are known to have major impacts on macroeconomic growth and on poverty. A key challenge is rapidly rising population which continues to undermine health gains and needs strong political commitment and priority ensuring provision of family planning services across all health outlets and at the community level.

9.8.3.3 **Management and governance issues:**

9.8.3.3.1 The public health sector at all the three levels of management and governance — federal, provincial and district — is overly centralized and faces serious management and governance challenges, which in turn limit its ability to deliver. Management challenges arise due lack of clear roles, responsibilities and prerogatives at the three levels of government and multiple, often conflicting directions coming from different levels. Devolution in the sector is incomplete with weak accountability mechanisms and management capacity at the district level. Recent analyses indicate that services delivery at the district level and below continue to face many of the systemic problems, which characterized the earlier centralized arrangements; as a result, the benefits that devolution could deliver to the population are not being actualized. The recent initiative to strengthen management or contract out management at the primary healthcare level has shown improved utilization of services at first level care facilities. However, the initiative needs a comprehensive overall assessment before further expansion and ways and means to institutionalize it.

9.8.3.4 **Unharnessed role of private providers:**

9.8.3.4.1 Pakistan has a large and growing private, philanthropic and non-state health sector providing services at various levels, particularly in the domain of curative care. The is cognizant of the fact that improving health outcomes and access to essential services is unlikely to be achieved without working closely with the non state sector; in this regard, unevenness of services, absence of appropriate regulatory and institutional frameworks to protect the rights of the consumers pose a challenge. An additional overarching issue, which complicates the public private divide further is dual practice of public providers.

9.8.3.5 **Weak stewardship functions:**

9.8.3.5.1 The existing health system lays little emphasis on stewardship functions of the state agencies in health; these functions include setting strategic policy directions; monitoring and evaluation; measuring performance; detecting disease trends and epidemics; regulating quality standards of healthcare; and guiding human resource production and development and deployment. An additional issue is clearly defining health sector policy and its monitoring. At present strategic direction and sector priorities are not synchronized among various policy, strategic and programme's documents — a gap that is currently being bridged through an effort that will be described later.

9.8.3.6 **Low levels of public health investments:**

9.8.3.6.1 The public sector in Pakistan continues to spend less on health than most countries at the same level of GDP despite the commitments enshrined in macro-policy documents—PRSP-I, the Medium Term Development Framework and the Fiscal Responsibility Debt and Limitation Act, 2005. Despite increasing expenditures in nominal terms, the real expenditures as percentage of GDP have stagnated below 0.6 percent against the target of

0.92 percent. According to a recent civil society review on health financing the public sector spends 0.54 percent of the GDP. Increasing resources without addressing management challenges and appropriate prioritization is unlikely to improve performance significantly. However, as the system starts to improve performance by programmatic and management reforms, additional resources will be needed.

9.8.4 PRSP-II: Changing for the Better

9.8.4.1 The PRSP-II is an opportunity to bridge many of the aforementioned gaps and weaknesses in the health system. It is opportune that the development of PRSP-II has commenced at a time cycle when two other overarching strategic planning exercises relevant to the health sector are coming to fruition: (i) chalking out of a new vision for the Medium Term Development Framework (MTDF) of the Planning Commission for the years 2011-2016; and (ii) ongoing work to develop a new vision for a National Health Policy. With regard to the latter there are two planning and consultative exercises running in parallel which are meant to complement each other. One is the work of the 'Health Policy Task Force', which has six working groups and has come up with recommendations after a set of consultative deliberations. The other relates to the process of setting directions for the new health policy by the civil society, which has culminated in the creation of the 'Gateway Health Policy Scaffold', under an agreement with the Ministry of Health. Regarding this as an ideal setting to revise goals, objectives and strategic directions with reference to health in these three planning instruments — PRSP-II, MTDF and the National Health Policy — state agencies in partnership with a civil society think-tank have developed a unified vision for the health sector in Pakistan, which draws on the Policy Objectives of the Gateway Health Policy Scaffold. This takes cognizance of the need to strengthen health systems to deliver on program targets, addressing weaknesses in existing programmes and drawing on a broader constituency of actors in the inter-sectoral scope to improve health outcomes in Pakistan.

Box 9.1: Government commitments during PRSP-II timeframe

- Save 350,000 addirional lives of children;
- Save additional 7,000 lives of mothers;
- Eradicate polio;
- Prevent 1.5 million children from becoming malnourished;
- Provide family planning services to 2.5 million additional couples;
- Avert 5 million new TB cases;
- Immunize12 million children against Hepatitis B; and
- Reach 40 million poorest people of Pakistan to ensure provision of essential package of service delivery.

9.9 Policy Objectives

9.9.1 The policy objectives for health systems reform set a vision for a future health system that:

- Effectively addresses social inequities and inequities in health and is fair, responsive and pro-poor;

- Supports people and communities to attain the highest possible level of health and well-being;
- Reduces excess mortality, morbidity and disability and care-givers burden — especially in poor and marginalized populations;
- Mitigates risks to health that arise from environmental, economic, social and behavioral causes;
- Meets the specific needs of health promotion as well as treatment, prevention and control of diseases; and
- Is there when you need it — a health system that encourages you to have your say, and ensures that your views are taken into account.

9.9.2 The principles that support this vision are grounded in the principles of equity, solidarity, social justice, people-centered priorities, gender mainstreaming, community empowerment, universal coverage for essential services, evidence-based decision-making the inter-sectoral approach to health, outcome orientation, fair financing, quality management, subsidiary and technical and allocative efficiency.

9.9.3 The broad goals of the policy objectives and envisaged agenda for policy reform and their respective strategies fall within the following eight domains and their corresponding objectives:

- **Evidence and information:** to garner an unyielding political and institutional commitment to base decisions on evidence and institutionalize rational accountability of the decision-making process; and to develop a sustainable health information infrastructure and capacity within the health system to systematically collect, consolidate, analyze, and interpret health data and information and relay it in a timely manner for actions at appropriate levels.

- **Health in all policies:** to regard health within an inter-sectoral scope in a broad national and international policy context to ensure that people receive a clear benefit from the health system in terms of health gain, which is concerned with health status and social gains that is concerned with broader aspects of quality of life; to support vulnerable households in managing hazards and risks and to build equity safeguards with respect to the emergence of health as a sector within the market economy.

- **Health promotion**: to enable people and communities to make appropriate use of health services and to exercise control over their own health and well-being by ensuring their participation in decisions related to the environment, which impacts their quality of life.

- **Leadership and governance:** to enhance transparency, effectiveness, efficiency and responsiveness in governance by improving accountability to the people and to foster evidence-based decision-making as the norm

- **Health financing:** to maximize public sources of financing (revenues and social health insurance) over private sources (out-of-pocket payments and private insurance) and to enable universal coverage for a certain set of essential interventions through revenues and provide alternative means of health financing for achieving the equity objective.

- **Service delivery:** to ensure the delivery of a package of essential health services to all citizens leveraging the strength and outreach of all stakeholders in the health sector — both state and non-state and to ensure quality and equity and uphold ethical values in service delivery.

- **Health workforce:** to develop a health workforce appropriate to the needs of the country's health system giving due attention to numerical inadequacies, issues relating to mal-distribution and deployment, lack of diversity, problems with capacity building and training and regulation; and to take into account the impact of reform in the areas of decentralization, outsourcing, granting autonomy, PPPs, and other areas on the health workforce and vice versa.

- **Medicines and related technologies:** to make quality essential medicines and technologies, critical for the delivery of the essential health package accessible, affordable and consumer friendly on an equitable basis and to promote their rational use in the health system.

9.9.4 The strategic priorities for the health sector articulated in a subsequent section emanate from this vision, principles and broad goals.

9.10 Health priorities in PRSP-II

9.10.1 Analysis of the burden of disease (BOD) conducted in 1996 indicated that Pakistan bears a double burden of disease; although the burden of communicable diseases, childhood illnesses, reproductive health problems and malnutrition is high and remains to be tacked, non-communicable diseases (NCDs) are fast emerging as the major contributors of death and disability. The major brunt of all these diseases are borne by the poor — communicable diseases and malnutrition are commoner amongst the poor and the vulnerable whereas NCDs affect the economically productive workforce, lead to income losses, lost productivity and are known to be the major contributors to health shocks. The focus of the PRSP will therefore be to address all these disease dimensions which have implications for poverty.

9.10.2 In previous years, the government of Pakistan placed poverty reduction at the heart of its development policies, but focused only on dealing with diseases that occur predominantly among the poor; it did not take into account other poverty reduction health related approaches that could be embedded in service delivery and financing reforms. These alternative entry points to health-related poverty reduction efforts, as stated by the Gateway Health Policy Scaffold involve a number of restructuring arrangements which have now been adopted by PRSP-II and include:

- Prioritizing public sources of financing and prepayment mechanisms as a form of financing health rather than at the time of service expenditures on the premise that this is essential for macro-economic poverty reduction measures;
- Using cash transfers/waiver and exemption systems as a targeting approach in order to benefit the poor and institutionalizing this as part of Pakistan's existing Social Protection Strategy and by establishing a legal and regulatory framework;
- Prioritizing services relevant to the poor and reorienting government services towards the disadvantaged through means that target benefits by virtue of certain characteristics or eligibility criteria or adopt targeted approaches to reach specific population groups in which the prevalence of poverty is high, such as women, who constitute over 73 percent of the poor in Pakistan and geographical areas inhabited mostly by the poor;
- Prioritizing addressing diseases that affect the economically productive workforce and therefore contribute to lost productivity, undermining of the income-generating capacity and precipitating an acute poverty crisis and lastly, plugging leakages with respect to coverage for the non-poor such as in the case of non-communicable diseases;
- Ensuring that access issues do not emerge at the service delivery level where management of state-owned Basic Health Units (BHUs) is handed over to the non-state sector and ensuring that the package of essential health services is delivered regardless of management arrangements. Additionally, ensuring that public resources in autonomous hospitals are used to ensure that the poor are not excluded and support objectives, which directly serve the equity objective;
- Broadening the scope of heath related poverty reduction efforts will enable the state to deliver health services more equitably and efficiently.

9.11 Strategic priorities

9.11.1 The strategic priorities of the health sector emanate from within the aforementioned framework which include the following:

9.11.2 **Enhancing resource availability:** The Health Plan in the MTDF period envisages increasing revenue allocations for health to deliver the essential health package. An amount of Rs 85 billion has been allocated for the development programme during the MTDF period 2005-10; it includes Rs 53 billion for federal development health programmes and Rs 32 billion for provincial development health programmes. However, the strategy will attempt to provide more resources to the health sector and aims to increase public health expenditure from 0.6 percent to 0.85 percent by the end of PRSP-II period (in FY 2011-12).

9.11.3 **Essential services:** The PRSP-II envisaged the following as being included within the essential health services package:

- **Maternal & Child Health (MNCH) and Family Planning:** Pakistan needs to improve the performance of the health sector significantly to achieve targets articulated as part of Goals

4 and 5 of the Millennium Declaration. In addition to strengthening maternal and child health services within the existing health system, this would warrant scaling up essential health services through the National EPI Programme, the Lady Health Workers Programme (Family Planning and Primary Health Care) and the newly launched National MNCH Program and to maximize the synergies between these interlinked programs and further reinforce linkages with existing nutrition programs. Ministry of Health has already developed a framework to reinforce sector specific nutrition interventions; these will be translated into a new Nutrition Programme.

- **Expanded Programme on Immunization** (EPI) has played a key role in reduced morbidity and mortality from childhood vaccine preventable diseases; coverage of fully immunized children is reported to have increased over the last two decades; however data from the Pakistan Demographic and Health Survey, 2006 indicates lower coverage (47 percent) than what has been reported by PSLM survey data for earlier years. The immunization programme is trying to respond to the systems level challenges by beefing up the cold chain and district immunization programme, increasing coverage by focusing on low performing areas, attempting to reduce dropouts and improving monitoring and supervision systems; e.g. EPI programme has expanded its scope with the introduction of Hepatitis V vaccination in addition to pentavalent vaccine; the feasibility of introducing other vaccines is also being explored.

- The programme is also attempting to get around overarching issues, such as the security situation in NWFP and large scale population movements, which are responsible for the increase in the Polio transmission during 2008 by continuing with the momentum built around the National Immunization Days (NIDs) in NWFP and Balochistan; there will also be an emphasis on improving the quality of the campaign in some districts of Sindh. The Programme will continue with NIDs with implementing a new strategy to continue with NIDs in security compromised areas and expand the use of monovalent vaccine during the next three years.

- To address the persistence challenge of child mortality at facility and community level, the National MNCH and Lady Health Workers (LHW) Programmes will implement standard protocols for management of common childhood illnesses and strengthen emergency neonatal care at secondary level hospitals. In addition 12,000 CMWs will be deployed in different parts of the country to reduce low birth weight babies, help in clean delivery to minimize sepsis, and manage asphyxia and hypothermia at birth. To reduce mortality due to diarrhea and respiratory infection, a BCC campaign to enhance hand washing will be initiated through the LHWs Programme.

- The health sector will specially focus on provision of Family planning (FP) services through the health care network and community based workers by: (i) ensuring financing and provision of at least three modern contraceptive methods and skilled manpower in all health outlets of Departments of Health (DoHs)over the three years; (ii) strengthening the provision of FP services and products through the LHWs at the doorstep of community, especially in rural areas and exploring use of social marketing techniques and (iii) Fostering greater functional integration between the two vertical institutional entities, (MoH and DoHs vis-à-vis Ministry of Population Welfare and Public Works Department) in order to maximize synergies for ensuring the introduction of a minimum uniform and comprehensive reproductive health package in health and population outlets and move towards better functional integration at the service delivery levels. The main constraint to be addressed through above measures is to ensure commodity security and availability of contraceptives in each and every health outlet.

- In relation to maternal health, the National MNCH Programme will ensure training and deployment of the new cadre of community midwifes—over the next three years, 12,000 CMWs will be deployed in their own community. In addition, the LHW Programme will be further expanded in line with the priorities of the new government from 92,000 to 120,000; further expansion will be decided upon as part of strategic planning. The LHW Programme intends to expand the scope of services focusing on introduction new methods of FP, low osmolality ORS, zinc supplementation and non-communicable disease prevention, control and health promotion. The National MNCH Programme will also expand provision of round the clock comprehensive EmONC services through 214 DHQ/THQ hospitals and round the clock basic EmONC services through 662 RHCs/THQ; it will promote the use of standard management protocols to deal with obstetrical and neonatal emergencies with training of doctors in anesthesiology and obstetrical surgical services to manage risk pregnancies at sub-district hospital. To provide leadership and strengthen management of maternal health services fully functional federal, provincial and district MNCH cells are being created.

- Pakistan's nutrition outcomes have been relatively intransigent over the last two decades, as a result of which a significant burden of malnutrition and micronutrient deficiencies affects children and women of child bearing age. The current global increase in food prices, which is affecting Pakistan as well, is likely to compromise these outcomes further. The MoH will develop a practical programme with an objective of improving the nutrition status of women of child-bearing age and children below 3 years by improving the coverage of effective nutrition interventions with a focus on the poor and marginalized. The focus of the proposed programme will also be to scale up three interventions — salt iodization, promotion of breast feeding, wheat flour fortification, and provision of zinc during treatment of diarrhea. The program will pilot test interventions before scaling up including management of severe malnutrition in young children, Vitamin A supplementation during the neonatal period, use of “sprinkles” to see if it can also improve feeding practices as well, multiple micronutrient supplementation for pregnant women and a conditional cash transfer scheme targeted at the poor. A new National Nutrition Survey is being planned to assess the situation and to establish benchmark for the new programme.

9.11.4 **Communicable Disease Prevention and Control:** The TB DOTS programme continues to make progress and recent results are encouraging in terms of case detection and treatment success. The programme will continue to follow its strategic plan with a special emphasis on expanding TB DOTS through large network of tertiary care hospitals and working with the private sector for provision through its large network. In addition, the Programme will expand its laboratory network to ensure implementation of quality assurance guidelines for sputum microscopy. A critical challenge will be to ensure uninterrupted availability of DOTs medicines; this will be addressed by strengthening the logistics and procurement system with adequate financing. The Programme's strategic plan will be updated based on the results of TB prevalence survey and independent third party assessment of the Programme.

9.11.4.1 In response to the endemic Malaria burden in Pakistan, the Programme will continue to implement the Roll Back strategy with an emphasis on effective implementation of the strategy in high risk districts, expand the use of ITNs and use of intermittent presumptive treatment. In addition, a comprehensive strategy will to be developed to respond to other vector borne diseases especially the ongoing epidemic of dengue fever.

9.11.4.2 The National HIV & AIDS Control Programme will enhance its response significantly to the growing challenge of spread of HIV among injecting drug users and male sex workers. The Programme will continue to contract out service provision through private and NGO sector. Over the PRSP-II timeframe, focus would be on scaling up HIV preventive services to the high risk groups, provision of treatment and care to the positive cases; control of sexually transmitted infections (STIs), ensuring safe blood transfusion, changing behaviors especially to address issues of stigma and discrimination and enhancing capacity of the implementing partners. The Programme has developed contracting procedures and a rigorous behavior and sero-prevalence surveillance which will be continued. A monitoring mechanism to oversee service provision will be operationalized.

9.11.4.3 To address the growing burden and spread of Hepatitis infections, the National Programme for Hepatitis Control is reviewing its strategic plan to focus on primary prevention through expanding immunization for Hepatitis B in children, vaccination of high-risk groups, establishing 150 screening and diagnostic centers and provision of Hepatitis treatment facilities in tertiary hospitals in a phased manner. A behavior change communication strategy would be implemented in order to target the general population.

9.11.4.4 The Ministry of Health has started taking initial steps towards an integrated Disease Surveillance System. A field based epidemiological training program for young public health professional has started. Over the PRSP-II time period, operational surveillance units will be established at the federal and provincial headquarters linked with public health laboratory networks. National Institute of Health and four Provincial reference labs will provide laboratory backup for integrated communicable disease surveillance. As the system develops, existing disease specific surveillance activities will be integrated.

9.11.5 **Non-communicable diseases, mental health and injuries:** During the PRSP II time frame, the scope of public health interventions will be broadened to address diseases that have remained neglected to date, but which paradoxically are the leading causes of death and disability. Non-communicable diseases, which include diseases of the heart, diabetes, and some cancers and chronic lung conditions account for 59 percent of the mortality in Pakistan according to the Pakistan Demographic Survey data. These diseases affect the economically productive workforce, result in income loss and lost productivity and lead to catastrophic spending in health. The PRSP II will build further on the National Action Plan for the prevention and Control of Non-Communicable diseases and Health Promotion in Pakistan (NAP-NCD), a multi-stakeholder consensus driven plan of action to incorporate NCDs into county health systems planning; a new national programme on NCDs will be based on the NAP-NCD strategy, and will focus on health systems strengthening and address issues that were part of earlier vertical disease planning.

9.11.6 **Health systems interventions:** The government's priorities, which gel with the vision, principles and strategic of 'Policy 8/67' and on which work will commence in a phased manner during the PRSP-II period are as follows:

- **National Health Scheme:** The new government is working on the concept of a National Health Scheme**.** Through this, the government is committed to ensuring access to services and more explicitly access to a doctor for every citizen of Pakistan. The scheme envisages registering all citizens at the level of the union council or sub district level and issuing a health card with basic health characteristics; the card will entitle citizens to services not provided by the state through private providers. The providers will be compensated according to the number of patients seen — or by capitation. The provider will refer cases of critical illness to district level hospitals (or whatever higher tier that is required). The design, modalities and strategies will be pilot-tested before nationwide expansion.

- **Management and Governance Reforms:** The government has devolved political, administrative and financial powers to the district governments in order to improve the effectiveness of social services and accountability to the local population. The district system has not yet achieved the desired success in improving quality of services. It is envisaged that the district system will be reorganized under new statutes and administrative arrangements.

- **Peoples' Primary Healthcare Initiative (PPHI):** The PPHI has been started to strengthen the management of PHC facilities, and the management of BHUs has been contracted out to the rural support programmes. While administratively demanding, the reform is very promising but need vigorous assessment to generate evidence for better value for money, as compared with the present model of in-house provision. The new health policy will provide a framework for PPP and outline ways and means to monitor results.

- There is considerable momentum towards granting greater managerial and financial autonomy to tertiary government hospitals, especially in the province of Punjab and

NWFP and some of the hospitals under the MoH. However, a recent assessment indicates that hospital autonomy has not been associated with any significant improvements in provision of good quality services and that wherever improvements have been reported, they are in the area of revenue generation and incentive sharing. During the PRSP-II, hospital management and governance will be revisited with a view to exploring avenues to match efficiency with equity in outcomes. The focus would be to strengthen governance, increased efficiency and resource mobilization. In addition, hospital reforms will also focus to developing information systems to reduce errors and costs, promoting greater transparency, rational use of pharmaceuticals, development and implementation of patients management protocols, in-service training of staff maintenance of electro-medical equipment, etc.

- **Current Human Resource Planning, Development and Management:** is focused on doctors thus neglecting other important cadres such as nurses, midwives and paramedics, other categories of female paramedics and professionals with competencies in health systems domain. The MoH intends to pursue policies to minimize existing imbalances, especially to improve the production and deployment of nurses, lady health visitors and community midwives. Options will be explored for ensuring the availability of the female health care providers at the community level through offering better financial incentives and catering for their residential needs, etc. As part of this work it will undertake a detailed analytical exercise to prepare a human resource strategic and implementation plan. In addition, the new health policy will pursue the development and strengthening of the health management cadre, separating clinical and management cadres and also investing in training of hospital managers and ensure that investments are made to train, recruit and retain people with the right health systems competencies. The plan will explore options to initiate formal continuing education through public health institutions and professional associations of healthcare providers linked to their career development.

- **Emergencies and disasters:** The health sector in Pakistan has inadequate arrangements to respond to emergencies and disasters needing health care actions; in addition it has limited ability to comply with the stipulations of the International Health Regulations. It is important to learn lessons from different disasters during last few years and establish a well-coordinated response and disaster relief efforts. Ministry and Departments of Health will take the initiative to build capacity of the health sector for disaster management, respond to emerging and reemerging infections devising an institutional arrangement and implementing disaster management protocols; and plan at national, provincial and district levels for an effective emergency response.

- The MoH intends to ensure availability, affordability and access to essential medicines, vaccines, supplies and commodities in all public health facilities. The MOH & DOH will undertake health facility assessments on a regular basis to assess availability of medicines and vaccines in the facilities. A Drug Regulatory Authority Act is also being introduced along with measures to ensure quality of medicines with appropriate price.

- Existing public financial management and procurement systems in the health sector are evolving with changes in overarching civil service procedures. A strict financial discipline will be maintained to avoid pilferage and promote judicious use of scarce public resources. The existing internal audit system would be reviewed and strengthened. In addition, work on the use of PPRA guidelines — to strengthen and ensure transparency of procurement in the health sector — will be continued and will be further strengthened.

9.11.7 **Fostering partnership with the Private Sector:** Over the last several years, the health sector has initiated interventions where the 'financing' vis-à-vis 'provision' split in the service delivery functions of the state has been used as a policy tool on the premise that this makes service delivery more efficient and responsive. This has been tested in the case of contracting out primary healthcare curative services to NGOs or private health sector mainly for the HIV & AIDS and TB programmes and the Primary HealthCare restructuring initiative in Rahim Yar Khan and later in the rest of the country. Most of these initiatives have yielded some encouraging results and the challenge now is to sift evidence from pilot interventions to upscale these models where feasible and needed.

9.11.7.1 An overarching issue in mainstreaming the role of the Private Health Sector in health for service delivery is the lack of a regulatory framework for the sector. Although this is a difficult area of public policy, the government will take initiatives to improve the quality of private health services. Besides development of a conducive regulatory system for health care, the MoH will: (i) encourage continuing education through professional associations of healthcare providers; (ii) empower professional associations to manage a system of certification/licensing of health care providers; (iii) introduce a voluntary accreditation system for private clinics and hospitals; and (iv) mount public campaigns to educate consumers about the dangers of seeking care from untrained healthcare providers and through self-medication and helping to identify various categories of providers.

9.11.8 **Strengthening Stewardship functions of the State:** The federal Ministry of Health and provincial Departments of Health have traditionally spent less time and effort on strengthening their stewardship role. A greater emphasis on policy formulation, setting strategic directions, outlining and safeguarding priorities, regulation, monitoring and evaluation, financing and surveillance will enable the MoH and DoHs to perform more effectively. The aim is to reorganize both the MoH and the provincial departments to develop structures manned by skilled manpower to perform these functions.

9.11.8.1 The MoH will undertake a review of existing health related regulatory mechanisms and will introduce new regulatory mechanisms, which will be focused towards standardization, quality control and implementation by biomedical ethics in line with appropriate guidelines. The process of development of regulatory authority would be undertaken in collaboration with the private sector, other stakeholders and provincial governments, albeit with careful attention to ethics and conflict of interest related considerations.

9.11.9 **Testing innovations:** During the PRSP II timeframe, the MoH will pilot test innovations in service delivery and financing to guide future restructuring of the health system. Three specific types of reforms that could be considered for piloting would include: (i) expansion of Employees Social Security Institutions to broaden its base and specifically provide social protection to employees of small units and farm workers; (ii) piloting community financing schemes for households outside the formal sector; (iii) testing conditional cash transfer and vouchers schemes in rural areas to protect the poor against catastrophic health expenditures.

9.11.10 **Health information systems:** The MoH and its partner organizations have taken many steps to streamline health information systems. A performance assessment health sector has been visualized; this process will be institutionalized and will be undertaken every year. Through the collaborative efforts of a civil society think-tank, a mechanism has been developed to periodically report on health indicators; this exercise has also garnered a consensus on the current gaps within individual health information streams and the way forward in terms of bridging them.

9.11.10.1 The Health Management Information System (HMIS) is being revised and a new District Health Information System (DHIS) has been designed and is ready for roll out after assessment. Over the PRSP-II time period DHIS will be made fully operational across all facilities (DHQ and below) by activation of NHIRC (National Health Information Centre) and in close collaboration with the provinces. In addition, MoH will develop an integrated disease surveillance system initially focusing on communicable diseases and later expanding to risk factors behavioral surveillance for non-communicable diseases; the infectious disease component will be compliant with the stipulations of International Health Regulations, 2005.

9.12 Measuring the Performance of Health component of PRSP-II

9.12.1 The MoH will work closely with the PRSP Secretariat and Federal Bureau of Statistics to ensure timely collection of the desired data to tract trends especially by income quintiles. The specific goal of performance measurement under the PRSP-II framework would be to ascertain that data are segregated by income quintiles and by other variables relevant to considerations of equity.

9.12.2 National Health Systems & Policy Unit established under the MoH will be strengthened to serve the strategic function of reviewing, refining and reformulating the evidence based national health policy with identification of cost effective pro-poor policy interventions. The unit will be responsible for monitoring progress on PRSP-II indicators and will undertake regular health sector performance assessments on key indicators disaggregated by income, gender and geographical areas (including provinces and districts). The unit will disseminate it through MoH's website and via media and will additionally report data on the template provided by the publication entitled 'Health Indicators of Pakistan'. The process was initiated under PRSP-I and will be institutionalized as part of PRSP-II. These assessments would also become the basis for federal and provincial dialogue and setting resource priority.

9.13 **Health Sector in Federally Administered Tribal Areas (FATA):**

9.13.1 Health indicators for FATA are incomplete and in many cases only estimates are available highlighting the poor status of health care system. Infant mortality is estimated to be as high as 87 deaths per 1,000 live births while maternal mortality is thought to exceed 600 deaths per 100,000 live births. Access to health services is severely limited, with just one dispensary, basic health unit or rural health center reported in 2004 for every 50 square kilometers of area, and these facilities are concentrated near the settled areas.[116] Available bed strength in the same year stands at 1,762 for all of FATA.

9.13.2 The major issue confronting the health sector is restricted access to health services, especially for more vulnerable segments of the population. These restrictions are physical, as a result of the great distances between health facilities; cultural, from the tribal custom of strict *pardah* (veiling) among women, which limits their movement in the public sphere; and administrative, owing to widespread absenteeism among staff, the prevalence of rent-seeking behaviour, the allocation of health centers for public favour, and the practice of landowners nominating their own *chowkidars* (watchmen) and peons. Ongoing initiatives of the federal government include: national priority programmes including Expanded Programme on Immunization; Lady Health Workers; and the control of HIV, malaria and tubercolulosis; in addition to mobile hospitals; construction of new hospitals; rehabilitation of existing facilities; and strengthening of the health directorate. The federal government is currently in the process of finalizing a national maternal, newborn and child health programme which, once implemented, will cover FATA with a proposed allocation of 700 million rupees for five years.

9.13.3 The SDP aims to ensure equitable access to health and guarantee quality services to all segments of the population, particularly vulnerable and disadvantaged groups. The SDP presents a comprehensive strategic plan and priority interventions to achieve this objective. Some of these are presented below:

- Focus on human resources and provide opportunities for the development of local human resources by establishing paramedical schools and a medical college. This will also help to strengthen the private sector by increasing the pool of available technical personnel;
- Upgrade the knowledge and skills of existing health care providers;
- Empower communities to take action for better health care. This will be achieved through an intensive information, education and communication strategy. Knowledge is a vital tool in empowering individuals, households and communities. Communities will be equipped with information about preventive and curative care; and

[116] FATA Sustainable Development Plan (2006-2015), Civil Secretariat (FATA), Government of Pakistan, 2006.

- Encourage the private sector and civil society to provide services in remote and inaccessible areas, or areas where security is an issue.

9.13.4 Key priority interventions for the revamping of health care system in FATA include dissemination of information to increase awareness; strengthening of health system through forging of partnerships with civil society, religious organization and national and international non-government agencies and by providing incentives to private sector; and through establishing a comprehensive HMIS.

9.13.5 The PRSP-II takes into account health as a key determinant of economic growth and development, as ill health is both a cause and effect of poverty. The strategy takes into account the fact that aside from the serious consequences for social welfare, ill health deprives a country of human resources and the high cost of ill health reduces economic growth and limits the resources available for investment in public health. As a result, improving health is essential in order to reduce poverty and is one of the primary objectives of the human development strategy for reducing poverty.

9.14 (4) Access to Clean Drinking Water and Sanitation

9.14.1 Present situation and issues

9.14.2 It is estimated that at present more than 65 per cent of the total population in the country has access to safe drinking water, including 85 percent of persons living in more than 500 urban places. About 55 percent of the rural population, living in about 30,000 large villages, is served with planned water supply, while in about 20,000 rural settlements water supply schemes are yet to be developed. Most of the urban water is supplied from groundwater, except for the cities of Karachi, Hyderabad and part of the supply to Islamabad, which mainly use surface water. Rural water supply is mostly from groundwater except in saline groundwater areas, where irrigation canals are the main source of domestic water.

9.14.3 The Ministry of Environment initiated a major Clean Drinking Water Programme[117] under two parallel phases: (i) Clean Drinking Water Initiative (CDWI) project, whereby 409 plants have been installed one in each tehsil across country; and (ii) Clean Drinking Water for All (CDWA) project, whereby 6035 filtration plants will be installed, one in each union council. Work on the first phase has been completed whereas on the second phase it is in progress.

9.14.3.1 The CDWI Project

9.14.3.1.1 Initially the project cost was Rs 495 million. Technical survey of 549 sites was completed and work orders for 409 plants, (including three containerized plants) were released to complete the task in a specific time schedule. Installation of all plants has been completed on schedule. The authorities carried out a marathon consultation process with stakeholders

[117] Now being run by the Ministry of Industries, Production & Special Initiatives, GoP.

for efficient execution of the project. Following these consultations, the project was revised and its cost increased to Rs 955 million.

Table 9.5: Number of filtration plants installed under CDWI

Sr. No	Province/Region	Plants installed
1	NWFP	54
2	FATA	8
3	PUNJAB	116
4	AJK	21
5	NAs	6
6	SINDH	101
7	ICT	1
8	BALOCHISTAN	102
Total	All Provinces/Regions	409

9.14.3.2 **The CDWA Project**

9.14.3.2.1 The federal government launched a mega project, namely, Clean Drinking Water for All (CDWA), at a cost of Rs 7,872 million in 2004/05, envisaging the installation of one water filtration plant in each union council. A total of 6035 plants will be installed by the end of the PRSP-II period. The District Governments are responsible for selecting the sites in each union council in consultation with the relevant Nazims. The Ministry of Science & Technology was assigned the responsibility for analyzing the water quality in these sites and recommending the type of plant to install. Almost all the sites have been surveyed, and reports on most of them have been received. The project was approved by Executive Committee of National Economic Council (ECNEC) on 16 April 2006 to install 6035 water filtration plants, one at each union council of the country.

9.14.3.2.2 On the basis of insight gained through consultations with stakeholders and the experience of Phase-I of the programme (CDWI), the technology and implementation methodology of the CDWA Project was improved. The number of plants to be installed under the Project was also enhanced to 6585 by including leftover ninety-nine plants of CDWI Project in the total figure.

Table 9.6: Province/Region wise of number of water filtration plants to be installed under CDWA

Provinces/region	Number of Union Council	Left over Tehsil from	Total
Punjab	3,464	30	3494
Sindh	1,108	21	1129
NWFP	986	14	1000
Balochistan	567	8	575
AJK*	224	8	232
NAs	102	13	115
FATA	63	5	68
Islamabad	13	-	13
Total Plants	6527	99	6626

* 41 sites of Town/Municipal Committee of AJK have recently been included by the National Project Steering Committee on 4th July 2008, thus increasing the number of sites 6626.

9.14.3.2.3 **Volume/Categories of plants as per new design**

- 500 gallons per hour for rural areas; and
- 1000 gallons per hour for urban areas.

9.14.3.2.4 The implementation of the CDWA project is proceeding well. Contracts for the NWFP, FATA, NAs, Sindh and Balochistan have been awarded, and the contractors have started their work. The award of contract for Punjab, AJK and ICT will be completed shortly.

9.14.3.2.5 After the completion of CDWA, the Government of Pakistan may consider initiating Phase -III of the clean drinking water programme, which envisages installation of one water filtration plant in every village of the country having population of 1000 individuals or more. This Phase is, however, in its planning stage.

9.15 The way forward

9.15.1 The World Summit on Sustainable Development (WSSD) 2002 held in Johannesburg set its Plan of Action in line with MDGs. This summit recommended: (i) halving by 2015 the proportion of people without sustainable access to safe drinking water; and (ii) safeguarding human health by improving the quality of drinking water. In the case of Pakistan, these recommendations translate to increasing water supply and sanitation coverage to 93 percent and 90 percent respectively by 2015. While the water supply and sanitation programmes are being accelerated, it is likely that the envisaged MDG targets of water supply and sanitation coverage might not be fully met. However, the target of regularizing 75 per cent of *katchi abadis* (temporary settlements) with adequate access to water supply and sanitation will be fully met by the end of the PRSP-II period.

9.15.2 Considering the present resource position and sectoral constraints, the safe water supply coverage will be increased from 65 percent population in FY 2004/05 (urban 85 percent, rural 55 percent) to 76 percent by 2010 (urban 95 percent, rural 65 percent), thereby serving an additional 27 million persons in five years. Water requirements in 2005–10 include (i) 7.8 million acre feet for domestic and municipal and rural potable water supply and sanitation; (ii) industrial water requirement of 4 million acre feet, and (iii) 1.5 million acre feet to meet water requirement for environment for the wetland areas, environmental protection, and irrigated forestry along railway lines and roads.

9.15.3 In rural areas, safe drinking water will be provided in accordance with the stipulated norms on a sustainable basis to all the villages. The stipulated norms of supply in rural areas are a minimum of 5 gallon or 20 liters per capita per day safe drinking water within a walking distance of 1.5 kilometers, or at an elevation difference of 100 meters in hilly areas. MTDF's rural water supply and sanitation programmes will ensure that by 2010 (i.e. the end of the PRSP-II period) all villages with a population of 100 households or 1000 persons and above are served with planned drinking water supply, along with sanitation and drainage schemes on a sustainable basis.

9.15.4 A National Drinking Water and Sanitation Policy along with the Clean Drinking Water for All Programme will be launched by the Ministry of Environment as an integral part of MTDF, focusing on provision of clean drinking water to the entire population; improving and expanding delivery of water services; ensuring conservation of water and increasing system efficiencies; and maximizing the coverage of sanitation services in both urban and rural areas. The policy will link the water and sanitation to national development goals and to protect the environment through: (i) improving water and sanitation management so as to reduce the inefficient use of water and excessive groundwater pumping; and (ii) reducing pollution by urban and industrial users through on-site or combined wastewater treatment and reuse.

9.15.5 The main aim of the strategy is to improve the performance and utilization of water supply and sanitation systems and reduce financial dependence on the federal/provincial governments. It aims to do this by improving planning and management of capabilities of the involved agencies; by encouraging the involvement of communities in general and women in particular; and by promoting community responsibility, particularly for operation and maintenance. The strategy includes: (i) adoption of an integrated approach, rational resource use, and the introduction of water efficient techniques; (ii) containment of environmental degradation; (iii) strengthening of institutional capacity building and human resource development; (iv) improvement of sanitation through sewerage and drainage schemes; and (vii) strengthening understanding of the linkages between hygiene and health through community education campaigns, especially among women and children.

9.15.6 To make the programmes people-friendly, the rural water supply and sanitation schemes will be designed to be simple, community-based, and use locally familiar technologies. The preferred schemes include hand pumps; gravity schemes; street pavements; and drains that minimize environmental damage. Priority will be given to reducing water losses through wastages and leakages, and to the rehabilitation of existing networks.

9.16 **(3) Sanitation and Solid Waste Management**

9.16.1 According to a recent World Bank report the mean estimated annual cost from inadequate water supply, sanitation and hygiene is about Rs 112 billion. The Government of Pakistan recognizes that there are clear links between sanitation, water, health and economic productivity. The government is aware that progress in sanitation not only has direct impact on MDG 7, in relation to environmental sustainability, but also has impact on MDGs 1, 2, 3 and 4[118], and indirect impact on other MDGs. The government recognizes the cost of sanitation in the far-reaching effects it has on the dignity and fundamental rights of all its population, but on women and girls in particular. In addition to the above, poor solid and

[118] MDG 1 – poverty and hunger; MDG 2 - Universal Primary Education; MDG 3 - gender equality and empowerment of women; and MDG 4 - child mortality.

liquid waste management systems cause an increase in the threat posed by bird hits to the aircrafts as well as damage our assets in oceans. The challenge is how to scale up coverage of improved sanitation and waste management facilities to poor households.

9.17 **Key challenges**

9.19.1 **Coverage of sanitation facilities:** Improved sanitation facilities are available to only 58 percent of the total population of Pakistan. With the exception of a few big cities sewerage is almost non-existent causing serious public health problems. Nearly 25 percent of all households do not have access to latrines, about 9 percent in urban areas and 40 percent in rural areas; 51 percent of all households are not connected to any form of drainage; 35 percent to open drains and 16 percent to underground sewerage or open drains.

9.19.2 **Poor management of underground sewage systems:** Large and intermediate cities have underground sewage systems which are subject to danger of collapse due to poor management and negligence. Most of the sewage is released untreated into the natural water bodies resulting in severe contamination of natural water bodies, making water injurious to human and aquatic life.

9.19.3 **Urbanization and *katchi abadis*:** About 30 percent of urban population lives in katchi abadis and slums with inadequate sanitation facilities. With an urban growth rate of 3.5 percent, almost twice the rate of population growth, Pakistan is facing a rapid urban transition. Amongst the issues this creates is that of poor and unplanned urban services, including inadequate housing conditions and water supply and sanitation, particularly in low income areas. Current incremental demand for housing is estimated at 570,000 units annually, with only 370,000 units being built annually in urban areas.[119] This gap exacerbates the situation in relation to the formation of slums and '*katchi abadis*[120]'. The government's policy is to legalize and improve these settlements i.e. 'regularize' them. This supports Target 11 of MDG 7, 'Have achieved by 2020 a significant improvement in the lives of slum dwellers.' The MDG Progress Report[121] notes that by FY 2004/05, 60 percent of *katchi abadis* had been regularized against an MDG target of 95 percent. However, with the growth of low-income settlements outside officially recognized *katchi abadis*, there is a need to take a wider view of the issue, and target services at all low income areas which remain under or un-serviced. Public toilets are highly inadequate in cities and are not properly managed and maintained. These are virtually absent in small and medium size towns and villages. Treatment plants exist in a few cities but are inappropriately located and hence receive little or no sewage. Solid waste management systems exist only in large and a few intermediate cities. Only 50 percent of the garbage

[119] Mid Term Review of the Medium Term Development Framework (2005-10), Planning Commission, Government of Pakistan, May 2008.

[120] *Katchi abadis* are informal settlements created through squatting or informal subdivisions of state and private lands. These settlements have often been occupied for significant periods of time by their residents, and have grown organically, making the provision of services a challenge. *Katchi abadis* are distinct from slums, where security of tenure is a rule, but which remain under-serviced or un-serviced.

[121] Planning Commission, Government of Pakistan, 2006.

generated by major cities is lifted and that too is taken to informal dumping sites since formal sites have not been adequately developed. Major part of hospital waste is not safely disposed off and disposal systems only partially exist in some big cities like Lahore and Karachi.

9.19.4 **Declining water resources and its impact on sanitation:** Majority of the population relies on groundwater for drinking purposes, though it is estimated that about 40 million residents rely on irrigation (surface) water for domestic use, particularly in areas which are brackish[122]. Water quality issues are all pervasive, with arsenic and fluoride contamination becoming a serious problem, in addition to bacteriological contamination. The country is water stressed - water availability on a per capita basis has been declining at a disturbing rate, and has decreased from 5,000 cubic meters per capita in 1951 to about 1,100 cubic meters per capita in 2006. It is estimated to go down to 700 cubic meters by 2025. The declining water resources may further enhance the sanitation problems in the country.

9.19.5 **Resource allocation and opportunity for Public Private Partnerships (PPPs):** GDP allocation for water supply and sanitation is not sufficient to meet the targets for sanitation component where most of it is utilized for water supply. In Pakistan PPP has successfully implemented the provisions of household sanitation and supported communities in financing and managing the construction of their neighbourhood sanitation infrastructure through self-help. Government-NGO/CBO and private company partnership has been successfully built, where the local government has complimented the work by providing trunk sewers in addition to solid waste disposal.

9.19.6 **Technical capacity of government agencies and the local communities:** There is also a lack of technical capacity and capability in government agencies to plan design and implement sanitation programmes in the absence of management information systems. The local communities lack the capacity of operation and management of the sanitation related infrastructure built with their collaboration.

9.20 The Overall Policy Framework

9.20.1 The policy and regulatory framework of sanitation sector includes Pakistan Environmental Protection Act, 1997; National Environmental Action Plan, 2001; National Environment Policy, 2005; The National Sanitation Policy, 2006; and Local Government Ordinance, 2001. Under PEPA the discharge of any pollutant in excess of the National Environmental Quality Standards (NEQS) is prohibited and carries a penalty. NEQS were revised in 2000. The Pakistan Environmental Protection Agency (EPA) is the regulatory agency but has devolved responsibility to provincial EPAs. If applied, there is considerable room for maneuvering through this Act, including the creation of environmental tribunals. The National Sanitation Policy which was formulated through country-wide consultative process supported by Government and UNICEF was approved by the Cabinet in October

[122] 'Pakistan's Waters at Risk', World Wide Fund For Nature (WWF), February 2007.

2006. The overall goals and objectives of sanitation efforts as described in the policy are as follows:

9.21 Overall Goal

9.21.1 The National Sanitation Policy aims at providing adequate sanitation coverage for improving the quality of life of the people of Pakistan and to provide physical environment necessary for healthy life. The objectives of the sanitation efforts in the country are:

- To ensure an open defecation free environment; the safe disposal of liquid, solid, municipal, industrial and agricultural wastes; and the promotion of health and hygiene practices;
- To link and integrate sanitation programmes with city and regional planning policies, health, environment, housing and education;
- To facilitate access of all citizens to basic level of services in sanitation including the installation of sanitary latrines in each household, in rural and urban areas, schools, bus stations and important public places and also community latrines in densely populated areas;
- To promote Community Led Total Sanitation (CLTS);
- To develop guidelines for the evolution of an effective institutional and financial framework;
- To enhance capacity building of government agencies and other stakeholders at all levels for better sanitation, particularly avoiding incidents of waterborne diseases;
- To develop and implement strategies for integrated management of municipal, industrial, hazardous and hospital and clinical wastes of national, provincial and local levels;
- To meet international/regional obligations effectively in line with the national aspirations;
- To change the attitude and behaviour on the use of sanitation; and
- To increase mass awareness on sanitation and community mobilization.

9.22 Ongoing Initiatives and the Way Forward

9.22.1 Selected government, nongovernmental and private sector initiatives are highlighted to demonstrate how programmes are driving change and are indicative of sector trends.

9.22.2 **National Sanitation Policy Roll Out - Provincial Sanitation Strategies:** The National Sanitation Policy was approved immediately after Second South Asian Conference on Sanitation (SACOSAN II), and since then all four provinces/Federally Administered

Northern Areas/AJK have formulated policies/strategies which have a significant focus on a system of 'fiscal incentives for local governments that deliver improved sanitary outcomes to all.' With the line provincial agencies taking the lead in policy and strategy development, these provincial processes were supported by a range of partners like UNICEF and WSP-SA. Balochistan and AJK Governments have approved their provincial sanitation strategies.

9.22.3 **National Environmental Information Management System (NEIMS):** The overall objective of the NEIMS is to contribute to promotion of sustainable development through building the national capacity in developing, managing and utilizing environmental information for informed decision-making.

9.22.4 **Rural Strategy: CLTS takes root in Pakistan:** Community Led Total Sanitation (CLTS) is based on the principle of triggering collective behaviour change. In this approach, communities are facilitated to take collective action to adopt safe and hygienic sanitation behaviour and ensure that all households have access to safe sanitation facilities. This process has been supported by key sector partners including UNICEF, WSP-SA and DFID. Many NGOs and Rural Support Programmes are also aligning with the new policy by adjusting previously subsidy and hardware based approaches. About 600 villages are now Open Defecation Free (ODF), and over 1500 activists have been trained in the distinctive 'triggering' techniques that are intrinsic to the methodology. Importantly, the Khushal Pakistan Fund (KPF), a facility for community driven projects, has dove-tailed its programme with the approach. It is likely that close to a million people have been reached in villages that have been 'triggered.'

9.22.5 **IYS and Global Hand-washing Day- catalyzing behaviour change:** The Ministry of Environment, with provincial and regional governments, and partners developed a comprehensive country plan for the International Year of Sanitation (IYS). The IYS targets included: (i) finalization and approval of provincial strategies and action plans by respective cabinets; (ii) dissemination of hygiene messages focusing on hand-washing with soap, construction and use of latrines and use of safe water to 20 percent of the population; (iii) provision of improved sanitation facilities to at least 6 percent of the population lacking sanitation; and (iv) finalization and approval of the National Drinking Water Policy and development of an action plan. Over 11 million people have been reached with hygiene messages, including hand-washing with soap, through a multi-pronged and comprehensive communication strategy involving the Ministries of Health and Environment. In accordance with Pakistan's IYS targets, the corporate sector (e.g. Proctor and Gamble, Unilever), agencies (e.g. UNICEF, USAID), have come together with line agencies in the provinces to undertake extensive hygiene campaigns country-wide.

9.22.6 **Water, Sanitation and Hygiene in Schools - Transforming a Generation**: Adequate water and sanitation facilities in schools are essential to reduce disease, increase enrolment and retention as well as enhance learning capacity. About 40 percent of schools in Pakistan lack water supply while 48 percent do not have access to a toilet facility.[123] A study conducted in Punjab during 2007 has shown that of the total available latrines in schools, only 72 percent are functional and the remaining 28 percent suffer from construction deficiencies, non-availability of water and poor operation and management. It is also a matter of great concern that the current student per available latrine ratio is around 250 students, six times higher than the recommended standard. The lack of appropriate facilities affects girl students in particular, reducing already low enrolment and retention rates.

9.22.6.1 The Ministry of Education has prepared draft standards for school water and sanitation facilities which are currently undergoing consultations. In addition, detailed designs, drawings, specifications, and cost estimates for these facilities are also being developed. Federal, provincial and regional governments with support from UNICEF, USAID and other partners, are also implementing several water and sanitation programmes to enhance water and sanitation coverage in schools and to promote hygiene education. The Ministry of Education has also established a working group on school water and sanitation.

9.22.6.2 The School-Led Total Sanitation (SLTS) project was piloted in AJK in mid 2007. The programme initiates change by developing useful health and hygiene skills in school to encourage life-long positive habits. The school is the 'entry point', with children replicating practices in the family environment, and advocating for the use of latrines. During the past two years, nearly 4,500 primary school teachers were trained, and more than 316,000 students received instruction in school sanitation and hygiene education. SLTS is one strategic approach which can be instrumental in increasing sanitation coverage and bringing about behaviour change. To strengthen the capacity of teachers in life skills-based hygiene education, the Government of NWFP has set up a School Sanitation and Hygiene Education Centre at the Provincial Institute of Teachers Education, in 2007. Work on establishing similar centers in other provinces is on-going.

9.22.7 **Sector Coordination:** For improving coordination in the sanitation sector, several forums meet monthly for exchange e.g. the Water and Sanitation Sector Donor Coordination Group (WSDCG) co-chaired by DFID and UNICEF. Seven meetings have been held. Water and sanitation coordination committees have been formed at the provincial and regional levels. A Community Led Total Sanitation (CLTS) Core Group has been notified by the Ministry of Environment and been tasked with speeding the roll out the Sanitation Policy in consultation with the provinces and ensuring the mainstreaming of efforts. A National Working Group on School Sanitation and Hygiene Education (SSHE) has been notified and had its first meeting. This draws in the federal ministries of Health, Environment, Religious Affairs, and Education, as well as the Environmental Protection Agency (Pak-EPA), and provincial Education departments. The intent behind these initiatives is not just to improve coordination, but to catalyze the sector, provide oversight and ensure that resource flows are well targeted and sustained.

[123] Pakistan Education Statistics, Government of Pakistan, FY 2005/06.

9.22.8 **Sindh Cities Improvement Programme:** The Programme will support a comprehensive programme of reform for improved urban service planning and management, including increased private sector participation, complemented by priority investments in water supply, wastewater and solid waste management improvements. The Investment Programme comprises four parts. Part A supports the establishment of professionalized urban service providers, urban planning capacity, and technical back-stopping for program implementation. Parts B and C will finance targeted infrastructure improvements in water supply and wastewater and in solid waste management, respectively. Part D provides revenue shortfall support for the newly established urban services corporation.

9.22.9 **Water and Sanitation Sector in One UN Joint Programme:** Water and sanitation is considered a major component of 'One UN Joint Programme on Environment'. The outcome of Joint Programme Component 2: 'Integrated Programme on Access to Safe Water and Improved Sanitation', is safe and healthy living and working conditions for all people in demonstration regions and secured access to environmentally sustainable water, sanitation, air, fuel, shelter and food. The outputs of the component include: (i) enhanced access to improved drinking water and sanitation services in rural areas; (ii) enhanced access to water and sanitation facilities as per standards in child friendly schools and healthcare facilities; (iii) improved hygiene practices amongst healthcare workers, families and school children; (iv) strengthened water quality monitoring, surveillance and improved systems; (v) enhanced water and sanitation sector coordination and knowledge management; and (vi) enhanced disaster risk management and humanitarian response capacity for water and sanitation sector at the federal, provincial and district level.

9.23 **(4) Population Programme**

9.23.1 **Present Situation and Key Issues**

9.23.2 Pakistan, currently with a population of 163.8 million and with a growth rate of 1.9 percent per annum and an annual addition of 2.87 million persons, presents a challenge to address the issue of economic development and poverty reduction. It is estimated that, population of Pakistan will reach 194 million by 2020, and will double in 34 years.

9.23.3 To maintain the current rate of literacy in future, around 111,654 additional primary schools and 244,475 additional primary school teachers would be required by 2020. The housing requirement will increase from 2 million to 33.7 million units at the present growth rate. It is argued that birth averted cost translates into huge saving in terms of costs incurred on the upbringing, education and health of the child till the age of 16.[124]

9.23.4 The Population Welfare Programme aims to reduce poverty by lowering the population growth rate. This programme addresses issues and challenges such as poverty, high maternal mortality, high infant and child mortality, poor access to health facilities, low socioeconomic status of women through advocacy/community mobilization, through safe

[124] Ministry of Population Welfare, Government of Pakistan, Assessment 2001.

and effective contraceptive methods, and by training women and so providing them with employment opportunities.

9.23.5 **Programme Strategy**

9.23.5.1 The population programme is operating through a multi-pronged strategy which entails:

- **Generating FP/RH demand through**:
  - Advocacy/ IEC;
  - Population Education; and
  - Inter Personnel Communication.
- **Ensuring supplies of safe and effective FP/RH services through:**
  - Programme service delivery network;
  - Health outlets (functional integration);
  - Partnership with public and private sector; and
  - Involvement of NGOs.
- **Improving programme efficiency and efficacy and quality of care through:**
  - Research (social and clinical);
  - Training (technical and non-technical); and
  - Strengthening Monitoring.

9.23.5.2 **Strategic Focus of the Programme:**

- Develop and launch advocacy campaign focussed to policy makers, opinion leaders, youth and adolescents;
- Increase ownership of population issues by the stakeholders and strengthen their participation in the processes of service delivery and program design;
- Reduce unmet need for family planning services by making available quality family planning & RH services;
- Adopt a shift from target oriented to need based and people-centered approach;
- Ensure provision of services to the poor, under-served and un-served populations;
- Coordinate and monitor an overall network of family planning & RH services in Pakistan public and private sectors;
- Collaborate with concerned ministries, provincial line departments particularly Health;
- Build strong partnerships with private sector and civil society players, particularly NGOs and media;

- Expand the role of the private sector by making contraceptives accessible and affordable; and
- Harness support, cooperation and involvement of men in strengthening the family as the basic unit of society.

9.23.5.3 Presently the population welfare programme operates within the broader framework of Population Policy, 2002; the National Perspective Plan (2001-2011); and in accordance with Devolution of Power Plan. The programme has adopted a holistic approach to population by linking it with human development and poverty alleviation efforts. Pakistan Reproductive Health & Family Planning Survey (FY 2000/01) and Pakistan Demographic and Health Survey FY 2006/07 have revealed that Population Welfare Programme had entered a new phase and there was almost universal knowledge (96 percent) about contraceptive methods. Contraceptive Prevalence Rate (CPR) had increased from 24.8 in 1998 to 27.6 in 2001 and was estimated at 34 percent in 2007. Information Education and Communication (IEC) efforts have played an important role in recording this increase. There is still, however, a significant portion (33 percent unmet need) of the married women of child bearing age who wanted spacing or did not want any more children but were not practicing family planning. There is still a high degree of misconception and fear of side effects of contraceptives; this and some other factors have resulted in a high unmet need and warrant attention.

9.23.5.4 In 2001, the programme implementation was shifted to provinces; the federal Ministry continues to fund the programme while its implementation has been transferred to provincial governments. The provincial government will devolve the implementation of the programme to the local governments. The Devolution of Power Plan assigns administrative and fiscal authority to the local governments to manage staff and budgets according to local needs and priorities. The community participation is a vital aspect of development planning. It is expected that community involvement in local development will create accountability mechanisms that will improve the effectiveness, accessibility and efficiency of the delivery of public services.

9.23.5.5 The programme is operationalized through the service delivery outlets of Family Welfare Centers (FWC), Mobile Service Units (MSU), Reproductive Health Services Centers (RHSC-A), Male Involvement of Health Outlets of Line Departments, Registered Medical Practitioners, *Hakeems*/Homoeopaths, Male Mobilizers, National Institute of Population Studies, National Research Institute of Fertility, Population Welfare Training Institutes and Regional Training Institutes (NIPS, 2005).

9.23.5.6 The Population Welfare Programme has been successful to bring down the annual population growth rate. However, the general shortcomings of the programme are identified as lack of holistic approach to population welfare, lack of coordinated multi-dimensional and multi-sectoral efforts; lack of male involvement in family planning; lack of capacity of the programme field staff and managers; weak system of accountability; and inadequate monitoring and supervision.

9.24 **The way forward**

9.24.1 During the PRSP-II implementation phase the Population Welfare Programme will adopt a multi- pronged strategy by:

- Generating FP/RH demand through advocacy/inter personnel communication;
- Ensuring supplies of safe and effective contraceptive methods; and
- Recognizing and promoting men as partners in the Population Welfare Programme for supporting overall family health and wellbeing and generating a sense of responsible parenthood for uplifting the status of girls/women in the society is also one of the main focuses of the programme.

9.24.2 The programme under the umbrella of Population Policy 2002 is striving to achieve universal access to safe family planning methods by 2010. The Policy also aims to achieve population stabilization by 2020.

9.24.3 The short term objective of the strategy is:

- to reduce population growth rate to 1.9 percent per annum; and
- to reduce fertility through enhanced voluntary contraception to 4 births per woman.

9.24.4 Long term objectives include:

- to reduce population growth rate from 1.9 percent per annum to 1.3 percent per annum by the year 2020;
- to reduce fertility through enhanced voluntary adoption of contraception to the replacement level of 2.1 births per woman by 2020; and
- to attain universal access to safe family planning methods by 2010.

9.24.5 The policy aims to achieve the above mentioned short and long term objectives through emphasizing the following principles:

- Attain a balance between resources and population with in the broad parameters of the paradigm of the International Conference on Population and Development (ICPD), held in Cairo in 1994;
- Address various dimensions of the population issues, development priorities while remaining within our national, social and cultural norms;
- Increase awareness of the adverse consequences of rapid population growth both at the national, provincial, districts and community levels;
- Promote Family Planning as an entitlement based on informed and voluntary choice;
- Attain a reduction in fertility through improvement in access and quality of reproductive health services; and

- Reduce population momentum through a delay in the first birth, changing spacing patterns and reduction in fertility size desires.

9.24.6 During the PRSP-II period, strategies proposed to achieve the goals and objectives set in the Population Policy of Pakistan include:

- **Focused IEC and Advocacy:** The overall goals for the communication, mobilization and advocacy strategy is to ensure delivery of culturally correct and linguistic-appropriate message about family planning and reproductive health to all Pakistan in order to encourage informed decision-making about adoption of positive family planning and reproductive health behaviour. In this regard, the message in the media campaign are blended into educational and recreational programmes like drama series, comedy shows, melodies, panel discussions, interviews, seminars, workshops, and meet the person session. Orientation programmes for community and policy makers are being organized. Print material is also being produced and widely distributed. Articles, press conferences and advertisements are published regularly to maintain knowledge about family planning/reproductive health (FP/RH) and to create demand for the services as well.

- **Provision of safe, affordable and quality contraceptives:** In order to ensure coordinated and uninterrupted supply, the contraceptives are provided to clients with needs through both of Population Welfare Programme and non-programme outlets on subsidized rates.

- **Reaching out to couples, with unmet needs**: Mobile Service Unit provides FP/RH services at the doorsteps of underserved communities in the rural areas through a pre-determined and well communicated camp schedule. This also helps in mustering local support for programme through interaction with elected councilors and other opinion makers for promoting better understanding and need for reproductive healthcare.

- **Strengthening Public–Private Partnerships (PPPs):** Involvement of Public Private Sector Organizations (PPSOs) for catering FP/RH services is one of the initiatives being launched by the government. So far, 90 Memorandum of Understandings (MOUs) have been signed between Ministry of Population Welfare (MOPW) and PPSOs for the provision of FP/RH services through private sector outlets, 35 new centers have been established under Army, Navy, Air Force, Railways and Pakistan Steel Mills, etc.

- **Clinical and Non–Clinical Training**: The clinical activities conducted by Regional Training Institutes (RTIs) include 24 month basic training of family Welfare Workers, 3-6 months advance training of Field Technical Officer/Assistant Sister Tutor/Family Welfare Counselors, Pre-service training of Family Welfare Assistant and Refresher training of Paramedics. Non-Clinical trainings are provided through Population welfare Training Institute. These institutes serve as capacity building machinery and provide in service, pre-service and refresher trainings to update knowledge and understanding of population issues.

- **Improved Quality Care Reproductive Health Services**: Quality of Care (QoC) is a client-centered approach to provide high-quality health care as a basic human right; it is considered a critical element for FP/RH services and being promoted by all stakeholders in public and private sectors as well as by NGOs, as affirmed at international conferences. High quality services ensure that clients receive the care that they deserve. Furthermore, providing better services at reasonable price attract more clients, increase the use of FP methods, and reduce the number of unintended pregnancies. Improving QoC for clients means understanding their cultural values, precious experiences, and perceptions of the role of the health system, and then bringing reproductive health service providers and the community together to map out a shared vision of quality. Similarly, enhancing QoC for healthcare providers requires identifying their motivations, addressing their needs (including general administrative and logistic support), and helping them to better understand and address clients' concepts of quality. Creating a shared vision for improved QoC requires that Program Managers, service providers, researchers, and consumers advocate the idea that quality matters. Given time and effort, the ongoing attempt to improve the QoC will translate into services that meet minimum quality standards, satisfy the needs of clients and providers to bridge the gap of unmet need.

- **Social Marketing of Contraceptives:** Population Welfare Programme is supplemented by Social Marketing intervention providing a complete range of contraceptives at subsidized rates with focus on low and middle income groups of population in the urban and semi urban areas indicating a reasonable presence involved through active private sector providers and retailer etc. the social marketing operation are supported with grant assistance provided by the development partners and is making 30 percent contribution to the national programme in terms of couple year protection (CYP).

- **Reaching Youth through population education**: Based on the broader objective of Population Stabilization under the new holistic approach to Population and Development, the focus of these activities is to sensitize policy and decision makers and to initiate the public partnerships for adoption of small family norms.

9.24.7 The government has foreseen the far reaching implications of high population rate for the social and economic development and have recognized the prospects for improvements, and have among other things, undertaken volitional fertility moderation measures. The ultimate goal of population stabilization as a development priority to attain sustainable development is high on the priority list and there has been an ever increasing realization of cross cutting effects of population factor on the socio-economic development canvas. Thus, the programme has been accorded high priority in the development framework and supported as an important component of the PRSP-II.

9.25 (5) Mainstreaming Gender and Empowering Women

9.25.1 Women empowerment is more than simply increases in their incomes: it requires a transformation of their status in power relations. Aim to empower women requires going beyond income generation and provision of low-paid and part-time work which often merely serve to reinforce existing inequalities. It is essential to address both micro and macro level inequalities in order to enable women to exercise choice and fulfill their potential.

9.25.2 PRSP-I provided a framework under which the government initiated various measures to achieve gender equalities within the parameters of the 'National Policy for Development and Empowerment of Women' for political, social and economic empowerment of women. Some of the specific programmes that were highlighted in PRSP-I in the context of gender equity and equality included: (a) The National Programme for Women's Political Participation, which provided leadership training to women councilors and members of the provincial assemblies; (b) National Framework for Family Protection, which provided legal aid, medical and rehabilitation facilities to women; (c) Gender Reform Action Plan, which facilitated the restructuring of national machinery dealing with gender issues; (d) Gender Responsive Budgeting (GRB) through a pilot study in the education sector; (e) provision of easy access to micro-credit, improved earning by better access to sources of livelihood, particularly in agriculture and livestock production; and (f) fulfilling the quota of 5 percent in government services.

9.25.3 The PRSP-II endorses this mainstreaming approach by aiming to create an environment that is more welcoming to women, focusing on policies that initiate improvements in female human development to achieve the desired results. The MoWD had launched development programmes and projects primarily within the available financial resources in the following areas of female empowerment: (a) political; (b) economic; (c) social; and (d) legal empowerment.

9.25.3.1 (a) Political Empowerment

9.25.3.1.1 Increased political participation of women in the Assemblies, especially in the local bodies, has opened a whole new political space. The Ministry of Women Development has prepared a comprehensive programme for capacity development for women councillors. This programme is intended to impart needs-based training so as to maximize the impact of the presence of women by enhancing their participation in the formulation, advocacy, and implementation of a gender-sensitive economic strategy.

Table 9.7: Provincial details of number of seats allocated for women councillors

Sr. No.	Name of province	Number of Districts	Number of Union Councils	No. of Seats Allocated to Women		Vacancy Position	
				Muslim (Women) (@ 2-seats per Union Council)	Peasants/ Workers (Women) (@ 2-seats per Union Council)	Muslim (Women)	Peasant/ Workers (Women)
1	**Punjab**	35	3464	6928	6928	99	125
2	**Sindh**	23	1110	2220	2220	29	34
3	**N.W.F.P.**	24	986	1972	1972	235	243
4	**Balochistan**	28	567	1134	1134	10	11
Grand Total :		110	6127	12254	12254	373	413

Source: Ministry of Women Development, Government of Pakistan, 2008.

9.25.3.1.2 The programme has resulted in enhanced capacity of 21,590 newly elected women councillors in local government functions. Simultaneously, through a separate programme, IT training is being imparted to women councillors.

9.25.3.1.3 Learning from past experience, innovative and systematic approaches will be developed to build the capacity of female representatives in political structures at the local, provincial and national levels. The issue of capacity of women cannot be assessed in isolation as it is the result of the socio-cultural, economic and political processes which provides unequal opportunities to men and women to develop unequal capabilities. Therefore, a broader view that moves beyond the capacity of women themselves is required on capacity building so that an enabling environment is established for women politicians to perform their roles effectively.

9.25.3.2 **(b) Economic Empowerment**

9.25.3.2.1 To ensure that the women in Pakistan play their role in enhancing the competitiveness of Pakistan's economy internationally while simultaneously empowering themselves via greater participation in the economic life of Pakistan, economic opportunities are being offered to them at an increasing rate. This is an integral part of the growth strategy, because the demographic dividend derives in important measure from the increased participation of women in the labour force. A number of significant initiatives have been undertaken:

- The National Fund for Advancement of Rural Women *(Jafakash Aurat)* is facilitating the process of economic empowerment. In this context, the Ministry of Women

Development has initiated three pilot projects in remote areas aimed at diversifying women's skills and training them to be competitive in the labour market.

- Micro-credit schemes through First Women Bank, Khushhali Bank, and Zarai Taraqiyati Bank Limited (ZTBL) have started creating a new entrepreneur class among poor women on a local basis. The total number of female beneficiaries under Pakistan Poverty Alleviation Fund (PPAF), Khushali Bank, and ZTBL increased from 174,000 in FY 2005/06 to 318,000 in FY 2006/07.[125]

- Moreover, Benazir Income Support Programme intended to compensate economically vulnerable families for the erosion that their purchasing power has suffered. Its unique feature is that the payment will be made only to the female head of the family. The women's empowerment impact is likely to be decisive, particularly in the context of social development. The payout is not claimed to be able to alleviate their poverty, but it should certainly serve to protect their nutrition intake to a large extent.

- A 'five-*marla s*cheme' has been launched in rural areas for homeless citizens where government land is available. The land title will be given to the female member of the house to boost her confidence and financial independence.

9.25.3.2.2 The experience of PRSP-I shows that provision of micro-credit has met the objective of increasing the income of poor households. However, it may not have met the objective of women's empowerment. If women creditors are provided support in skill development, developing linkages with markets, skills in business management and marketing, then there is a stronger possibility that they would graduate from income-generating activities and micro-entrepreneurship to big businesses. Similarly when credit schemes are designed for women to work in groups, this brings additional benefits to women in terms of increased self-confidence and greater say in decision-making within their families.

9.25.3.2.3 Lady Livestock Workers (LLWs) are being trained to disseminate knowledge and training to other women in their areas for better rearing of livestock to enhance their incomes. Some 3500 women will be trained with the support of the University of Veterinary and Animal Science. It will ensure sustainable growth and speed up poverty alleviation process in rural areas where 60–70 percent of the population resides.

9.25.3.2.4 The government's strong affirmative and proactive policy in engendering public services at all levels of entry are bearing fruit by placing women in high positions of office in various services. Women's share in the Pakistan Foreign Service, especially at ambassadorial positions, is also growing consistently. The last Governor of the SBP was a woman. Progressively larger numbers of women are entering the legal profession, and the higher judiciary is increasingly inducting women. With encouragement of the government,

[125] PRSP Annual Progress Report, FY 2006/07, Finance Division, Government of Pakistan.

Pakistani women are now joining the armed forces, including Air Force, and various other new fields.

9.25.3.3 **(C) Social Empowerment**

9.25.3.3.1 Several measures are in place for increasing the social empowerment of women, and additional initiatives will be pursued during the period of the PRSP-II. Some of the more significant steps are:

- **Shaheed Benazir Bhutto Centers for Women (SBBCW):** Ministry of Women Development has established 25 women centres (now called SBBCW) throughout the country to provide relief/support on emergent basis and rehabilitate the survivors of violence and women in distress. This support facility is in line with National and International commitments under the United Nations Declaration on Human Rights (UNDHR); Convention on Elimination of All form of Discrimination Against Women (CEDAW); and Beijing Platform for Action (B-PfA). The objectives of the crises centres are to protect women against all types of violence and to eliminate all forms of discrimination against women. In the short run, these centres will provide temporary shelter to victims of violence in emergencies; provide medical/first aid; provide/arrange free legal assistance/aid; investigate cases of violence/prejudice; and liaison with agencies component to redress grievances of women at individual and collective levels, especially those concerned with combating violence against women. At present 25 centers are functional while 30 more centers are planned to be established during current financial year, after approval of the project by CDWP. Similarly, 9 centers will be established in the earthquake affected area of NWFP and AJK in collaboration with Earthquake Rehabilitation and Reconstruction Authority (ERRA).
- **Awareness Campaign through Electronic/Print Media:** The Ministry of Women Development launched a project entitled ‘Community Campaign to Prevent Violence against Women.’ This will rely on the media, both print and electronic. Its chief objectives are: to enable women to understand and exercise their rights across social, economic, political & legal streams; sensitize rural and urban communities, especially men, about gender issues and women’s rights; and to encourage and facilitate women in distress to avail of protection against violence by accessing services provided through women’s centers.

9.25.3.4 **(d) Legal Empowerment**

9.25.3.4.1 Violence against women with its various manifestations has been coming under increasing national and international scrutiny. “Honour” killing is one of the heinous crimes prevalent in various countries, including Pakistan. Women, who bring dishonour to their families because of alleged sexual misconduct, are forced to pay a terrible price at the hands of male family members. In case of Pakistan where extra-marital sex is an offence, the manipulation of men on this pretext extends to depriving women of their fundamental rights of choice to marry or inherit property. This manifestation of punishment affects not only a small percentage of women but it has grave consequences for female emancipation.

The Ministry of Women Development to preserve the rights of women to security and life has taken the initiative by promulgating a law that makes changes in the existing criminal law to deal more effectively with offenders.

9.25.3.4.2 **Salient Features of the New Law:**

- Offences committed in name of or on the pretext of 'honour' (e.g. *karo kari*, *siyah kari* or similar other customs or practices) shall be treated as normal offences and will get no concession;
- '*Wali*' (legal heir) will not include the accused or the convict when '*qatal*' (murder) is committed in name or on the pretext of honour. In other words, the accused would not be able to compound or waive the offence;
- Punishment of *qisas* (death for death), death or imprisonment for life can be imposed keeping in view the facts of the each case;
- A female cannot be given in exchange for compounding and whosever, violates this prohibition may be punished up to ten years but not less than three years;
- In 'attempt to murder' case, the court may punish up to ten years but can not award less than five years;
- In hurt cases caused in the name of 'honour', *ta'zir* (normal punishment) shall not be less than one-third of the maximum imprisonment provided by the law for the hurt;
- The court may not accept compounding or waiver even if all the parties agree. The court may award death sentence or imprisonment for life but can not award less than ten years imprisonment;
- The court will accept the compounding (forgiving the culprit after taking something) or waiver by the heirs (forgiving the culprit without taking something) subject to such conditions as it may deem fit to impose;
- The Provincial government shall have no power to suspend or remit (to lessen) the sentence in such cases; and
- In *zina* (illegal sexual relations) cases when the accused is a female, the police cannot arrest the women without permission of the court. Furthermore, the investigation shall have to be conducted by an officer not below the rank of superintendent of police.

9.25.3.4.3 The government has taken additional measures to increase the legal protection of women. The following are some of the more significant.

- **Code of Criminal Procedure (CrPc) Amendment Ordinance, 2006:** In an Ordinance promulgated on 8^{th} July, 2006 amending section 497 of CrPc to grant of bail to women in jails on charges other than terrorism and murder. A large number of female prisoners have been released from different prisons of Pakistan under this new law.

- **The Protection of Women (Criminals Laws Amendment) Act, 2006:** Protection of Women (Criminals Laws Amendment) Act, 2006 has been enacted on 1st December, 2006 to provide relief and protection to women against misuse and abuse of law and to prevent their exploitation. The object of this Bill is to bring the laws relating to *zina* and *qazf*[126], in particular, in conformity with the stated objectives of the Islamic Republic of Pakistan and the Constitutional mandate and in particular to provide relief and protection to women against misuse and abuse of law. This Act is providing 30 important amendments in the existing 'Offence of *Zina* and *Qazf* (Enforcement of *Hadood* Ordinance 1979)', the 'Pakistan Penal Code (Act XLV of 1860)', the Code of Criminal Procedure 1898 (Act V of 1898)', and the 'Dissolution of Muslim Marriages Act 1939.'

- **Domestic Violence against Women and Children (Prevention and Protection) Bill 2008:** There is a need to provide legal mechanism for protection of victims of domestic violence in line with the provisions of the Constitution. To address this issue, comments/views have been gathered from various Ministries/Divisions/Departments, NGOs and civil society organizations on the draft Domestic Violence against Women and Children (Prevention and Protection) Bill, 2008.

- **Harassment of Women at Workplace:** The Federal Cabinet has in November, 2008 approved the following draft bills: (i) Protection against Harassment at the Workplace Bill, 2008; and (ii) Criminal Law (Amendment) Bill, 2008. The draft Bills comprehensively address the issue of sexual harassment at the workplace in the public and private sectors. These legislations when enacted would serve as a deterrent to the issue of harassment at the workplace.

9.25.4 **Gender Reform Action Plan (GRAP)**

9.25.4.1 The Gender Reform Action Plan (GRAP) proposes a coherent gender reform agenda to align policies, structures, processes, programmes and projects for enabling the government to implement its national and international commitments on gender equality. It is aimed at introducing government-wide reforms to engender the machinery at the federal, provincial, and district levels with a positive bias for women. GRAP seeks to address gender gaps through reforms in four major areas, namely: (i) political reforms; (ii) administrative/institutional reforms; (iii) reforms in public sector employment; and (iv) policy and fiscal reforms. Substantial capacity building and support actions are being added to this programme, which is to be implemented over four years.

9.25.4.2 Gender Development Grant is one of the core components of the national GRAP with a total budget of Rs 250 million. This amount is to be utilized primarily for mainstreaming gender in the provincial and district governments. This amount has been released by the Ministry of Women Development to all the provinces in FY 2005/06 which is being further

[126] Form of Islamic punishment.

distributed to all the 111 districts of Pakistan. This grant will be utilized by the districts for supporting women-specific activities/projects, which have a need-based priority with the support of elected women councilors in the District Councils. The GRAP Secretariats are now fully operational at the federal and the provincial levels and focal persons have been placed in all partner ministries/agencies.

9.25.4.3 The PRSP-II includes GRAP in its monitoring and evaluation framework. Through regular and systematic monitoring, it will be ensured that progress in all four key areas of GRAP is effectively made during the PRSP-II period.

9.25.5 National Commission on the Status of Women (NCSW)

9.25.5.1 National Commission on the Status of Women (NCSW), a statutory body, was established in 2000 by the President of Pakistan. The main goal of NCSW is emancipation of women, equalization of opportunities and socio-economic conditions amongst women and men, and elimination of discrimination against women.

9.25.5.2 The main functions of the Commission include the examination of the policy, programmes and other measures taken by the government for women development and the review of all policies, laws, rules and regulations affecting the status and rights of women and gender equality in accordance with the Constitution. The Commission is providing valuable input on various gender issues.

9.25.6 National Plan of Action (NPA) for Women

9.25.6.1 As an outcome of Beijing Declaration and Platform for Action, 1995 in the Ministry of Women Development prepared and launched a National Plan of Action (NPA) for Women on 14th August 1998 as a partial fulfillment of our national and international commitment. The NPA for Women sets out 184 actions in twelve critical areas namely Women and Poverty; Education and Training of Women; Women and Health; Violence Against Women; women and the Armed Conflict; Women and Economy; Women in Power and Decision-Making; Institutional Mechanism for Advancement of Women; Human Rights of Women; Women and Media; Women and Environment; and The Girl Child.

9.25.6.2 Implementation of the National Plan of Action for Women is the responsibility of entire Government of Pakistan i.e. all line Ministries/Departments/Organizations at the federal level and relevant Departments/Organizations at the provincial level. Being focal machinery, the Ministry of Women Development acts as coordinator for implementation of NPA. In the Ministry of Women Development there is an ongoing project titled 'Implementation of National Plan of Action for Women', under which one NPA Unit at federal level and four NPA Units at Provincial Headquarters exist.

9.25.6.3 In 2005, a National Report on Beijing + 10 was prepared in consultation with line Ministries, Divisions and Organizations and was presented in the 49th Session of UN

Commission on Status of Women in New York. Apart from this the report was shared with National and International Organizations, development partners and NGOs.

9.26.7 **Convention on Elimination of all Forms of Discrimination against Women (CEDAW)**

9.26.7.1 Implementation of Convention on Elimination of all forms of Discrimination Against Women (CEDAW) is one of Pakistan's key international commitments. The Ministry of Women Development, with a broad consensus of public and private sector organizations/agencies, prepared the combined initial, second and third compliance report on implementation of CEDAW.

9.26.8 **Gender Responsive Budgeting (GRB)**

9.26.8.1 Gender Responsive Budgeting (GRB) is a powerful tool for mainstreaming gender dimension into all stages of the budget cycle and for measuring progress on national and international gender related commitments. In general, gender responsive budgeting aims at analyzing the differential impacts of a state's national and local expenditure as well as revenue policy on women and girls, and men and boys, respectively. However, it is important to appreciate the fact that gender-responsive budgets are not separate budgets for women or for men, but rather are analyses of actual budgets through a gender lens.

9.26.8.2 The government, with the support of its development partners, initiated a Gender Responsive Budgeting Initiative project in 2005 at the federal level and in Punjab. It was piloted in the sectors of health, education and population welfare. Various GRB tools such as gender aware policy appraisal, gender aware beneficiary assessment survey and gender budget statement have been employed. These have provided useful insights and the research findings have been disseminated to concerned quarters. The first nationwide Time Use Survey has also been initiated to reveal the macro economic implications of unpaid care work. Activities of the project also include carrying out awareness rising at the federal, provincial and district levels of the government supplemented by development of resource material. Targeted capacity building of government officials and other stakeholders was carried out along with development of training manuals and handbooks. As part of its commitment to introducing gender-responsive budgeting, both the Finance Division and Finance Department, Government of Punjab have introduced gender-responsive amendments in the government's Budget Call Circular (BCC). The gender sensitive amendment in the MTBF Budget Call Circular now requires that the mission and objectives clearly specify gender commitments and that input, output and outcome indicators are disaggregated on gender basis. Gender responsive amendments in BCC help institutionalize a gender perspective in the government's established budgetary procedures.

9.26.8.3 The Gender Responsive Budgeting Initiative project on its completion has merged into a bigger umbrella project titled: Strengthening PRS Monitoring Project.[127] The work initiated under GRBI will continue as one of the major components under the new project. Under the Strengthening PRS Monitoring project GRB will now not only be extended to cover all

[127] For details, please visit: www.prsm.gov.pk

the four provinces of Pakistan but will also involve expansion to other social sector. In the longer term, government commitment to gender responsive budgeting (GRB) in analyzing, federal, provincial and district government budgets and determining the extent to which resources are allocated to address gender inequality and impact budgetary expenditure on different gender groups needs to be continued.

9.26.8.4 Human development is the ultimate objective of economic development and is also a means for promoting development. Access to education, healthcare services (including reproductive health), clean drinking water and sanitation, gender equality and women empowerment are key aims to achieve this goal. The government is conscious that in formulating development policies it is important to put people first, and to specify objectives in terms of the enhancement of human capabilities. The strategy behind the PRSP-II emphasizes that development is not just a change in incomes, but also a change in capabilities that improves, expands and strengthens the control of poor people over their lives.

Chapter 10 - Pillar VII: Removing Infrastructure Bottlenecks through Public Private Partnerships (PPPs)

10.1 Infrastructure represents the framework of physical facilities through which goods and services are provided to the public. While the term includes educational and health facilities, these components have been discussed separately in this strategy. The present chapter deals with issues and strategies for water (except drinking water, which has been covered in Chapter 9); transport & communications; and housing.

10.2 Pakistan's Poverty Reduction Strategy takes a holistic approach to development. It recognizes that infrastructure by itself will not create economic potential; rather, growth possibilities are generated where the appropriate inputs of labour, capital, and supportive institutions exist. Given these conditions, infrastructure contributes to economic growth by reducing costs of production, contributing to the diversification of the economy, facilitating the absorption of modern technology, and increasing the productivity of workers. The gender analysis of infrastructural development deepens our understanding on the nexus of poverty-infrastructure and makes us aware about gender issues in infrastructural development. These elements are crucial for Pakistan, because its strategy for poverty reduction is anchored in the performance of a competitive and market-responsive private sector. The development of a world-class infrastructure is therefore essential.

10.3 Developing such an infrastructure will require a considerable amount of capital investment. In view of the limitations on the government's own resources, public private partnerships (PPPs) employing a variety of financing and ownership mechanisms (for example, Build-Operate-Transfer) will be adopted. The strategy also recognizes that if infrastructure is to provide enduring benefits, it must be used efficiently and be provided with the resources to maintain it in a proper state of repair. The government must therefore devote attention to pricing policies, such as setting appropriate user charges.

10.4 **Physical Infrastructure Investment by Public Sector**

10.4.1 Financial allocations under various investment initiatives give concrete evidence of the importance that the government has assigned to building up the infrastructure. The Medium Term Development Framework (MTDF) covering the period 2005–2010 allocates nearly half the proposed total investment of Rs 2042 billion to infrastructure.

10.4.2 Even these allocations do not tell the entire story. The government's allocations are expected to be supplemented by the private sector. The government is adopting investor-friendly policies that will create an environment conducive to private investment in infrastructure. One step in this direction is the establishment of PPPs.

10.4.3 The PPPs involve the investment of private capital to design, finance, construct, operate, and maintain a project for public use for a specific term during which a private investment consortium is able to collect revenue from the users of the facility. While privatization represents a take-over of a publicly owned entity, PPPs are more like mergers, with both sides sharing the risks and benefits.

10.4.4 Infrastructure Project Development Facility (IPDF)

10.4.4.1 The public sector has been the main provider of basic infrastructure in Pakistan. However, fiscal and other constraints limit the government's capacity to meet growing infrastructure needs. Recognizing the need for PPPs and the benefits associated with this form of partnership, the government (Finance Division) established a company titled, 'Infrastructure Project Development Facility' (IPDF) under Section 42 of the Companies Ordinance, 1984 in May, 2006. The IPDF is to act as a catalyst and facilitator to generate PPP projects with public implementing agencies (line ministries, provincial governments, local bodies, state owned enterprises, etc.) undertaking PPPs. The IPDF will help the implementing agencies to improve their proposals and prepare them for tendering. Once approved by IPDF, proposals can be submitted for complementary financing to an independent financing body, the Infrastructure Project Financing Facility (IPFF).

10.4.4.2 While IPDF will act as the principal coordinator of PPPs, IPFF will provide the residual long-term financing to financially feasible PPP projects. Although IPDF and IPFF have been established by the federal government, they will support projects across all tiers of the government. Provinces and local governments may set up their own implementation structures and processes that complement federal government support. The Government of Punjab and the City District Government of Karachi have already started setting up a dedicated capacity to look into structuring infrastructure projects that attract private investment.

10.4.4.3 The IPDF will focus primarily on: transport and supply chain logistics (including provincial and municipal roads, rail, seaports, airports, trucking, fishing harbours, as well as warehousing, wholesale markets, seaports, slaughter houses, and cold storage); mass urban public transport (including buses and intra- and inter-city rail); municipal services (including water supply, sanitation, solid waste management, low-cost housing, and education facilities); and small-scale energy projects, other than those facilitated by the Private Power Infrastructure Board (PPIB) and the Alternative Energy Development Board (AEDB).

10.5 (1) Water

10.5.1 Pakistan is one of the world's most arid countries, with an average rainfall of under 240 mm a year. The population and the economy are heavily dependent on an annual influx into the Indus river system (including the Indus, Jhelum, Chenab, Ravi, Beas and Sutlej rivers) of about 180 billion cubic metres of water. This water emanates from neighboring countries and is derived mostly from snowmelt in the Himalayas.[128] Although Pakistan possesses the world's largest contiguous irrigation system, that is, the Indus Basin Irrigation system, which commands an area of about 14.3 million hectares (35 million acres), the demand for

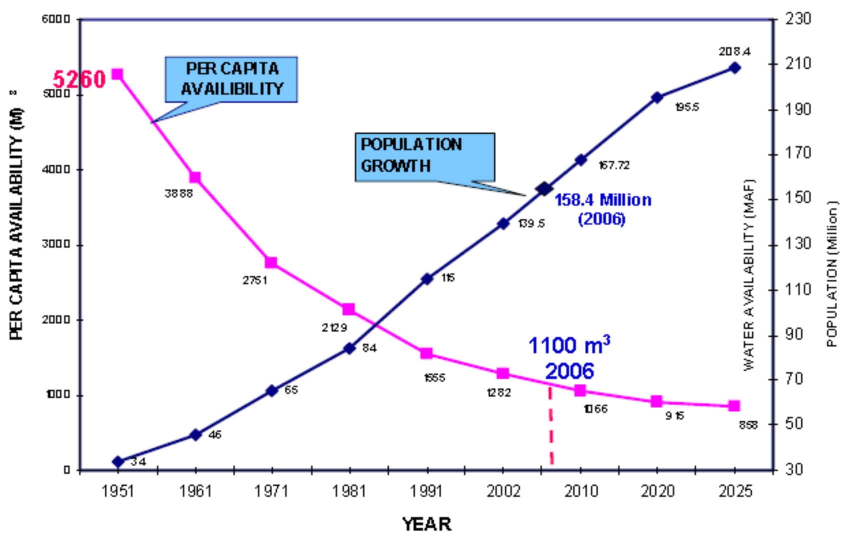
[128] World Bank, "Pakistan: Country Water Resources Assistance Strategy" (2005), p. vii.

water is increasing rapidly while the opportunities for further development of water resources are diminishing. Pakistan's dependence on a single river system leaves it with no latitude for error in the operation of the Indus Basin. It is important to ensure water security for the people by undertaking the necessary physical investments and adopting an integrated water management strategy to maximize the sustainable economic, social, and environmental returns from the development of water resources.

10.5.2 **The availability of water**

10.5.2.1 Table 10.1 and Figure 10.1 show that the per capita water availability has declined rapidly since 1951 and is currently only 1050 cubic metres/capita, which puts Pakistan in the category of a high water-stress country.[129] Data on the Indus River system over the past eight decades indicate that the watersheds of the Indus River yield about 138.7 MAF of water annually. The Indus alone provides 65 percent of the total river flows, while the Jhelum and the Chenab — the waters from which (together with that from the Indus) are assigned to Pakistan under the Indus Basin agreement — contribute 17 and 19 percent respectively. Water availability fluctuates a great deal during the year — the peak flows occur from June to August, i.e., the monsoon season. The flow during the Kharif (summer) season accounts for 84 percent of the total annual flow, while the Rabi (winter) season receives only 16 percent.

Figure 10.1: Water availability and population growth, 1951–2025 (cubic metres)



Source: 'MTDF 2005-2010', Planning Commission, Government of Pakistan.

129 Ibid. p. viii & WAPDA, 2007.

Table 10.1: Per capita water availability, 1951–2025 (cubic metres)

Year	Population (Million)	Per Capita Water Availability (M^3)
1951	34	5,650
2003	146	1,200
2010	168	1,000
2025	221	800

Source: 'MTDF 2005-2010', Planning Commission, Government of Pakistan.

10.5.2.1 Water availability is also hampered by the increasing sedimentation of the three major reservoirs — Tarbela, Mangla and Chashma — and the consequent loss of storage capacity; it is estimated that they will lose about 25 percent of this capacity by the end of 2010. As a consequence of these trends, surface water supplies in the irrigated areas have diminished considerably over the past decade.

10.5.2.2 An important issue relates to water security. Pakistan is extraordinarily dependent on its water infrastructure, but much of it has suffered from neglect. This includes major barrages, which serve millions of hectares and where failure would be disastrous. Pakistan needs to invest immediately in new large dams. As opposed to other arid countries, Pakistan has very little water storage capacity. Whereas the United States has over 5,000 cubic metres of storage capacity per inhabitant and China has 2,200 cubic metres, Pakistan has a mere 150 cubic metres of storage capacity per capita. The dams of the Colorado and Murray-Darling rivers can hold 900 days of river runoff. India can store between 120 and 220 days in its major peninsular rivers. By contrast, Pakistan can barely store 30 days of water in the Indus basin. The Pakistan Water Strategy calculates that Pakistan needs to raise storage capacity by 18 MAF (6 MAF for replacement of storage lost to siltation and 12 MAF of new storage) by 2025 in order to meet the projected requirements of 134 MAF.[130]

10.5.2.3 Decreased surface water has caused farmers to turn increasingly to groundwater. However, issues of the quantity and quality of this resource are becoming increasingly important. Salinity remains a major problem, with approximately 15 million tonnes of salt accumulating in the Indus Basin every year, and saline water seeping into over-pumped freshwater aquifers. The deterioration of water quality has important health consequences — more than 50 percent of diseases in Pakistan are water-related. There, therefore, exists a strong water-poverty nexus.[131]

10.5.3 The demand for water

10.5.3.1 The bulk of the demand for water comes from agriculture. This sector contributes 25 percent to GDP, employs around 50 percent of the rural labour force, and directly or indirectly provides 60–70 percent of exports, and 90 percent of food and fiber requirements.[132] Irrigated land is responsible for about 80 percent of agricultural

[130] World Bank, (2005), Ibid. pp. 61-62.
[131] GWP, M/o Water and Power (2007).
[132] WAPDA (2007).

production.[133] Thus water resource management and development are vital to poverty reduction in Pakistan.

10.5.3.2 The demand is intensified by the growth of population and its increasing urbanization, and the expanding role of industrialization. The population is estimated to increase from 80 million in 1980 to 230 million in 2025. Simultaneously, Pakistan is urbanizing rapidly. The number of people living in urban areas has more than tripled over the past 20 years, from 20 million in 1980 to 70 million in 2000. Associated with this urbanization is a rapid increase in the role of manufacturing, which now contributes more than agriculture to the GDP of Pakistan.

10.5.4 The water balance

10.5.4.1 Table 10.2 shows the demand for and the availability of water in 2004 and 2010. It shows that the gap is likely to increase by almost 11 percent between the years. Unless action is swiftly taken, the gap is projected to widen further. Many reasons account for the growing water scarcity. These include increases in population; declining storage capacity; falling water tables; ageing infrastructure; uneconomic cropping patterns; desertification; drought; rapid urbanization; growing industrial demand; and lack of adequate laws for water usage. Above all, the growing gap between demand and supply arises from the lack of recognition of the economic value of water. This is reflected in the policies of the last several decades, which treated water availability almost exclusively as a supply-side problem, with a near-total neglect of demand-side issues. The government's strategy now intends to correct this imbalance by focusing on both sides of the equation.

Table 10.2: Water demand and availability, 2004 and 2010 (MAF)

Sr. No.		Year 2004	Year 2010
A.	**Water Demand**		
i.	Agricultural at farm gate	143.29	155.90
ii.	Non-agricultural		
	Urban and rural	4.50	7.70
	Industrial	3.50	3.89
	Environmental	1.30	1.50
	Total Demand at farm gate	**152.59**	**168.99**
B.	**Water availability at farm gate**	**135.68**	**150.30**
C.	**Gap**	**16.91**	**18.69**

Source: MTDF 2005-2010, Planning Commission, Government of Pakistan.

10.5.5 The way forward

10.5.5.1 The Ministry of Water and Power has proposed a National Water Policy (NWP), covering all the major aspects of water management. The awaited policy aims to improve the governance of water resources; efficiency of irrigation water management and the sustainability of irrigated agriculture; and to prepare a unified water statute for the country by integrating and improving various elements of existing water related laws. A central feature of NWP is the establishment of an Apex Body — a high level inter-provincial

[133] Asian Development Bank, Pakistan (July 2005).

National Water Council (NWC) — supported by a technical secretariat that would develop long-term policies, plans and priorities; build the sector knowledge base; introduce modern analytic tools; and develop system-operating policies.

10.5.5.2 Some of the details of the strategy, particularly those relating to the construction of the biggest dams, are being reviewed. However, the government has decided to move ahead on many of the reforms specified in the water policy. These include the establishment of a technical cell within the ministry to support the Indus River System Authority in strengthening the telemetry system, the setting up of an independent dam safety organization, and in carrying out technical work for the proposed large dam projects. The sustainable water strategy comprises four principal elements:

10.5.5.3 **First,** the infrastructure for water will be greatly expanded and improved through additional investments in dams, storage reservoirs, and canals. While water availability can be increased in the short run through construction of small and medium water reservoirs and efficiency improvements, in the longer term the construction of large water storages and associated canals will be essential. The nine on-going dam/canal projects (Gomal, Raising of Mangla, Mirani, Sabakzai and Satpara Dams, first phases of Greater Thal, Kachhi and Rainee canals and modernization of barrages in Punjab) will be completed during the MTDF period; some of them during the period covered during PRSP-II. The rehabilitation of irrigation systems in Sindh and Punjab, extension and rehabilitation of Pat Feeder and Khirther canals, and construction of 43 minor canals in Balochistan will also be undertaken.

10.5.5.3.1 The water management strategy is also designed to better utilize the country's hydropower resources — the provision of electricity at affordable rates constitutes an important element in the poverty reduction drive. Pakistan has considerable potential for hydel power: more than 80 percent of the estimated 50,000 MW of Pakistan’s economically viable hydropower potential has yet to be tapped. As part of the strategy to develop the hydropower resources, the government has announced that the construction of the following dams would be completed by 2018: (i) Diamer-Basha Dam; (ii) Munda Dam; (iii) Akhori Dam; and (iv) Kurram Tangi Dam. Total investment on these dams over the period 2006-2018 will amount to US $18.4 billion.[134] Estimated power generation of these dams will be equivalent to 35,092 Mkwh. The availability of the additional power will enable the government to considerably extend the rural electrification programme and to provide power to SMEs and others at a reasonable cost. These measures should go a long way in helping to increase employment and raise incomes, and thus constitute a major weapon in the war against poverty. Agriculture contributes 25 percent to GDP, employs over 50 percent of the rural labour force and provides 60–70 percent of exports. About 95 percent of all developed water supply supports 46 million acres of agricultural land (82

[134] Ministry of Water and Power, GoP, Planning Commission, October, 2008.

percent of the irrigated area).[135] Hence, efforts to increase water storage capacity directly benefit agricultural productivity and the rural poor.

Table 10.3: Salient Features of Proposed Large Dams

Dam	Max. Height	Capacity (MW)	Gross Storage	Live Storage	Av. Hydropower Generation/Year	Estimated Cost (US $Billion)	Expected Year of Completion
Diamer Basha	270 miles	4500	8.1 MAF	6.4 MAF	16,500 Gwh	12.5	2018
Munda	650 ft	740	1.3 MAF	0.67 MAF	2,669 Gwh (660 MW)	1.2	2016
Akhori	400 ft	600	7.0 MAF	6.0 MAF	2155 Gwh (600 MW)	4.4	2016
Kurram Tangi	295 ft	83	1.2 MAF	0.614 MAF	331 Gwh (83 MW)	0.3	2013

Source: Ministry of Water and Power, Government of Pakistan, October, 2008 and WAPDA, 2007.

10.5.5.3.2 Large dams such as Basha will increase the assurance of water supply and also generate large amounts of electricity. Adequate provision has been made in the Public Sector Development Programme (PSDP) for design, land acquisition, and other work on these and other dams. In addition, the work on Gomal Zam Dam, Kurram Tangi Dam, and Sabakzai Dam is in full swing, while raising of Mangla Dam is close to completion. As a result, 2.09 MAF additional water will be available for storage and 644 MW electricity will be generated. By construction of these dams, 2.6 million acres of land will be irrigated.[136]

Table 10.4: Salient Features of Proposed Medium Sized Dams

Dam	Capacity (MW)	Gross Storage (MAF)	Irrigated land – Addl. (Acres)	Estimated Cost (Rs. Million)	Expected Year of Completion
Gomal Zam	17.4	1.14	163086	12829	2010
Mirani	0.302	0.302	33200	5811	Substantially completed in September, 2007
Mangla Dam Raising Project	120 (Addl)	2.88 (Addl)		101384	April 2009
Sabakzai	--	0.033	6875	1576	Completed
Satpara[137]	15.8	1.2	15536	19445	December, 2008

Source: Ministry of Water and Power, Government of Pakistan, October, 2008

10.5.5.3.3 The Strategy also envisages improvements to the existing infrastructure. An important instance of this is a project to raise the height of Mangla Dam in order to recover some of the storage capacity lost by sedimentation in the reservoir. The Mangla dam reservoir had a storage capacity of 5.88 million acre feet (MAF). The capacity of the reservoir has decreased by nearly 20 percent because of silting. The government consequently initiated

[135] Asian Development Bank, Pakistan (July 2005).
[136] GoP, Budget, Finance Division (2007).
[137] Satpara Dam is expected to supply 3.1 million gallons drinking water to Skardu City on a daily basis.

the raising of Mangla Dam by an additional 30 feet as a fast-track project. The primary aim of this project is to prolong the life of the Mangla reservoir through improved methods of land-use and better watershed management practices in the catchment area above the dam. The raising of Mangla dam will increase the storage capacity by 2.9 MAF. The average energy output is also likely to increase by an estimated 644 Gwh[138].

10.5.5.3.4 The government is also giving due consideration to construction of small dams in the country. For this purpose an allocation of Rs 920 million has been made in PSDP 2008-09. Work on Plai, Kundal and Sanam Dams is being started. Feasibility and design of Nai Gaj Dam in Sindh; and Hingol Naulong, Sukleji and Winder dams in Balochistan is being finalized. Punjab is financing construction of 13 small dams from its own Annual Development Plan (ADP).[139]

10.5.5.3.5 Although large and medium-sized dams will be completed during intervals well after the PRSP-II timeframe, they have been incorporated in PRSP-II since work has already started on them and annual expenditures/allocations have been made.

10.5.5.3.6 It is also essential to assign sufficient financial resources to maintain the water infrastructure in good shape. Pakistan's large stock of major irrigation and bulk water infrastructure has an estimated replacement cost of about US $60 billion[140]. Much of this infrastructure is very old, with major structures operating well beyond their designed life. International experience suggests that a typical figure for replacement and maintenance is about 3 percent of the value of the capital stock of water infrastructure. Thus Punjab, which has US $20 billion of water infrastructure, will require about US $0.6 billion a year for the replacement and maintenance of its irrigation assets.

10.5.5.4 **Second,** the Poverty Reduction Strategy will encompass a plan to pay for the costs of adding to the irrigation infrastructure especially of increasing the storage capacity so as to provide more reliable and secure water supplies for the country. The government's own funds will be supplemented by resources from the private sector and assistance from development partners. An enabling environment will be created for consultations with stakeholders and for their participation at all levels and in all aspects of the water resources including: irrigation; drainage; domestic water supply; flood protection; drought mitigation; waste water treatment; and pollution control. The government will promote management practices that enable community participation in the performance, operation, and ownership of water assets.

10.5.5.5 **Third**, the government recognizes that water usage will be changing in the coming years. While irrigation will remain by far the largest user of water, more and more water will have to be reallocated from agricultural to urban use. This means that large investments will be required for collecting and treating urban and industrial waste, and major changes will need

[138] Ministry of Water and Power, Government of Pakistan, October, 2008.
[139] Ministry of Water and Power, Government of Pakistan, October, 2008.
[140] World Bank, (2005), Ibid., pp. 58 & 110.

to be made in the way in which urban services are financed and delivered. This will also require systematic work on municipal and industrial waste water. The government is seeking financial and technical support for this work from international development institutions.

10.5.5.6 **Fourth**, the Strategy will devote more attention to strengthening the institutions required for sustainable management of increasingly scarce water. The planning, construction, and operating areas of the provincial irrigation departments will be built up to deal with changing circumstances while the provincial finance, agriculture, and other relevant departments will implement measures, such as taxation and more realistic user charges, in order to manage the demand for water in more economically rational ways. A national institution — the Pakistan Water Council — is being established to oversee the implementation of the integrated water management policy. Key features of the national integrated planning for development and efficient usage of water resources include:[141]

- The accords/agreements on sharing of water and rights, established by law or custom, shall be scrupulously respected;
- The impact of climate change on water resource development shall be assessed and monitored and account for this impact reflected in the strategies of water resources planning, development and management;
- The environmental integrity of the Indus Basin shall be sustained and upgraded where possible in order to sustain the conservation of the river, delta, coastal ecosystem and the fresh and brackish coastal fisheries;
- A National Wetland Management Plan shall be adopted to ensure that endangered habitats are registered, monitored and managed according to the overall needs of wetland species;
- The concept of "More Crop per Drop" shall be pursued by enforcing improved irrigation methods and practices, and applying extensive research in developing crops with high yields, lower water consumption and water saving techniques. The focus of attention will have to shift from productivity per unit of land to productivity per unit of water, and the major challenge will be to get more from less – more crops, more income, more jobs per unit of water. Productivity in Pakistan relative to India and California is about 3:6:10 per unit of land, and about 5:8:10 per unit of water respectively;[142]
- The concept of participatory management of irrigation system shall be promoted, in the shape of Farmers' Organizations (FOs) to enable irrigation stakeholders to participate effectively in the decision-making processes;
- Groundwater table shall be managed so that it does not impede crop-growth or cause land salinity or underground saltwater intrusion; and
- Private investment shall be promoted in irrigation and drainage sectors.

[141] GoP, Planning Commission, 'MTDF 2005-2010' (May 2005), pp. 381-385.
[142] World Bank, "Pakistan: Country Water Resources Assistance Strategy" (2005), p. 30.

10.5.5.6.1 The unbundling of WAPDA, as discussed in chapter 7 has also helped the government to improve planning capacities of institutions by independently prioritizing and disintegrating power and water issues, initially both overseen solely by WAPDA. Out of total WAPDA capacity, the hydro power capacity accounts for 55.6 percent and thermal accounts for 44.4 percent[143]. The government privatized KESC and reorganized WAPDA into nine distribution companies called DISCOs, one National Transmission and Dispatch Company (NTDC) and four thermal generation companies called GENCOs. Hydroelectric power development and operation functions remain with WAPDA. Investment plans of hydropower projects under WAPDA are as follows[144]:

10.5: Investment plans of hydropower projects under WAPDA **(US $)**[145]

Sr. No.	Project	Fuel	Capacity (MW)	Commercial Operation Date	Project Cost (Rs million)
1.	**Khan Khwar**	**Hydro**	**72**	**Sep 2009**	**5362.7**
2.	**Allai Khwar**	**Hydro**	**121**	**Sep 2010**	**8577.8**
3.	**Duber Khwar**	**Hydro**	**130**	**Oct 2010**	**9754.3**
4.	**Jinnah Hydro**	**Hydro**	**96**	**Feb 2010**	**13546.8**
5.	**Kurram Tangi**	**Hydro**	**83**	**Sep 2011**146	**17205.0**
Total : 54446.6					

Source: Ministry of Water and Power, Power Wing, Government of Pakistan, December, 2008.

10.6 Transportation

10.6.1 Transport contributes about 10 percent to the GDP and accounts for over 6 percent of employment in the country. The sector consumes 35 percent of the total energy annually and accounts for approximately 15 percent of the PSDP.[147]

10.6.2 Road transport is the backbone of Pakistan's transport system, accounting for 90 percent of national passenger traffic and 96 percent of freight. Two major ports, Port Karachi and Port Qasim, handle 95 percent of all international trade, and 14 dry ports cater to high value external trade. Over the past 10 years, road traffic — both passenger and freight — has grown significantly faster than national economic growth. The National Highway and Motorway network, which is 9,518 km long and accounts for 3.7 percent of the total road network, carries 90 percent of Pakistan's total traffic.[148] There are 36 operational airports, one major public sector airline, and a few private airlines.

10.6.3 Issues

10.6.3.1 The performance of the sector leaves much to be desired. The public transport systems suffer from insufficient and badly targeted investments, neglect of essential maintenance, poor management, and inadequately trained labour. The high costs and low reliability of the transport sector constitute a drag on Pakistan's economic growth, reduce the

[143] Economic survey, Government of Pakistan, 2008.
[144] Please refer to chapter 7 for detailed investment plans of GENCOs and DISCOs.
[145] US $1 = Rs.60/59.25.
[146] While partial operation of Kurram Tangi Dam will start in 2011, full completion is expected in 2013 (see Table 10.3).
[147] GoP, Economic Affairs Division (2007).
[148] GoP, Finance Division, 'Pakistan Economic Survey 2005-06', Economic Adviser's Wing, Islamabad.

competitiveness of the country's exports, and constrain its ability to integrate into global supply chains that require just-in-time delivery.[149] It is estimated that the inefficiencies in the transport system impose a cost to the economy of about 4–6 percent of the GDP.

10.6.3.2 An efficient transport system is a pre-requisite for Pakistan to rapidly evolve into a globally competitive economy that would meet the country's goals for reducing poverty. The government's strategy for the transport sector is directed not only towards the sector's role in supporting domestic trade, but also takes advantage of Pakistan's strategic position in the region so as to create stronger and more efficient links with neighbouring countries.

10.6.3.3 The strategy includes large financial allocations for investment, a strengthening of institutional capacity, and the participation of the private sector through public-private partnerships. Institutional capacity will be strengthened and R&D activities stepped up. Regional connectivity will be improved, including links to Central Asian States, Iran, Afghanistan and India. Railways will be revitalized by transforming it into a commercially-oriented entity. Port infrastructure will be developed and port charges rationalized through the landlord port concept. Airports will be upgraded and a major expansion of the telecom network undertaken. Key objectives include establishing an efficient and integrated transport system that will facilitate the development of a competitive economy, reduce transport costs, ensure safety in mobility, and enhance regional connectivity by creating greater synergy between the rural, provincial and federal transport infrastructure. These aims will further help to increase Pakistan’s share of world trade, which currently stands at only 0.2 percent. The development of the transport sector will also bring about structural changes in the industrial and services base by facilitating a better economic mix. This transformation should go far towards promoting value addition and job creation, and play a crucial role in reducing poverty.

10.6.3.4 The existing infrastructure cannot support the aims of the government to regain GDP growth. However, with the capital investment, institutional strengthening, and policy reforms that are planned, the sector's capacity and functioning will be sufficiently enhanced to play its required role.

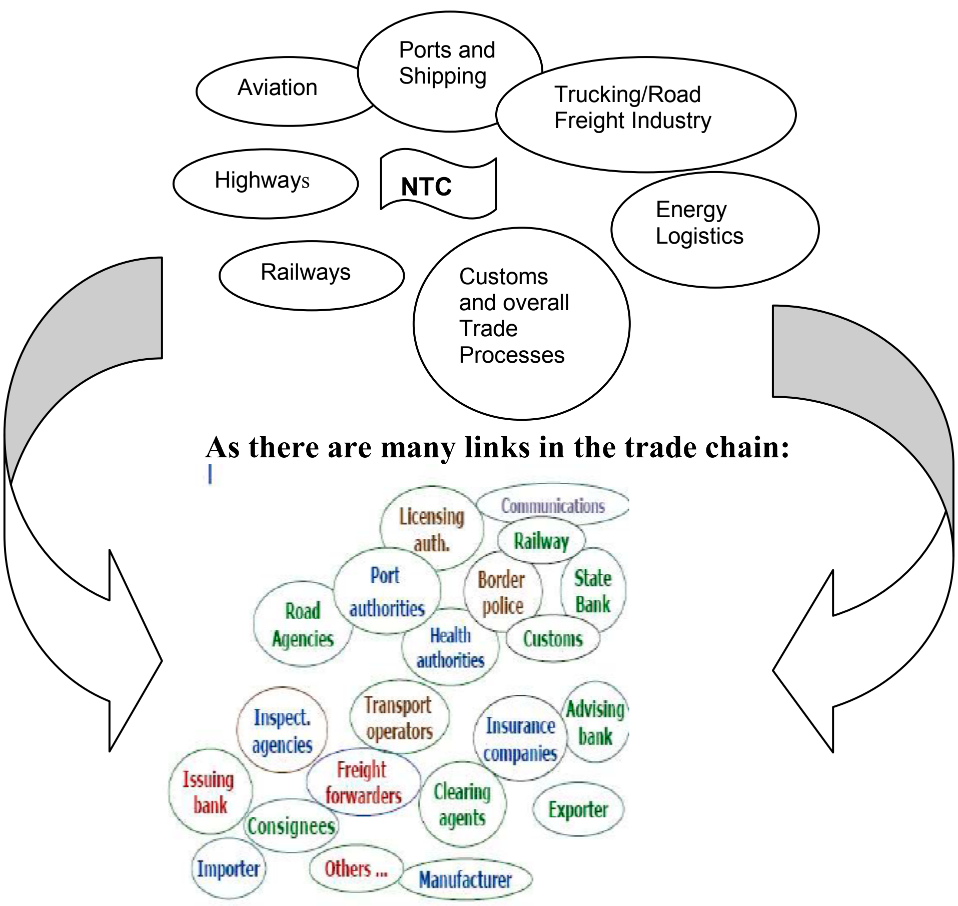
10.6.4 National Trade Corridor

Since the overwhelming amount of goods and passenger traffic moves along a line from Karachi to Peshawar, the government has launched a major strategic initiative to improve the trade and transport logistics chain along the the north-south axis that links Pakistan's major ports with its main industrial centres and neighbouring countries. Together the ports, road and railways along NTC handle 95 percent of external trade and 65 percent of total land freight, and serve the regions of the country that contribute about 80-85 percent of the country's GDP.

[149] World Bank (2007).

10.6.4.1 The government, with the assistance of mainly the World Bank and the Asian Development Bank (ADB), launched a major strategic initiative in 2005 to improve the trade and transport logistics chain along the north-south corridor projected to cost US $6 billion during the MTDF period (2005–2010). The objectives of the programme to promote an integrated approach to planning and management of the national transport logistics system, to reduce the cost of trade and transport logistics, and to bring them up to international standards in order to enhance export competitiveness and promote industrialization in Pakistan. The programme will aim to overhaul the complete logistics system, including procedures (such as legislation, regulation, administration, and documentation); services (such as shipping and port services, trucking, railways, handling, warehousing, customs, insurance, banking, freight forwarding); infrastructure (ports, roads, rail, air transport, warehouses, dry ports, and pipelines). The NTCIP's strategic plan for trade aims to lower total logistics costs from 29 percent to 9 percent by 2012. The ambit of the NTCIP is illustrated in Figure 10.2.

Figure 10.2: NTCIP recognizes trade supporting logistics as a wide domain:[150]



[150] World Bank, South Asia Sustainable Unit (2007).

10.6.4.2 Some early gains of the programme include:[151] reduction of port entry charges by 15 percent; decrease in port dwell times to four days and of customs clearance to less than one day for containers; reduction of up-country container travel times by 10-20 percent.[152] The free time at ports has been reduced from 7 days to 5 days, resulting in less congestion at ports and more effective inventory management by the trade. Speedy, non-intrusive scanners have been installed at Lahore, Mughalpura dry-port, NLC dry port, Port Qasim, and Jamroad Transit station, while the scanners for Chamman and Sust are being procured. The electronic filing of carrier and goods declaration modules have been implemented nationwide. A multi-agency modern transit terminal has been constructed at Jamrud (near Peshawar) for smooth and speedy clearance of transit cargo. Continuous working at ports by Customs and other agencies started from February 2007. All government agencies are now available round the clock for clearance of international cargo at all customs' ports. Ministry of Commerce has drafted a revised agreement on regional and Pakistan-Afghanistan transit trade in consultation with all stakeholders. Maximum facilitation for customs clearance and transportation of Afghan transit cargo has been ensured.

10.6.4.3 To achieve the objectives of the NTCIP, which will be reassessed on an annual basis until the end of the project, the government has adopted an integrated approach encompassing public and private actors in the various sectors that contribute to the performance of the Corridor (highways, road transport, ports and shipping, civil aviation, railways and customs). The government has also set up a strong management framework.

10.6.4.4 An NTC Secretariat has been established in the Planning Commission for inter-sectoral coordination, analytical work, performance assessment and monitoring and impact evaluation. A National Trade Corridor Improvement Programme (NTCIP) Task Force, chaired by the Deputy Chairman of the Planning Commission meets quarterly to review progress in implementing the NTCIP against agreed targets and performance benchmarks. Seven committees: (i) Ports and Shipping (ii) Trade Facilitation (iii) Highways Modernization (iv) Trucking Modernization (v) Railways Restructuring and Modernization (vi). Aviation and Air Transport Modernization; and (vii). Energy Logistics have been created under the umbrella of the Cabinet NTCIP task force for each of the sectors involved in the NTC. These committees are chaired by the Federal Secretary of the relevant Ministry and include representatives of the donor community and the private sector.

10.6.4.5 The institutional side of developing the Corridor will not be neglected. It has been estimated that trade facilitation can save Pakistan US $1.3 billion annually. The government has set up a Trade Facilitation Committee, the broad mandate for which includes measures to reduce clearance and dwell times; to develop dry ports; to modernize practices relating to trade and transport logistics; to expedite the implementation of reforms

[151] A performance monitoring and evaluation framework study for NTC is presently being prepared. This study will identify and establish a quantitative methodology for linking performance and economic impacts/planning on the country's economy, and create a pilot results-based database and analysis system for the NTC sectors.
[152] World Bank, '*Pakistan National Trade Corridor Programme*' (2006).

in customs and port procedures; and to develop freight forwarding, insurance, and banking in support of trade logistics. Customs has already introduced automated clearance procedures (ACP) for 189 large multinationals and government linked companies so that their imports are not inspected except for random post-importation audit. From 1 July 2004, the Customs Department has been open 24 hours a day, so that consigners/consignees are not limited to traditional office hours.

10.6.4.6 The strategy also covers roads and highways outside the north-south corridor. Two important projects include the development of linkages between the port of Gwadar and the National Trade Corridor, and upgrading the Karakoram Highway to cater for increased traffic with China after the opening of the Gwadar port. The expansion of the Karakoram Highway has already begun. About 1585 km of the highway will be expanded and linked to the National Trade Corridor at a cost of Rs 147 billion. Although construction of these projects will start during the PRSP-II period, they will end at a much later stage making them a long-term vision for the development of the road network.

Table 10.6 (a): Costing structure of Gwadar linkages under NTC

No	Section	Length (km)	Cost (Rs billion)	Financing	Tentative Commencement/ Completion
N-10	Gwadar- Liari	530	-	GOP	Operational
M-8	Gwadar - Hoshab	240	9.534	GOP	Completion 2009
N-85	Hoshab- Basima	459	22.412	GOP	Completion 2010
E-8	Basima- Khuzdar	110	6.442	GOP	2011/2014
M-8	Khuzdar - Ratodhero	242	6.500	GOP	Completion 2009
	Total	1626	59.897		

Source: National Trade Corridor Management Unit, Planning Commission, Government of Pakistan, November, 2008.

Table 10.6 (b): Costing structure of Karakoram Highway upgrading under NTC

No	Section	Length (km)	Cost (Rs billion)	Financing	Tentative Commencement/ Completion
N-35	Hasanabdal - Mansehra	106	18.5	ADB	2009/ 2013
N-35	Mansehra- Sazin	254	12.058	GOP	2009/2013
N-35	Sazin - Raikot	120	15.057	GOP	2014/2018
N-35	Raikot - Khunjerab	335	30.91	China	2008/2013
	Total	815	76.588		

Source: National Trade Corridor Management Unit, Planning Commission, Government of Pakistan, November, 2008.

10.6.5 Highways

10.6.5.1 It has been estimated that modernization of highways can save Pakistan US $2 billion annually. Sustaining delivery of an efficient, safe and reliable National Highway system will involve: (i) strengthening institutional, financing and technical capacity of National Highway Authority (NHA); (ii) ensuring a stable, secure, and adequate source of funding for road maintenance; and (iii) encouraging private sector participation in construction and operation of highway infrastructure. Actions towards these goals will include:

- Preparing an annual business plan for the road sector, including allocating resources to road asset management;
- Introducing performance-based corridor management including an established modern highway operations centers, trucking stands, and trauma centers along the north-south expressway corridor;
- Modernizing and enhancing the capacity of North-South (N-S) and allied National Highways through the application of an Intelligent Transport System (ITS) – Electronic Real Time Traveler Information Services, Electronic Financial Transaction Services, Incident and Hazard Management Services;
- Establishing a Road Safety Council at federal and provincial level;
- Rationalizing road check points on NTC;
- Completion of the Road Freight Industry (RFI) Policy (the first phase of the RFI covering tariff restructuring has been completed); and
- Development of plans for ancillary facilities, such as modern highway operations centres, trucking stands, and trauma centres along the north-south expressway corridor.

10.6.5.2 The government is implementing a National Highway Improvement Programme (NHIP) to increase the efficiency of the National Highway Authority (NHA), through phased improvement of approximately 2700 km of highways. The programme was initiated during FY02 using GoP's own resources. The huge NHA project portfolio (Rs 277 billion) has its roots in a very ambitious highway expansion programme launched by the government during the early 1990s, to rectify past under-investments in this sector. Even though there has been some improvement in portfolio management since 2000, much more needs to be done. Reforms aim to improve the quality of public sector expenditure through a Medium Term Budgetary Framework. They also aim to enhance sustainable sources of maintenance finance with greater user participation, and improve governance through progressive commercialization of NHA activities. In addition, the project is also financing reconstruction and rehabilitation of about 180 km of roads damaged by the earthquake of October 8, 2005.[153]

10.6.5.3 A plan to rehabilitate and improve the National Expressway Corridor (at a cost of US $2 billion) has already been appraised and approved. Some benefits from this initiative have

[153] World Bank (2007)

already begun to flow; for example, spot interdictions on N-5 have been reduced by 70 percent, which has significantly reduced the turnaround time.

Table 10.7 (a): Costing structure of expressways and motorways under NTC

No	Section	Length (km)	Cost (Rs billion)	Financing	Tentative Commencement/ Completion
E-1	**Torkham-Peshawar**	51	14.026	ADB	2011/2014
E-2	**Peshawar Northern Bypass**	34	5.313	GOP	2011/2013
M-1	**Peshawar-Islamabad**	154	-	-	Operational
M-2	**Islamabad-Pindi Bhattian**	243	-	-	Operational
M-3	**Pindi Bhattian-Faislabad**	54	-	-	Operational
M-4	**Faislabad-Khanewal-Multan**	223	35.148	ADB	2009/2013
E-5	**Khanewal-Lodhran-Sukkur**	524	59.099	WB	2009/2012
E-6	**Sukkar – Shikarpur-Ratodhero - Dadu**	231	30.711	ADB/JICA	2009/2014
E-2	**Dadu – Dureji - Hub**	270	41.795	WB	2012/2016
E-3	**Wazirabad- Kotsarwar-Pindi Bhattian**	87	23.652	WB	2009/2012
E-8	**Gujranwala- Dina**	100	14.820	WB	2011/2014

Source: National Trade Corridor Management Unit, Planning Commission, Government of Pakistan, November, 2008.

10.6.6 **Roads**

10.6.6.1 Road related public revenue collection is about Rs 32.5 billion per year, while the total public expenditure on roads is over Rs 30 billion per year, of which 65 percent is spent on national highways. The road sector has been the main recipient of public sector funding, consuming about 69 percent of the PSDP allocation earmarked for the transport and communications sector. Grants from the government to the NHA for routine maintenance have increased significantly, from Rs 825 million in 2004 to Rs 5.5 billion in 2007. Added to revenues from tolls, this has increased overall resources for routine maintenance from Rs 1.7 billion in 2004 to Rs 7.7 billion in 2007. However, there still remains a gap between resources and needs for road maintenance. Expenditure on road maintenance over the years has only been at about 20 to 30 percent of the requirements. The NHA constructs and maintains the national highway network while the Provincial Communications and Works Departments are responsible for the provincial road network. A policy framework is being prepared that will cover road user charges, road fund, axle load control, road safety, environmental and social aspects, and will encourage private sector participation in road construction and operation.[154]

10.6.6.2 The government's strategy for developing the transport infrastructure includes a more comprehensive approach to constructing and upgrading road access in rural areas. The ongoing devolution process was expected to strengthen policies that responded more quickly to beneficiaries' needs. It is now understood that in certain aspects, more training will have to be provided at the local level in order to perform this job effectively. In the transport sector, the importance of road maintenance and intra-village infrastructure will be emphasized. The substantially larger allocations of financial resources from the federal government to the provinces, and the measures put in place to ensure a larger and smoother movement of such resources from provincial to local governments (described in chapter 12 on governance), should help ease the resource constraint on upgrading rural roads. The government will also take steps to improve the regulation of transport services; these regulations will address issues such as the low frequency of service in some areas, overloading of passengers and goods, and fares. The question of fares will require the authorities to interact with the private sector in order to ensure that these are not set on the basis of a monopoly position.

10.6.6.3 Nearly two-thirds of Pakistan's population lives in rural areas. One in every five villages, where 15 percent of the population lives, is not accessible by all-weather motorable roads. This average, of course, conceals wide variations; thus while only about 8 percent of the Punjab's villages does not have all-weather motorable access, the figure rises to 36 percent for Balochistan. Nearly 30 percent of the country's villages does not have a bus or wagon stop within the village. For such settlements, the average distance to a bus/wagon stop is 8.2 km.

10.6.6.4 These deficiencies in the rural transport infrastructure impact not only on the obvious sectors, such as trade, but are also associated with lower human development outcomes. Data suggest that girls' net primary school enrollment rates are 50 percent higher in villages with all-weather motorable access and female literacy rates about 75 percent higher than in villages that lack such facilities. These communities also have a higher incidence of pre-natal medical consultation for women; a higher proportion of childbirths attended by skilled personnel; a higher incidence of post-natal consultation; and a lower probability of births at home. In short, it is difficult to think of developing the rural areas without substantially improving their transport infrastructure.

10.6.7 Trucking Industry

10.6.7.1 The government adopted a trucking policy, 'Modernization of the Trucking Sector', in October, 2007 and is currently developing the implementation strategy. The objective of

[154] Trade & Transport Facilitation Project-2, Planning Commission and Ministry of Commerce, Government of Pakistan, May 2006.

this strategy is to reform and promote integrated and sustainable modernization of the trucking sector to enhance trade and logistic efficiencies and reduce the cost of the economy through improved management of the Road Freight Sector. It is expected that increased efficiency will reduce the average travel time between Karachi and the main industrial centres in the Punjab from 48 hours to 24 hours. Other elements in the strategy include:

- Making Pakistan a regional hub for international trade;
- Corporatizing the National Logistics Cell;
- Rationalizing truck import tariffs to have a level-playing field with the local building industry;
- Developing a truck financing scheme with private financing institutions;
- Establishing truck drivers training facilities in association with private shippers;
- Revising diesel quality and marketing low sulphur diesel;
- Controlling overloading, environmental externalities, and fuel quality;
- Reducing operating costs and improving fuel efficiency; and
- Replacing obsolete 2-axle and 3-axle rigid trucks.

10.6.7.2 The trucking sector is a component of the overall NTCIP and is entrusted to the Ministry of Industries & Production. According to the newly approved trucking policy, the trucking sector has been declared an industry as of January, 2008 and given the following additional incentives: withdrawal of 1 percent Federal Insurance Fee and 5 percent Federal Excise Duty (FED) on gross premium; investment tax credit allowance at 15 percent to be allowed to fleet operators; National Freight and Logistics Chamber (NFLC) to be constituted to formally organize the sector; revamping of motor vehicle examination/registration system – establishment of Central Data Repository; drivers' licensing/training; establishment of trans freight status; and establishment of an industrial estate for trade/bus body makers155.

10.6.7 **Ports**

10.6.8.1 Pakistan has a coastline of 990 km and an offshore Exclusive Economic Zone covering an area of 240,000 sq km. These constitute important bases for developing ports and making the country more competitive in international trade. The functioning of the existing ports needs improvement; it has been estimated that the efficient running of ports can save Pakistan US $450 million annually. The NTCIP strategy for port development includes:

- Preparation of a ports' master plan for the coordinated development of all ports in Pakistan;
- Projects to reduce costs, improve logistics, and upgrade the existing infrastructure;
- Making port tariffs competitive with other regional ports;

[155] Ministry of Industries & Production, Government of Pakistan, October, 2008.

- Ensuring the rights of labour and working conditions for dockers in line with international practices;
- To ensure efficiency of port operations and reduce port costs by outsourcing port activities such as dredging, piloting and tug boats operation and rightsizing of staff mainly at Karachi Port Trust and Port Qasim Authority by 25-40 percent;
- Revising ports' acts and bills to corporatize ports;
- Privatizing dockyard and bulk handling as well as reducing port costs and terminal handling charges;
- Ensuring navigation available throughout the year, 24 hours a day; and
- Overhauling port finances to focus on cost recovery.

10.6.8 **Railways**

10.6.9.1 An efficient railway system can save Pakistan US $1 billion annually. Therefore, to make fiscal space for growth-oriented investments, railway reforms constitute an important part of the strategy. The strategy's main focus will be on increasing the efficiency of Pakistan Railways (PR) and reducing the level of state subsidies. Private sector management and financing will be introduced in the rail freight sector. A commercially-oriented rail environment will be created, eliminating cross subsidies and involving:

- Corporatizing and devolving more managerial and financial autonomy;
- Organizing structures around lines of business (freight, passengers, infrastructure) for better knowledge of costs and profitability;
- Making financing of loss-making services transparent;
- Opening the track to private operators by implementing the Track Access Policy (being developed by PR);
- Introducing a door-to-door service through involvement of private freight forwarders and cargo haulers between railway stations in Karachi and Lahore; and
- Initiating Fast Track Access for PR freight business to reduce travel time for Karachi-Lahore container services to 28 hours against the present 56 hours.

10.6.8.1 The development portfolio of Pakistan Railways (PR) consists of a total of 32 projects, at a cost of Rs 103 billion. Six projects are nearly completed and eight projects are in the pipeline. PR's eighteen on-going projects will be completed in 4 years with the current level of allocations. The overall portfolio will be completed in six years. The allocations are in line with MTDF, and many of the projects will be finished during the PRSP-II period.

10.6.9 **Aviation**

10.6.9.1 Adoption of a revised civil aviation policy will separate regulatory functions, air navigation services, and airport operations. The main objective in the aviation sector, however, is the enhancement of the cargo infrastructure at important airports to meet the delivery needs of a modern global supply chain. The National Aviation Policy was approved by the government in 2007. The vision of this strategy is to establish a progressive, liberalized, and efficient aviation sector based on competition and fair opportunities; regulated to safeguard public and national interest, provide impetus to national economy and to achieve international standards of safety and security. Objectives include: to comply with ICAO standards of Safety, Security and Regularity; to promote aviation sector in the country by allowing market forces to determine the price, quality, frequency and range of air services; to increase its contribution in GDP from about 0.1 to 1 percent over a period of 5 years; to encourage development of passenger hubs and cargo transshipment hubs to support; to facilitate the objectives of National Transport Master Plan (NTMP) and National Trade Corridor (NTC); and to regulate standards of services of airports and airlines.

10.6.9.2 The aviation strategy under NTCIP includes:

- New international airport in Islamabad, Sialkot (completed), and Gwadar, and upgrading of Multan Airport;
- Liberalization of air service agreements to attract more airlines;
- Regionally competitive user charges and fuel prices;
- Encouragement of private sector airlines to operate on international routes;
- Adopting a unilateral Open Sky Policy for cargo operations; and
- Establishing cargo villages in Karachi and cargo warehousing facilities in Lahore.

10.6.10.3 High user charges at domestic airports by the Civil Aviation Authority and little assistance to facilitate airline operations discourages a wider use of Pakistan's airports by international carriers. Landing rates for various types of aircraft at different airports in Pakistan are much higher than other countries and will be reviewed. There is a huge potential for PPPs in the construction of new airports as identified in the list of potential PPPs (Annex III). Efforts are being made to restructure Pakistan International Airlines (PIA). With reference to the role of the private sector, opportunities exist with airports, where airport management can be easily concessioned to private operators. The Sialkot airport is an example.

10.7 Housing and Assets Titles

10.7.1 Housing is a basic requirement as it provides social security to the poor as well as is a source of economic growth. Housing construction also generates direct employment including: (i) absorbing rural labour and providing opportunity for seasonal employment for farm workers, (ii) enhancing participation of women workers, and (iii) activating small scale and mostly self-employed industries including building/construction materials, equipment, fittings and fixtures etc. Affordable housing for low-income groups also contributes to poverty alleviation, income redistribution and promotes individual productivity and household savings. With the rising demand for housing units, the housing and construction sector is becoming an investor's haven.

10.7.2 The housing sector contributes hugely to inter-sectoral linkages and provides a strong growth stimulus throughout the economy. Construction industry, as a prime source of employment generation offering job opportunities to millions of unskilled, semi-skilled and skilled work force, can create a big dent in poverty. It provides employment to 7.14 million people, which constitutes 15 percent of the total employed labour force. The large employment potential in construction and housing industry provides a rationale for the government to establish it as one of the key policy sectors in its Poverty Reduction Strategy.

10.7.3 Current Scenario and Issues:

- There are multiple housing-related issues in the country, mainly generated by population explosion which grew from 84.3 million in 1981 to 130.6 million in 1998, showing an overall increase of 55 percent. It is estimated at 163.8 million in 2008 with a growth rate of 2.69 per cent per annum (Population Census 1998 extrapolated for 2008).
- According to the 1998 census (extrapolated for 2008), the total number of housing units, throughout the country, is 19.3 million, of which 67.5 percent are in rural areas and 32.5 percent in urban. The overall housing stock comprised 39 percent *kachha*[156] houses, 40 percent semi-*pakka*[157] houses, and 21 percent *pakka* houses. The housing backlog, as estimated according to 1998 census (extrapolated for 2008), is 7.90 million units. The annual additional requirement is estimated around 850,000 housing units, whereas the annual production is estimated around 350,000 housing units resulting in a recurring backlog of 500,000 housing units annually. Available data indicate a household size of 6.8 persons and occupancy per room of 3.13 persons.
- There continues to be unchecked growth of squatter settlements. It is estimated that 50 percent of urban population now lives in *katchi abadis*/slums/squatter settlements. This in itself is a challenge of great magnitude for replacement, rehabilitation and upgrading.
- Land suitable for housing is becoming scarce, particularly in and around urban centres. Land values continue to increase, resulting in virtual non-availability of affordable land especially for low income groups.
- The housing stock is also rapidly aging and present estimate suggest that more than 50 percent are over 50 years old and rapidly deteriorating due to general neglect.
- Shortage of finance continues to be the major constraint in housing production, maintenance and growth.
- As a result of inflationary trends in the economy; the cost of building material has sky rocketed.
- There continues to be a lack of adaptation of innovative technology and materials and lack of support to the research carried out in this field.

[156] Mud houses.
[157] Concrete houses.

10.7.4 Housing Policy

10.7.4.1 The National Housing Policy (2001) aims to accelerate 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 cornerstones 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 aspires:

- To provide an enabling environment, capacity-building and institutional development aiming at empowering all stakeholders, particularly local authorities, the private sector, non-governmental organizations and community-based organizations, to play an effective role in shelter and human settlements planning and management;
- To combine community participation and institutional strengthening in support of the development of a commercially based system of housing finance for land and house purchase; house construction improvement and upgrading. In addition, innovative approaches to collateral and screening of eligible households for incremental housing finance and home improvement credits, which are compatible with the affordability limits of moderate and low income households, will be introduced;
- To improve housing conditions of the low-income population, through development capacity building and institution of new ideas, such as reduced housing standards, appropriate technology, incremental housing development, community participation and squatter-settlement regulations;
- To upgrade existing towns and cities with better city planning through improvement of infrastructure, creation of employment opportunities and affordable housing under a phased programme, giving higher attention to those cities and towns which are comparatively more productive and efficient and require lower investments;
- To provide for an effective institutional capacity building framework responsive to the grassroots devolved powers, to minimize general disparities and imbalances, not only between urban and rural areas but also between various income groups;
- Long term solution for housing lies in this sector, which should be a high priority for economic development. It should not be considered as an area parasitic upon other economic activities but as an instrument of economic and cultural development. This sector can lend support in achieving all the key national goals including employment, economic growth, promotion of market oriented economy and higher levels of public and private savings; and
- To make the government a catalyst and facilitator in case of land policy, financial policy, improvement of *katchi abadis* and slums, research and development and institutional development.

10.7.4.2 To follow the above strategy, key steps of the Housing Policy focus on:

- Housing development through capacity building of formal and informal sector;
- Facilitating the availability of suitably located and affordable land and developing land delivery processes;
- Encouraging indigenous approaches in research and development to support housing activity particularly for low income groups;
- Provision of safeguards against malpractices, inefficiencies, institutional weaknesses and mafia assaults;
- Resource mobilization through Government initiatives, mortgage loans, refinance facility, savings and loan schemes, induction of insurance, pension and provident funds and introduction of microfinance schemes
- Provision of incentives through tax rationalization, reduction in property tax and registration, simplification of procedure and enforcement of effective foreclosure Laws;
- Supporting research and development for economic building material inputs and support modernization of construction technologies; and
- Developing indigenous and cost effective approaches particularly for low income groups;
- Monitoring and enabling the development of *katchi abadis* initiatives as announced in January 2001and discouraging formation of new slums;
- Provision of institutional incentives for improved housing delivery for the rural areas and preparation of Rural Housing Plans and schemes;
- Introducing a firm and clear-cut institutional and legal framework at all levels of Government with well-defined roles and responsibilities. Removal of shortcomings, gaps and overlaps and devising institutional coordination mechanism, transparency and accountability;
- A countywide programme of developing small and medium-sized towns that offers the potential for growth; and
- Formulating a system to monitor and evaluate implementation of guidelines provided under the Housing Policy and to ensure coordination with other national level development strategies.

10.7.5 Prime Minister's Housing Programme

10.7.5.1 Realizing the importance of the housing sector as a means of generating massive employment opportunities and its multilateral effect on business and economy, the Government has laid great emphasis on boosting the Housing & Real Estate sector in the country. The government has a priority agenda to provide quality livable housing for the low income groups that had been ignored in the past. It has announced the construction of one million housing units to meet the housing backlog and recurring housing shortfall. Five *marla* schemes have been initiated for homeless citizens in rural areas and scheme for provision of apartment and plot of 80 sq yds for homeless peoples in urban areas has been introduced. The distribution of the housing units for the Prime Minister's Housing Programme will be as follows.

Table 10.8: Distribution of housing units under the Prime Minister's Housing Programme: 2008 and beyond

Short Term Target (2008-09)		Long Term Targets (5 years)	
Construction of 1000 housing units in the federal capital & each provincial capital	5,000 units	Punjab	440,000 units
		Sindh	300,000 units
		NWFP	150,000 units
		Balochistan	40,000 units
		AJ&K/Northern Areas	40,000 units
		Islamabad	25,000 units
		Total	**1,000,000 units**

Source: Ministry of Housing & Works, Government of Pakistan, October, 2008.

10.7.6 Strategy

10.7.6.1 In order to achieve these objectives, the Ministry of Housing and Works has adopted the following course of action:

- Creation of land bank;
- Availability of concessional housing finance;
- Provision of trunk utility land physical infrastructure;
- Selection of consultants for designing and construction management; and
- Pre-qualification of contractors to undertake the construction activities.

10.7.6.2 In addition to establishing a line of action, it is emphasized that the government role is of a facilitator, regulator and advocate; the construction of housing units will be through PPPs, joint ventures, BOTs, turnkey operators, etc. The immediate action plan envisaged is as follows:

- Multi-storied apartments in major cities where state lands are available or make joint venture with private sector where feasible;
- Row houses/incremental housing in urban/sub-urban areas, intermediate town and rural area where state land is available;
- Re-development of prime urban land where public buildings are dilapidated or slums have been created; and
- Creation of land bank and housing development fund.

10.7.6.3 Creating a land bank alone will not guarantee a sustainable low cost housing but, at the same time, land is the basic component to provide housing and should be treated as an ongoing process for a sustainable housing development either in the commercial or low cost housing areas. Creation of a land bank is a preferable option widely accepted all over the world as it provides a forum to the foreign entrepreneurs and local developers to have clear unencumbered lands available presenting no obstacles in housing development. Land banks curb the speculation of land prices. The basic concept is 'procurement of land by the government for future corridors of growth.'

10.7.6.4 Some of the initiatives undertaken in this regard include identification of state land in the Federal capital and all the provinces for subsequent development and auctioning of contract for construction of 976 housing units in Islamabad, etc.

10.7.7 The Government has also taken the initiative to facilitate housing for low income groups at the provincial level. A cell namely, People's Housing Cell (PHC) has been established in Sindh. The Sindh Government has announced a mega programme to provide shelter to the poor. In its first year, PHC has set a target of providing 100,000 housing units for the poor.

10.7.8 In urban areas, low cost housing units will be constructed in the form of high-rise complexes along with all amenities including educational and health facilities. The cities of Karachi, Hyderabad, Badin, Thatta, Nawabshah, Sukkur, Larkana, Khairpur have been selected for the purpose in its first phase. Suitable locations for this objective have already been selected by People's Housing Cell. Residential-cum-commercial plazas will be built on prime land in Karachi and other cities vacated by slum dwellers.

10.7.9 In rural areas, a Village Housing Scheme has been formulated under which one-room and two-room houses will be built for the poorest households in all Union Councils of Sindh province. Clusters of low cost houses will be constructed in sanctioned villages for the homeless people in selected villages.

10.7.10 The Government of Sindh wants to apply innovative PPP approach. According to this, land developers and builders from the private sector have been invited to invest in developing townships and satellite towns on land which will be provided by the government on specifically laid down conditions.

10.7.11 **Housing Finance**

10.7.11.1 A Housing Finance Committee has been formed to examine the issues relating to housing finance in depth and to suggest fiscal measures to be taken for affordable housing. The committee will include representatives from MoHW, SBP and FBR.

10.7.11.2 An amount of Rs 1 billion has been allocated for the Prime Minister's Special Initiative for the poor, and another Rs 1 billion under Prime Minister's special initiative for housing for government servants though not directly linked with poverty reduction but having an indirect link in terms of creation of jobs and production of materials to be used.

10.7.11.3 The plan does not make it compulsory that all of the one million housing unit will be constructed by the federal government alone as to provide housing is a provincial subject under the constitution of Pakistan. The programme, therefore, defines the role of the federal government as a regulator, facilitator and advocate. Accordingly, the provincial governments are being encouraged to undertake housing at their own and from their own resources following the models presented in the form of pilot projects. Similarly, government departments, banks, autonomous bodies, corporations and the private sector (also individuals) are being encouraged to undertake housing which would eventually be accounted for to meet the figure of one million housing units under the Prime Minister's Housing Programme.

10.7.11.4 To illustrate, the housing units built and catered to the general public by developers like DHA, Bahria Town, Creed Vistas etc. will become a part of the housing stock of the said Housing Programme. Besides, multilateral financial institutions like World Bank, IFC etc. and various multinational and national developers are committing resources towards development of housing sector on BOT basis. In this respect, a number of MoUs have been signed by the Ministry of Housing and Works through Pakistan Housing Authority (PHA) with companies from China, Malaysia, Italy, USA, Iran including some local companies. In view of this, it is clear that the programme's model of PPPs and self-generated cross-subsidy from projects of commercial importance would provide sufficient finance for its implementation.

10.7.12 State Bank of Pakistan (SBP) and Housing Finance

10.7.12.1 Given the potential of housing sector both for the economy and the banking sector, the SBP is creating an environment for the banking system that will enhance the size and efficiency of housing finance. In order to encourage banks/DFIs to undertake exposure to the housing and construction sector, SBP has liberalized the credit regime for housing loans, the details of which are as under:

10.7.12.2 Enhanced Credit Facilities

- Banks' exposure to housing finance has been enhanced from 5 to 10 percent of their net advances;
- The maximum per party limit has been increased from Rs 5 million to Rs 10 million while the maximum debt-equity for housing loans has been increased from 70:30 to 80:20;
- Banks have been allowed to deduct up to 3 percent of the income arising out of consumer loans for creation of reserve to off-set bad debts in this segment;
- The maximum loan tenure for housing finance has been increased from 15 to 20 years;
- Banks and DFIs are extending credit facilities for Balancing, Modernization and Replacement (BMR) of machinery used for housing and construction industry; and
- Property tax on rented property and for self occupancy has been rationalized.

10.7.12.3 Construction Services Sector

- Income from property has been brought under Presumptive Tax Regime (PTR); tax at the rate of 5 percent of the gross rentals shall constitute full and final discharge of tax liability;

- Stamp duties and registration fees are being rationalized for housing mortgage;
- Central Excise Duty (CED) on wires and cables has been withdrawn to lessen cost of construction; and
- Housing and construction companies charged via PTR, which shall not exceed 1 percent on yearly receipts.

10.7.12.4 **Promote Home Ownership**

- No stamp duty/registration fee, etc shall be charged for the housing mortgage; and
- Property tax on rented property shall be reduced from current rate of 25 percent to 5 percent.

10.7.13.4 **Low Income, Low Cost**

- All new construction of houses on plots, measuring up to 150 sq yards and flats/apartments having an area of 1000 sq ft have been exempted from all types of taxes for a period of 5 years

10.7.13 **House Building Finance Corporation (HBFC) and Housing Finance**

10.7.13.1 The House Building Finance Corporation (HBFC) being the prime housing finance institution of the country provides financial assistance for construction and affordable housing solutions to low and middle income groups of population by encouraging new construction in small & medium housing. HBFC Ltd. has financed over one and half million units for Rs 41.4 billions, made recoveries of Rs 51.4 billions and has an investment portfolio of Rs 19.6 billion. HBFC's average annual disbursements and recoveries are around Rs 2.5 to 3 billion. The activities of the corporation will increase during the PRSP-II period because of additional measures, such as:

- The annual disbursement of HBFC loans has been enhanced from the present Rs 1.2 billion to Rs 7 billion over the next 5 years; and

- HBFC has introduced bridge financing and bulk financing of housing projects through escrow accounting together with appropriate safeguards.

10.7.15 Assets Titles

10.7.15.1 One of the most important issues connected with the housing sector relates to the titling of assets, principally lands. The law and procedure can be complex and, at times, ambiguous, and the government is working to simplify and clarify these matters. The government has initiated several programmes/schemes at provincial level to clear the transfer of property and computerize the records of all moveable and immoveable assets. These programmes will facilitate the identification of land and provide protection to low income groups, so that clear ownership may be defined. Some other important steps that will be taken during the PRSP-II period are described below.

10.7.15.2 **Land**

10.7.15.3 Land is one of the principal inputs for housing. Its identification, allocation and servicing are the three critical components of the housing supply process. But the land mass is under constant pressure from competing uses, other than housing, both by the public and private sectors. The situation is further aggravated by the unchecked growth of settlements, spiralling land values, intricacies of land acquisition laws, as well as allotment and disposal methods.

10.7.15.4 Given the key role of land in housing supply, it is essential that a comprehensive perspective is developed for the land delivery system at national, provincial, regional and local levels with effective coordination among various government departments, development agencies and other bodies and above all the private sector.

10.7.15.5 **Initiatives to strengthen property rights**

10.7.15.6 A crucial issue for the sector is the confused state of ownership rights. The provincial governments have all initiated significant programs to rectify this state of affairs and to computerize the records of all moveable and immoveable assets. For example:

- The Government of Sindh has initiated a scheme to improve the automation of stamps and registration. As a first step, the scheme will cover 21 districts. A scheme 'Computerization and Establishment of Land Administration & Revenue Management Information System (LARMIS)' has been introduced with an estimated cost of Rs 922 million for maintaining computerized record of revenue assessment and collection system. Two other projects 'Creation of GIS for Land Administration and Revenue Management in Sindh' and 'Preservation of Land Revenue Record and Revamping of Survey Settlement Department, Board of Revenue Sindh' is also appended with LARMIS. The estimated cost of projects is Rs 648.86 million and Rs 363.709 million, respectively.
- The NWFP has established a Housing Authority with a mandate not only to provide housing inputs (such as land, finance, building materials, etc), but also to develop geographical information on land use and to create a database of the housing stock. For simplification of computerized registration of land, registration offices have since been established at Peshawar and D.I.Khan. This facility will further be extended to other big districts of the province. The provincial government has also included a scheme 'Establishment of Project management Unit (PMU) in housing Department' which will cater for land use planning and frame regulations to facilitate incremental development of housing facilities for low income groups in the province.
- The Government of Balochistan has developed software that will help it create an accurate database to be used in recording the ownership and transfer of property.
- The Punjab's Land Records Management and Information Systems project is designed to create secure, reliable, and efficient system of all records relating to land ownership and transfer. The provincial government expects to complete the process of data entry

in the entire province by the end of FY 2009/10. Another component of the plan is to provide online access to the financial institutions and banks in order to facilitate the process of issuance of credits. A pilot project has been initiated for automation and improvement of registration process.

10.7.16 Disaster Risk Management

10.7.16.1 Pakistan is vulnerable to disaster risks from a range of hazards including cyclones/storms, droughts, earthquakes, floods, landslides, and tsunami. Human induced hazards that threaten the country include: transport; industrial; oil spills; urban and forest fires; civil conflicts; and internal displacements of communities due to multiple factors. This type of situation affects a large number of people and the poor as well by leaving them homeless.

10.7.16.2 A reactive emergency response approach has remained the predominant way of dealing with disasters in Pakistan. The Calamity Act of 1958 was mainly concerned with organizing emergency response. A system of relief commission at provincial level was established. An Emergency Relief Cell (ERC) in the Cabinet Secretariat was responsible for organizing disaster response by the federal government. The loss of life and property and the challenges that were faced in the aftermath of October 2005 earthquake affecting Azad Jammu & Kashmir (AJK) and the NWFP province exhibited the need for establishing appropriate policy and institutional arrangements to reduce losses from disasters in future. Immediately after the earthquake of 8th October 2005, Cabinet was briefed regarding the earthquake relief and it was, inter alia, decided to undertake revision of building codes and regulations at the national level to ensure safety and security of the residents of buildings.

10.7.16.3 The need for strong institutional and policy arrangements has been fulfilled with the promulgation of National Disaster Management Ordinance, 2006. Under the Ordinance the National Disaster Management Commission (NDMC) has been established under the Chairmanship of the Prime Minister as the highest policy making body in the field of disaster management. As an executive arm of the NDMC, the National Disaster Management Authority (NDMA) has been made operational to coordinate and monitor implementation of National Policies and Strategies on disaster management.

10.7.16.4 The new system envisages a devolved and de-centralized mechanism for disaster management. Accordingly, Provincial Disaster Management Commissions (PDMCs) and Authorities (PDMAs) have been established while similar arrangements have been made in AJK and Northern Areas. The District Disaster Management Authorities (DDMAs) have been notified across the country. The DDMAs are going to be the linchpin of the whole system and would play the role of the first line of defense in the event of a disaster.

10.7.16.5 The National Disaster risk Management Framework has been formulated to guide the work of entire system in the area of disaster risk management. It has been developed through wide consultation with stakeholders from local, provincial and national levels. The Framework identifies National Strategies and Policies for disaster management. The details of these plans/strategies has been discussed in pillar 2; 'Protecting the poor and Vulnerable.'

10.7.17 **Regularization of *Katchi Abadis*, Squatter Settlements & Slums**

10.7.17.1 A special problem relates to *katchi abadis*. Nearly 50 percent of our population in major urban centers lives in slums, *katchi abadis* and squatter settlements. The mushroom growth of slums and *katchi abadis* in urban areas is the product of unprecedented population growth, rapid urbanization, and large-scale influx of refugees. These factors have led to unauthorized encroachments on urban spaces, especially state land, and have created a number of health and security hazards.

10.7.17.2 In order to evolve an effective mechanism to control future growth of *katchi abadis/*squatter settlements and also to alleviate the sufferings of the urban poor, the government has distributed 65,496 acres of land among 4633 number of beneficiaries during FY 2001-07. *Katchi abadis*, which are hazardous if located under high tension power lines, or on lands needed for operational/security purposes, need to be relocated at appropriate places. Formation of new *katchi abadis* has been restricted and discouraged by exercising strict development controls in all urban areas. The government has regularized 1466 *katchi abadis* in Punjab, Sindh and ICT during FY 2006/07. It plans to regularize 469 *katchi abadis* in Punjab and 439 in Sindh during the PRSP-II period.

10.7.17.3 The housing sector helps in providing social security to the poor and promotion of housing sector not only increases the growth of the economy but also creates more skill and unskilled employment opportunities which reduce poverty. It enhances the activities in the construction industry alongwith 40 industries which are directly or indirectly linked to the economy. It also contributes in attracting investment and also stimulates growth which contributes to overall improvements in the economic situation of the country.

10.8 **Infrastructure Planning and Environmental Sustainability**

10.8.1 Pakistan is also the most urbanized country in South Asia, with an estimated 38 percent of its population living in cities. Rapid urbanization and the expansion of industry and transport have led to a rapid decline in the quality of air in all major cities in Pakistan, where levels of fine particulate matter (PM10) of up to 6-7 times WHO guidelines have been measured. About 16.28 million Pakistanis (40 percent of total urban population) are under risk of air pollution, which is costing Rs 25.7 billion every year on account of health merely by not complying with the WHO Ambient Air Quality Standards.[158] Urban air pollution, of which mobile sources are the most significant, is estimated to cause around 22,700 premature deaths per year. The number of vehicles in Pakistan have increased tenfold in the past twenty years, where the fastest growth has been in two-stroke delivery vehicles and diesel trucks and buses. Vehicular emissions are particularly detrimental to human health because pollutants are emitted at ground level. Pakistan's consumption of petroleum products is growing at an annual rate of about 6 percent, almost half of which is

[158] GoP, Planning Commission, 'MTDF 2005-2010' (May 2005).

consumed by the transport sector. The high content of sulphur in diesel (0.5-1 percent) and furnace oil (1-3.5 percent) is a major contributor to air pollution. Industrial activities are another important source of air pollution in urban areas, both from large-scale facilities (e.g. cement, fertilizers, sugar, steel and power plants) and from small to medium scale industries using waste fuels (e.g. brick kilns, steels works and plastic moulding). Industrial emissions are further compounded by the widespread use of small diesel electric generators in commercial and residential areas in response to the poor reliability of electricity. Combustion of municipal waste is another significant contributor to air pollution. Almost 48,000 tonnes of solid waste are generated every day across the country, most of which is either dumped in low-lying areas or burned. Open burning of waste is also the largest source of dioxins and furans to the environment.

10.8.2 Pakistan Clean Air Programme

10.8.2.1 The Ministry of Environment is developing the Pakistan Clean Air Programme (PCAP) as a vehicle to support a range of ongoing and proposed initiatives for the management of urban air quality, involving a variety of sectors, levels of government and development partners. Under the PCAP, the Pakistan Environmental Protection Agency with grant assistance of the Government of Japan[159] has set up seven continuous Air Quality Monitoring Stations[160] and three Mobile Air Quality Monitoring Stations to measure PM10 and PM25 (Particular Matter). Presently these units are being run on trial basis. Data generated so far has shown that PM10 and PM25 in urban centers have reached alarming levels.

[159] The Bank's support for the NEP is initially focused on providing technical assistance to M/o Environment for the development of provincial action plans. The aim is to facilitate a process through which provincial authorities will establish their own priorities within the broad matrix of national environmental goals laid out in the NEP. For implementation of the PCAP, while JICA is funding monitoring equipment which will provide necessary data, there is limited capacity to plan and implement specific interventions. The Bank will initially provide technical assistance, with the possibility of subsequent investment support as plans become more concrete.

[160] Two continuous Air Quality Monitoring Stations have been installed in Karachi, two in Lahore, and one each Islamabad, Peshawar and Quetta.

Box 10.2: Measures proposed in the Pakistan Clean Air Programme

Short Term Measures	Responsible Agency	Long-term Measures	Responsible Agency
Stop import and local manufacturing of two stroke vehicles	M/O Commerce and M/O Industry	Creation of public awareness and education	M/O Environment and Provincial Environment Department
Restriction on conversion of vehicles from gasoline engine to second-hand diesel engines Launch effective awareness campaign against smoke emitting vehicles	Provincial Government	Setting up continuous monitoring stations in cities to record pollution levels in ambient air	M/O of Environment and Provincial Government
High pollution spots in cities may be identified and control through better traffic management such as establishment of rapid mass transit and traffic free zones	Provincial Government	Introduction of low sulphur diesel and furnace oil and promotion of alternative fuels such as CNG, LPG and mixed fuels in the country	M/O Petroleum and Natural Resources
Capacity building of Motor Vehicle Examiners	Provincial Government	Identify pollution control devices/additives for vehicles and encourage their use	M/O Environment, M/O Petroleum
Regular checking of quality of fuel and lubricating oils sold in the market	M/O Petroleum and Natural Resources	Promotion of waste minimization, proper disposal of solid waste in cities, waste exchange and pollution control technology in industries	Federal and Provincial EPAs, FPCCI, and M/O I&P)
Covering of buildings/site during renovation and construction to avoid air pollution	Provincial Government	Improvement of energy efficiency in vehicles and industry	M/O Environment
Phasing out of 2-stroke and diesel run public service vehicles	Federal and Provincial Governments	Review Motor Vehicle Ordinance to provide for inspection of private vehicles	Federal and Provincial Governments
Base line data collection on ambient air quality using fixed and mobile laboratories	Federal and Provincial EPAs	Establish vehicle inspection centres	M/O Communication and Provincial Government
CNG driven buses will be given tariff preference	M/O Industries and M/O Finance	Block tree plantation in cities, forestation in deserts and sand dune stabilization	M/O Environment and Provincial Forest Department
Fiscal incentives and a financing mechanism are adopted to provide resources to the transporters	M/O Communication and Provincial Government	Shoulders along roads should be paved	M/O Communication and Provincial Government
Launch of effective awareness campaign against smoke emitting vehicles	Provincial Governments		
Establishment of environmental squad of traffic police in all major cities to control visible smoke	Provincial Governments		

Source: World Bank, 2006.

10.8.2.2 In this light, the Ministry of Environment has taken the following steps:

- In consultation with the Ministry of Petroleum and Natural Resources, Engineering Development Board, Pakistan Automobile Manufacturers Associations and other stakeholders, the Ministry of Environment decided that: (i) all petrol driven vehicles imported or manufactured locally will comply with Euro-II emission standards with effect from July, 2009. Existing models if not complying with Euro-II emission standards will have to switch over to Euro-II models by no later than three years if not immediately; (ii) all diesel driven vehicles imported or manufactured locally will comply with Euro-II emission standards with effect from July, 2012. The Ministry of Petroleum and Natural Resources will ensure availability of Euro-II compliant diesel (with sulphur contents 0.05 percent) with effect from January 2012.

- In consultation with provincial governments, the Ministry of Environment has worked out a model for vehicle examination/emission testing to be established in the country to follow a uniform procedure for motor vehicle inspection for public and private vehicles. The first pilot project in this regard has been approved at a cost of Rs 294 million. It is expected that motor vehicle centers will be established with the help of PPPs throughout the country.

10.8.3 In summary, a comprehensive and integrated infrastructure policy is being developed for the PRSP-II period and beyond, which will include the establishment of a multi-modal transport system; an emphasis on asset management with consolidation, upgrading, rehabilitation and maintenance of the existing system particularly dams for water storage; enhanced private sector participation in development and institutional capacity building, with research and development; and use of modern technology and procedures to increase sector efficiency. The strategy also takes into account the regional and domestic scenarios, particularly with respect to rail, road and shipping sub-sectors, enhancing regional connectivity to improve links to the Central Asian States, Iran, Afghanistan and India.

Chapter 11 - Pillar VIII: Capital and Finance for Development

11.1 The financial sector plays a key role in development by mobilizing savings, by allocating investable resources, and by providing a mechanism for making payments. It also helps to identify good business opportunities; monitor the performance of businesses; and enable the trading, hedging, and diversification of risk. Empirical evidence suggests that financial development increases the growth of income of the poorest of the population. A doubling of the size of private credit in an average less-developed country is associated with a two percentage point annual increase in economic growth that can result in a doubling of national income in thirty-five years. Inefficient financial markets, on the other hand, are likely to damage the economic prospects of a country by increasing the cost of mobilizing savings, and thus diverting real resources away from investment and growth.

11.2 The development of financial markets and institutions is thus a critical part of the economic growth process. Financial sector deepening (financial development that includes not only an expansion in the financial sector to provide different types of financial services to all levels of society, but also an improvement in institutions), and economic growth are inextricably linked. Financial deepening has been associated with higher economic growth and a faster growth of the income of the poor than average GDP per capita, thus leading to a reduction in inequalities. The main reason is that financial development increases the access of the poor to credit, to which previously they had less access than did the rich.

11.3 Financial Sector in Pakistan

11.3.1 Pakistan's financial sector has strengthened dramatically in the last two decades. During the early 1970s, the banking sector was nationalized and public sector financial institutions were expanded, the stated objectives being to direct banking activities towards national socio-economic objectives and to provide greater security to depositors' funds. In practice, however, the policy framework — including administered interest rates, domestic credit controls, high reserve requirements, and the use of the banking system to finance large budgetary requirements of the government — degraded the health of the country's financial institutions and stunted their ability to play their due role in economic growth.

Table 11.1a: Structure of financial sector 1990 (Rs billion and percent)

	Numbers	Assets		Advances		Investments	
		Amount	Share	Amount	Share	Amount	Share
Banks	24	425.6	61.5	218.5	48.7	111.3	89.0
State owned	7	392.3	56.7	201.2	44.8	104.1	83.2
Private	-	-	-	-	-	-	-
Foreign	17	33.4	4.8	17.3	3.9	7.3	5.8
NBFIs	36	133.9	19.6	98.3	21.9	13.7	11.0
State owned	13	124.3	18.0	94.7	21.1	13.3	10.6
Private	23	9.6	1.4	3.6	0.8	0.4	0.3
CDNS	1	131.9	19.1	131.9	29.4	-	-
Equity markets	2	90.0	-	-	-	-	-

Total	63	691.5	100.0	448.7	100.0	125.1	100.0

Table 11.1b: Structure of financial sector 2008 **(Rs billion)**

	Numbers	Assets		Advances***		Investments****	
		Amount	Share	Amount	Share	Amount	Share
Banks*	39	5,221	100	2810	100	1340	100
State owned	8	1,129	21	587	21	427	23
Public sector Commercial Bank	4	1,007	19	515	18	259	22
Specialized Banks	4	123	2	72	3	168	1
Private	25	3,904	75	2,133	76	892	75
Foreign	6	188	4	89	3	21	2
NBFIs**	157	567	100	121.1	100	385	100
State owned	6	123	22	11	9	108	28.1
Private	151	444	78	110	91	277	71.9

Source: State Bank of Pakistan.
Figures for 2008 are for quarter ended March 31st, 2008.
** pertains to June 30, 2007.
*** Advances are Net advances.
**** Investments are Net Investments.

11.3.2 Pakistan initiated a broad-based programme of financial sector reforms in the early 1990s and accelerated these measures from 2000. These changes liberalized financial markets, promoted competition by privatizing a number of financial institutions and restructuring others, strengthened the regulatory and supervisory framework (in particular through new regulations on transparency and disclosure), and diversified credit allocations to the key sectors of the economy. The result was a widely recognized restoration of flexibility to the financial system.

11.3.3 Financial sector reforms also strengthened the legal and regulatory framework to expedite recovery of loans by promulgating a new recovery law, revised the prudential regulations for corporate/commercial banking, and adopted international best practices for risk management, corporate governance, money-laundering, and other areas. Separate prudential regulations covering SMEs, consumer, and agriculture financing were issued. Depositor protection was enhanced by strengthening the capital base of the banking system; thus, for example, the minimum capital requirements for a bank in 2009 were increased to Rs 6 billion however, additional measures were aimed at promoting Micro and SMEs financing. Tables 11.1 (a) & (b) present a comparison of financial sector between 1990 and 2008.

11.3.4 In the equity markets, the Securities and Exchange Commission of Pakistan (SECP) has been mandated to develop and evolve the country's capital markets as progressive, transparent, and efficient, employing best practices, and safeguarding interests of the investors. During the recent years, the reform agenda followed by the SECP provided a basis of growth and expansion and brought transparency, efficiency and investor confidence in the capital market.

11.3.5 The SECP proactively undertook market reform initiatives, implemented sustainable risk management measures, and introduced various new products. The Commission's various initiatives and reform programmes contributed towards a high level of integrity and transparency in terms of price discovery, trade settlement and risk management. The introduction of various new products has provided impetus for the development of a buoyant and broad-based capital market in the country. A detailed analysis of Pakistan's financial sector is presented below.

11.4 Banking

11.4.1 The banking sector of Pakistan is regarded as one of the fastest growing and best performing sectors in the region. Banking assets rose three-fold over the last 5 years and the industry size is close to Rs 4 trillion. The increasing trend contrast sharply with the declines in the ratio during the second half of the 1990s. Moreover, supported by privatization and consolidation, a substantial proportion of the assets of the banking sector has shifted from public to private hands (in 2007 almost 80 percent of banking assets were in the private sector), and asset concentration within the banking sector has also declined in favour of the private sector.

11.4.2 Banking reforms led to major improvements in the profitability and financial strength of the sector. Return on banking assets before taxes rose to 2.6 percent in 2006 (1.8 percent after tax) compared with 0.2 percent in 2000, and the return on equity increased to 25.4 percent in the year 2006. The banking industry's profitability is at an all-time high, credit is fairly diversified and bank-wide systemic risks are well contained. The accesses to banking services have been broadened to a much wider customer base particularly the middle and lower middle income groups. No country can aspire for sustainable and equitable growth in the absence of a strong and healthy middle class. In Pakistan, the banking system was intermediating the savings of millions of depositors primarily to fund the fiscal deficit and the losses of the public sector, to meet the working capital of 200 top named companies and to engage in letters of credit for business and international trade. The number of active borrowers was limited to less than half a million at best. By allowing the banking system to offer new products and services such as agriculture credit, SME financing, mortgage loans, automobile leasing, personal loans etc. a new vista has opened up. Commercial banks that were always hesitant to channel credit to agriculture sector are now the single largest source of agriculture financing. This broadening of access not only eases the credit constraint faced by a dynamic segment of the population and transfers purchasing power in their hands but also diversifies the risk for the banks and allows them to earn a decent return on their loan products. This enhanced purchasing power in the hands of a large number of families stimulates aggregate demand in the economy, helps in the expansion of production of manufactured goods and contributes to higher growth of the economy.

11.4.3 The banking sector's profitability was supported by the sustained growth of the economy from 2002. It has been estimated that a one percent rise in the real GDP growth tends to improve the profitability by 113 basis points. In addition, low interest rates and inflation for most of the period in the last four years also supported the financial sector's profitability, as a one percentage point increase in real interest rates or in inflation each tend to reduce the return on assets by 27 basis points. The move of Pakistan's economy to a higher growth trajectory with lower real interest rates and inflation thus further bolstered the profitability of the financial system. Indeed, in 2006**,** a World Bank study ranked Pakistan's banking sector second in performance and efficiency among the South Asian countries.

11.4.4 The banking system has also become stronger. The capital adequacy ratio of the banking system in 2008 increased to 13.9 percent from 10.9 percent in 1999. The loan infection ratio (the ratio of nonperforming loans to the total loan portfolio of a bank) dropped to 2.1 percent from the very high rate of 15.3 percent in 1999. A multi-track strategy is being adopted to address the issue of stock of nonperforming loans, which includes the following:

- The Corporate & Industrial Restructuring Corporation (CIRC) has been established to take over the non-performing assets of the nationalized commercial banks (NCBs) and Development Financial Institutions (DFIs) exceeding Rs. 30 million. It will ultimately liquidate non-performing assets and loans by auctioning the underlying physical assets to the highest bidder.
- A committee has been formed to restructure those units which are non-operational due to an unsustainable debt burden but are otherwise financially and economically viable. By extending the maturity, grace period or partial remissions, the committee is attempting, with the cooperation of the borrowers and lenders, to find solutions that can result in resumption of debt servicing.
- The SBP has issued guidelines under which long-standing loans in the loss category with almost zero probability of recovery can be written off in a transparent manner to the extent that there is a shortfall between the proceeds realized from sale of collaterals and the amount outstanding on the books of the banks.
- Those found willful defaulters are referred, after due process of law, to accountability courts.
- There is almost a consensus that enforcement of financial contracts cannot take place unless the legal and judicial process is strengthened. The banking courts system needs to be revamped and reoriented to facilitate loan recovery more expeditiously. Training of judicial officers assigned as heads of banking courts was held by the State Bank and infrastructure, logistic support to the banking court is being strengthened. These measures will help in the disposal of the backlog of cases.

11.4.5 In terms of their core business activity, the banks are now operating at a significantly higher capacity than in the 1990s; for example, the ratio of loans to deposits reached nearly 70 percent in 2008. Moreover, the strong performance of the financial sector attracted increasing amounts of foreign direct investment in this sector — in FY 2008, foreign investment in the financial sector of Pakistan remained US $322.8 million.

Table 11.2: Public, private and foreign assets of banking sector, 2000–08 (percent)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public sector banks	56.1	54.2	43.9	41.7	24.9	22.9	22.4	22	22
Private sector banks	28.4	29.1	43.5	47.7	65.1	67.9	72.4	74	75
Foreign banks	15.5	16.7	12.6	10.7	10.0	9.3	5.2	3	4
Total private sector	43.9	45.8	56.1	58.4	75.1	77.2	77.6	77	79

Source: State Bank of Pakistan, GoP.

11.4.6 The ongoing financial sector development and transformation has helped in meeting the growing financing requirements of the productive sectors, while generating consumption demand through increase in consumer financing that turned out to be one of the drivers of economic growth, thus provided a major stimulus to real sector growth in the country.

11.4.7 The reforms also improved the access of the pro-poor sectors such as agriculture and SMEs, to finance. The area of consumer finance also expanded sharply (Table 11.3). The number of institutions of Islamic banking and microfinance has increased, and are expected to enhance the deepening of financial services by offering facilities to persons who do not possess sufficient collateral to qualify for commercial bank loans and to those who remained outside the banking system because of religious reasons. The expansion in these sectors will further strengthen growth of the middle class as an engine of growth.

11.5 The way forward

11.5.1 The foregoing sections have shown the progress that Pakistan has made in what may be called the first generation reforms to the financial sector. However, in order to extract the fullest benefit from these reforms and to utilize the financial sector's resources to help sustain a high rate of economic growth, a second generation of reforms will be needed. With an average credit growth of 30 percent over the last three years and the rapid diversification of banks' loan portfolios; it is clear that the strategy will need to combine vigilance with the maintenance of a growth-enabling environment.

11.5.2 The SBP is now launching a ten year financial sector strategy. The objective of this strategy will be to broaden and deepen the financial system to help:

- Achieve higher and sustainable economic growth;
- Develop a dynamic and robust system;
- Mobilize domestic and foreign resources for private investment; and
- Deepen financial penetration for poor and underserved regions.

11.5.3 However, a prerequisite for financial sector growth is macroeconomic and political stability and augmentation of the enabling policy environment in the real sector. Assuming these preconditions are restored, the ten year strategy will:

- Stimulate growth in financial assets to 165 percent of GDP, growth in deposit base by 13 percent to reach US $217 billion, and advances to allow private sector credit/GDP ratio to rise from 27 to 42 percent;
- Support small savers and meet the requirements of small borrowers in agriculture, housing, small and medium enterprises (SME) and microfinance sectors by raising the financial penetration ratio through enabling policy environment and outreach expansion (coverage per bank branch to improve from 19,000 to 15,000 persons);
- Develop financial infrastructure and automation to enhance the coverage of automated teller machines (ATMs) to 10,000; and
- Reduce the systemic risks of the financial system by developing an adequate safety net for the small depositors and the central bank's lender of last resort functions as well as a framework for dealing with failing banks.

11.5.4 To achieve these goals, the SBP is putting together a comprehensive reform programme. The SBP has developed and has full ownership of this reform agenda and received technical assistance from the International Monetary Fund, the Asian Development Bank and the DFID of United Kingdom to draw from international experience and expertise. The section below further outlines the major areas of thrust of the second generation banking sector reforms.

11.6 **Financial Inclusion Programme (FIP):** In Pakistan the level of financial exclusion is quite steep: only 17 percent of the population (30 million) has bank accounts and less than 4 percent (5.5 million) are borrowers. Moreover only 25 percent of the total bank deposits and 17 percent of the total borrowers are from rural areas. In value terms their shares are even smaller, 10 percent and 7 percent of the total value of deposits and advances, respectively. Limited access to services is captured by the low level of branch penetration, especially in rural areas and this has held back the growth of savings and impacted credit distribution system. To address issues of access, the SBP has established a Development Finance Group which has developed a comprehensive Financial Inclusion Programme (FIP) with assistance of the UK Department of International Development (DFID) grant amounting to GBP 50 million that aims to promote access to development finance for all small and underserved markets. In Pakistan context there is need to encourage shift in banks' focus away from large companies to smaller companies and the household sector.

11.6.1 While keeping its focus on supporting sustainable and inclusive growth, FIP will mostly benefit the poor, small entrepreneurs, women and marginalized communities. It is estimated that the FIP interventions will expand the number of microfinance clients from existing 1 million to 3 million by the year 2010 and to 5 million by the end of the programme span of 10 years.

11.6.2 **Major Elements of Financial Inclusion Programme:** Keeping in mind the international experience of financial sector development and the state of Pakistan's financial sector, FIP focuses on market based sustainable financial services to the poor and the lower end of the market. Key outputs of the programme are listed below:

- **Well targeted Financial Inclusion Policy (FIP):** The FIP will help SBP and the government of Pakistan to develop evidence-based, coherent and well targeted financial inclusion policy in conformity with Pakistan's PRSP and sustainable growth strategies. In addition to the policy development, this component will strengthen SBP's capacity on regulation, corporate governance, procurement, development finance and programme implementation. The FIP is a policy programme which will encourage microfinance institutions and banks to focus on expanding outreach of financial services to women.
- **Credit enhancement:** In order to reach the FIP targets, it is estimated that the microfinance providers will require timely and predictable availability of funds in next three years. FIP interventions will therefore facilitate partnerships between commercial banks and microfinance institutions. The liquidity situation in the financial sector will be a key factor for launching Credit Enhancement Facility. In order to cover this risk, the SBP is about to launch the microfinance credit Guarantee facility for microfinance institutions.
- **Sector transformation and institutional strengthening:** The FIP aims to transform the microfinance sector from its reliance on state subsidies to market based, sustainable and inclusive financial services. The FIP will support institutional Strengthening fund that will invest in strengthening systems and human resources capacity of the financial sector intermediaries for efficient and cost effective delivery of financial services to the poor.
- **Innovation and delivery mechanisms:** The FIP will support a Financial Innovation Fund to address the supply side issues of financial innovation. Main focus of the Innovation Fund will be to support technology based affordable financial services and to encourage innovative schemes to reach out to marginalized groups in rural areas. The proposed fund will be managed by private sector professionals with adequate fund management and development expertise.
- **Small enterprises and rural financing:** The continued low levels of financing to small enterprises and rural population pose several challenges to sustainable growth in Pakistan. The FIP proposes to build on the existing work in these areas done by Small and Medium Enterprises Authority and SBP. The FIP will support in-depth analysis of different approaches to enhance market based solutions to improve financing to small enterprises and rural areas. In addition to evaluating effectiveness of credit guarantees, FIP will look at innovative options of venture capital financing and possibilities of replication of credit union models in Pakistan. Remittances play a significant role in poverty reduction in Pakistan, and have the potential to do substantially more.
- **Financial literacy:** Financial literacy and communication is a key part of the programme to create awareness about access to financial services, consumer rights and productive use of finances. The communication strategy will ensure regular dialogue

among the key stakeholders with particular emphasis on policy dialogue between the financial sector policy makers and the private sector both at local and regional levels.

11.6.3 **Strategy regarding phasing out of government ownership of assets in the financial sector:** The recent divestiture of state-owned commercial banks has substantially changed the structure of the banking sector in Pakistan and nearly 80 percent of sector assets are now controlled by private banks. The overall banking sector has now become considerably more competitive and responsive. Thus continuous restructuring has reduced the burden on the government and has left few minor areas to concentrate.

11.6.3.1 With the successful implementation of the privatization strategy for the state owned institution, currently the Government of Pakistan holds a 19.49 percent share in the United Bank Limited, 75.20 percent in the National Bank of Pakistan, 12.04 percent in the Allied Bank and 40.55 percent in the Habib Bank Limited.

11.6.3.2 For the future, the SBP recommends that the government continue divesting its remaining stake from the commercial banks. However, the same may be done at times when the international and national markets become stable or be moving towards stabilization, in order to fetch a better price.

11.6.5 **Strategy to resolve insolvent state banks:** Till now the basic strategy adopted by SBP to resolve insolvent state banks has been privatization. Currently, Industrial Development Bank of Pakistan (IDBP) is the only insolvent state owned bank and SBP is working for the resolution of IDBP.

11.6.6 **Corporate Governance Reforms:** The need for improved corporate governance in Pakistan is unmistakable. Good corporate governance is essential in establishing an attractive investment climate characterized by competitive companies and efficient financial markets. It is imperative that Pakistan's banking sector develops and implements good governance practices, in order to provide impetus to economic growth. In the realm of a rapidly globalizing world — characterized by liberalization of markets, relatively freer trade, sophistication of financial products and instruments, and growing awareness among consumers — Pakistan is ripe with lucrative opportunities for foreign and local investors alike.

11.6.6.1 While considerable progress has been achieved in enhancing corporate governance of banks, the SBP is working towards filling in the remaining gaps. In this regard, foremost is the need to develop a suitable cadre of professional directors who are knowledgeable of banks' affairs as well as independent of their management and majority shareholders. Allied to this is the need to clarify and strengthen directors' fiduciary duties to act in the interests of the bank and all of its stakeholders. It is also essential for banks to provide sufficient time and information to directors to prepare for Board meetings, structure Board meetings so as to allow ample time for discussion and establish appropriate criteria for assessing and improving performance of directors, including independent directors. To raise awareness on these and related aspects, the SBP is working towards issuing comprehensive corporate governance guidelines for banks.

11.6.6.2 Pakistan's corporate and financial sectors present corporate governance issues peculiar to complex ownership and group structures. By conducting operations through a complex network of subsidiaries, controlling shareholders often acquire control of operations and/or cash flows disproportionate to their equity stake in individual companies. The key issues that arise as a result include: (i) inequitable treatment of stakeholders; (ii) dominance of controlling shareholder-directors over Board proceedings; (iii) lack of independence of the Board from the management; and (iv) channelling of bank resources to the benefit of group concerns.

11.6.6.3 In order to address such corporate governance issues, the SBP is stepping up towards introduction of consolidated supervision, whereby it will not be monitoring banks as a standalone entity but rather as part of the entire banking group. This will help to evaluate the strength of the entire group and to mitigate risks arising from group companies. A significant component of consolidated supervision will be review of group structures and detailed examination of related party transactions.

11.6.6.4 The SBP has recently launched a survey of banks to assess their corporate governance practices. The survey will help to identify areas for reform in the regulatory framework as well as its implementation by banks. The survey results will be a key input in further improving the corporate governance framework for banks.

11.6.7 **Major focus on development finance to serve the underserved markets:** The key objective of the strategy for financial sector deepening is to improve access to funding by priority sectors in the economy; to provide advisory services to small borrowers; and to substantially enlarge banking services in rural areas. The government has been active in developing the prudential regulatory framework for the SME and microfinance sectors. However, even though these sectors have somewhat easier access to credit, there are still outstanding issues of inequitable distribution of credit to the sectors and segments that remain underserved. The key issues for the sectors are the improvement of delivery and outreach of banking services to far-flung areas, and the resolution of problems related to collateral.

11.6.7.1 The strategy to increase outreach will enable Microfinance Institutions to tailor their products to meet the needs of their customers as they move along the prosperity continuum. To support this programme, the SBP has encouraged commercialization of microfinance industry so that it is financially and socially sustainable. Some of the specific actions being launched are:

- Encouraging Microfinance Institutions (MFIs) to develop commercially viable operations that are financially and socially sustainable operations and transform them into microfinance banks (MFB) to provide holistic services. Tax holiday for five years has been provided to MFIs once they transform themselves into full-fledged microfinance banks (MFBs).

- Creating partnership between commercial banks and MF providers and the post office (PO) network and MF providers. (POs already manage over 4 million savings accounts, mainly small accounts below Rs 10,000, through more than 12,000 branches.) There is scope for the PO and MF providers to join forces with the latter acting as intermediaries for funds from the PO, especially as many MF providers are constrained in their operations by limited funding.
- Developing a flexible regulatory regime for MFBs to allow innovation and organic growth without compromising prudential objectives. Limits for MFBs (and MFIs) will be adjusted at least in line with inflation and a two-tier regime is to be considered under which MFBs (and MFIs) with track record of prudent governance, risk management and financial success could be given more room to operate. This includes capital adequacy requirements, which will be reviewed so as not to put MFBs (and MFIs) in a competitive position substantially worse than that of banks.
- Providing mobile phone-based banking services which is a cost effective way of bringing financial services even to the most remote areas of the country. This is an option with enormous potential as there already are almost two times as many mobile phone owners (some 80 million) as there are depositors. Mobile phone services reach almost every part of the country and would be an extremely cheap way for banks and other financial institutions to extend their reach.

11.6.7.2 In order to improve the access of financial services to these sectors, the State Bank is setting up a Development Finance Division dedicated to serve as an interface with the industry and improve access of credit to districts and provinces. The SBP has also been instrumental in the amendment of the legal framework for microfinance.

Box 11.1 : Microfinance Institutions

Microfinance Ordinance (2001) defines a Microfinance Institution (MFI) as a company that accepts deposits from the public for the purpose of providing microfinance services. MFIs in Pakistan include
Microfinance Banks (MFBs) regulated by the State Bank of Pakistan, in addition to some NGOs, RSPs and CFIs as detailed below:

Non-government Organizations (NGOs): These include NGOs operating as microfinance institutions as well as those running microfinance operations as part of their multi-dimensional Development programme. Specifically, Kashf, Sind Agricultural and Forestry Workers Coordination Organization (SAFWCO), Akhuwat, Orangi Pilot Project (OPP), and Asasah are operating as MFIs. Development Action for Mobilization and Emancipation (DAMEN), Taraqee Foundation and Sungi are proving microfinance services as a part of their overall integrated development services.

Rural Support Programmes (RSPs): These programmes are running microfinance operations as part of their multi-dimensional rural development programme.

Commercial Financial Institutions (CFIs): These are financial institutions in the mainstream financial sector, providing microfinance services as a separate function within the broader organizational context. Two such CFIs are Orix Leasing and The Bank of Khyber.

MFIs will develop gender sensitive financial products and will reach out to poor women.

Source: MFIs Ordinance (2001), Pakistan Microfinance Network Performance Indicators Report (2005).

Table 11.3: Distribution of borrowers by sector, 2002-08 (Number of borrowers)

	2002	2003	2004	2005	2006	2007	2008
Corporate Sector	14, 256	17,743	19,333	19,881	20,499	26,061	25,861
SME Sector	67,520	91,663	106,248	161,316	163,691	185,039	198,442
Agriculture	1,339,961	1,411,508	1,503,827	1,534,502	1,449,319	1,415,353	1,460,518
Consumer Finance	252,156	721,201	1,619,207	2,407,806	2,587,938	3,025,463	2,918,546
Commodity Operations	1,458	2,069	3,207	6,730	5,509	2,616	2,978
Staff Loans	72,570	69,796	72,633	72,927	76,840	90,527	91,969
Others	56,683	63,696	73,735	44,144	42,056	35,494	34,367
Total	**1,804,604**	**2,377,676**	**3,398,190**	**4,247,306**	**4,345,852**	**4,782,560**	**4,732,681**

Source: State Bank of Pakistan, GoP.

11.6.8 **Finance for small and medium enterprises (SMEs):** Access to finance is a major constraint to the growth and efficient functioning of small and medium enterprises (SMEs). The major reason for banks' reluctance to lend to small enterprises stems from the problem of 'asymmetric information.' Such enterprises are not subject to the rules of accounting and financial disclosure that are applicable to large firms; thus the banks know much less about the financial position of the SMEs than do the enterprises themselves. Moreover, owing to the small size of the loans generally required by SMEs, the cost of obtaining accurate financial information can be large in relation to the amount to be loaned. The banks, therefore, are caught in a dilemma — to lend without making diligent efforts to acquire the necessary information is to put the banks' money at risk, while the cost of making the required efforts can reduce the profitability of the loan to an unacceptable level. Thus, frequently the most prudent reaction for banks is not to consider the loan. The difficulties caused by asymmetric information are reinforced by the slow working of Pakistan's legal system, which makes it time-consuming and costly for a lender to recover the collateral in the event of a default, which further reduces the potential profitability of a loan.

11.6.8.1 Further, given the important role that SMEs play in poverty reduction, it is essential for the government to devise measures to ease their access to finance. In order to facilitate this access, the State Bank of Pakistan, established a separate SME department in 2005 to focus on SME financing issues. Key support institutions, such as Small & Medium Enterprise Development Authority (SMEDA) and SME Bank, have been restructured. The scheduled banks have been directed by the SBP to establish dedicated departments for handling SME financing. The State Bank has drafted separate prudential regulations for the SMEs, which permits commercial banks to make loans to SMEs on the basis of expected cash flows rather than physical collateral. This, of course, does not completely solve the problem of asymmetric information, but it gives the commercial banks somewhat more flexibility in dealing with the issue. According to the latest available statistics, SME financing constitutes 17.7 percent of the total loan portfolio of the banking sector.

11.6.8.2 The government also undertook other structural changes in the financial setup dealing with SMEs. It established the SMEDA in 1998 as an autonomous institution that would: (i) expedite changes in the policy and regulatory environment, increasing the share of manufacturing small enterprises from 5.5 to 7 percent, while decreasing the threshold and density of regulations thereby reducing the cost of doing business and facilitate government-SME interface; (ii) encourage the development of clusters through sector studies, strategic advice, and the creation of Common Facility Centres (CFCs); and (iii) facilitate investment and the acquiring of that technology, and improve practices related to training, finance, marketing, and those that would enhance productivity and competitiveness. The following are some of the initiatives that have been taken for growth of SME finance:

- Separate prudential regulations have been issued for the SMEs, which allow banks/DFIs lending to SMEs on the basis of asset conversion cycle/cash flow basis with a clean lending limit of Rs 3 million. This facility would allow the banks to be more innovative and develop different SME specific products to increase the outreach.
- Banks are encouraged to adopt a downscaling approach in SME finance. For this, under the Asian Development Bank (ADB) Technical Assistance, a report on 'SME Finance via Downscaling Approach' for banks in Pakistan has been prepared. Introduction and implementation of 'Downscaling approach' in collaboration with multilateral institutions, namely, ADB, World Bank and DFID is designed to provide existing commercial banks with the technical know-how they need in order to be able to disburse loans to very small and small and medium enterprises. During FY 2005/06 a German firm provided assistance to SME Bank and Bank Alfalah, while more banks will be provided technical assistance to implement downscaling approach on similar lines. This approach includes building whole spectrum of lending infrastructure within a bank ranging from establishment of SME lending units, IT, product development and training of staff.
- On the advice of the SBP, banks have established dedicated SME branches. These branches are collaborating with SMEDA and provide all the necessary information relating to finance along with guidance on how to become bankable.
- The State Bank has developed a number of different credit schemes that will devote special attention to financing needs of the SME sector.
- The State Bank, in collaboration with ADB, commissioned a feasibility study to strengthen secured transaction regime which will help develop a system that makes it efficacious for financial institutions to accept movable property as collateral. This was particularly important for improving SMEs' access to credit as they are more likely to be able to post movable property as collateral. A robust and secured transaction regime will help improve the enforcement of repossession and sale of movable property. The objective of this reform is to design methods that could shift a bulk of repossessing and selling of collaterals away from courts.

11.6.9 The way forward

11.6.9.1 A major reason for the SMEs' very limited access to credit is that lenders have virtually no information to assess the creditworthiness of the potential borrower. The government considers that if accurate information about the financial status of SMEs were more widely available, financial institutions would be more willing to lend. The SBP is, therefore, planning to set up a Credit Information Bureau with the private sector that would collect data on the credit history of SMEs. This information should go far to improve the capacity of the commercial banks to appraise credit risks in the SME sector.

11.6.9.2 The SME sector faces a host of both demand and supply side constraints impeding delivery. In line with international best practice, the SBP plans to promote SME financing through supportive mechanisms. This would involve help in designing specific products, and developing credit scoring system for SME finance and SME financial reporting system. In addition, banks are being encouraged to facilitate program based lending – in which banks establish general criteria for meeting the specific financing requirements of businesses – and cash flow based rather than collateral based lending. Work is under way to develop an appropriate credit enhancement mechanism which will facilitate bank lending to the sector. Also, the SBP is exploring with industry possibility of development of venture capital funds focusing on SME promotion and offering training to commercial bankers on SME lending methodology and approaches.

11.7 Islamic banking

11.7.5 The main aim of this initiative is to promote Islamic banking in Pakistan as a parallel banking system, comparable to and compatible with the conventional banking system and Shariah requirements. Growing at 10-15 percent per annum in the last decade, today the Islamic financial industry comprises a range of financial institutions, including banks, non-bank finance companies, venture capital firms, insurance companies, mutual funds etc., with dedicated regulatory, academic and legal institutions providing the necessary infrastructural support for their development. The Islamic financial industry in Pakistan has grown substantially since the launch of the SBP's focused strategy to promote a parallel Islamic Banking system in 2003. This performance is commendable for such a short period, given that other countries have achieved a similar growth in their respective Islamic banking industries after several years of existence.

11.7.5.1 A separate Islamic Banking Department was established in the SBP in September 2003. By 2007, six licensed Islamic banks and 12 conventional banks with more than 330 branches were operating compared with one bank with 10 branches in 2003. Islamic banking services are now available in 50 cities in all four provinces. Total assets of Islamic banking institutions (IBIs) grew from Rs 13 billion in 2003 to over Rs 225 billion at 30th June 2008. Based on assets, and the market share of IBIs in banking industry has grown from 0.5 percent in 2003 to 4.2 percent at 30th June, 2008. Pakistan can increasingly share the advantages of international best practices in adopting Islamic Finance and capture a large share of the market because of Shariah compliance. The SBP has adopted a comprehensive agenda to achieve this objective and has drawn transparent guidelines. Some of these specific measures include:

- **Islamic Financial Services Board Standard:** The Islamic Financial Services Board (IFSB) serves as an international-standards setting body of regulatory and supervisory agencies that is working to ensure the soundness and stability of Islamic financial services industry. IFSB promotes the development of prudent and transparent Islamic financial services industry by introducing new, or adapting existing international standards consistent with Islamic Shariah principles, with recommendations for their adoption. Being a full member of IFSB, the SBP is responsible to support and adopt the different standards approved by IFSB.

- **Human Resource Development:** For catering to the developmental needs of potential and existing workforce in Islamic banking, the SBP has launched an Islamic Banking Certification Course at the National Institute of Banking & Finance. The course is aimed at building capacity of bankers to deliver Islamic banking products and services.

- **Cooperation at International level:** In order to enhance investment opportunities and strengthen linkages with global Islamic financial markets, the SBP became a permanent member of International Islamic Financial Market (IIFM) and participated in its Board of Directors meetings, working groups etc.

- **Liquidity Management:** A Task Force has been formed to map out a plan for the introduction of short and medium term liquidity management products based on innovative Islamic structures. It has also prepared a structure for short term Shariah-compliant government instrument which has been sent for government approval.

- **Accounting and Taxation Issues:** For development of accounting standards for Islamic modes of financing, a Committee was constituted at Institute of Chartered Accountants Pakistan (ICAP). This Committee is reviewing the accounting standards prepared by Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain (AAOIFI) with a view to adapting them to Pakistani circumstances and if considered necessary to propose new accounting standards. There have been some major taxation issues faced by the industry due to its nature of asset backed/trade based modes of financing. The SBP, along with other relevant bodies took-up the issues with FBR for resolution of tax problems.

11.7.5.2 Although Islamic banking has been expanding, it is still relatively insignificant compared with conventional banking. It has the potential to be an important segment of the financial industry with the potential of mobilizing savings from the numbers of people who are reluctant to engage with conventional commercial banks because of religious reasons. If Islamic Financial Institutions are to compete with other national and international institutions, there is a particular need to enhance their capitalization and efficiency, and to ensure that they are at par with international best practices.

11.7.6 **Further consolidation and restructuring of the banking sector**: Further consolidation is necessary to ensure presence of stronger and well capitalized banks that can support diverse financial services and client requirements, while adequately managing risks. There are several reasons to consolidate banks through mergers or acquisitions. One reason is the need for a large capital base. A large capital base which serves as a buffer to absorb losses and, therefore, provides the institution with credibility and its customers with confidence in the institutions. A second motive for consolidation is customer growth as with increasing economic development, customers are likely to undertake larger transactions; thus banks will thus be required to provide greater financial commitments so as to stay in the race. As part of this strategy, the SBP has approved, in principle, five mergers:

- Standard Chartered Bank (SCB) has acquired Union Bank which had earlier acquired Bank of America and Emirates International Bank. Following this, SCB will emerge as a local subsidiary;
- Merger of Rupali Bank's Pakistan operations with and into Habib Rupali Bank;
- Merger of Atlas Investment Bank with and into Atlas Bank Limited after its acquisition of Dawood Bank Ltd;
- Merger of Habib Bank AG Zurich's Pakistan operations with and into Metropolitan Bank; and
- Merger of PICIC and PICIC Commercial Bank.

11.7.7 **Strengthening competition and efficiency:** To enhance competitiveness, the SBP will primarily focus on continuing to further broaden and deepen the financial system. Efforts are under way to: (i) review the actual behaviour and conduct of banks related to structure of banking industry and takes the required actions; (ii) encourage contestability by allowing entry; and (iii) promote development of NBF intermediation to improve bank competition. The SBP has also sought to remove structural distortions that have impeded competition.

11.7.8 **Development of Core Financial Infrastructure**: A number of initiatives are under implementation or to be launched to improve the efficiency of the financial system. These include:

- **Retail payment system:** On 1st of July, 2008 the SBP launched the Pakistan Real Time Gross Settlement (RTGS) system for wholesale transactions. In addition, work has started for modernization of the retail payments and settlement system which will encourage electronic and mobile phone based transactions, while taking due consideration of privacy and security matters and the development of an appropriate legal framework.
- **Credit Information Bureau:** The SBP's electronic Credit Information Bureau (eCIB) has already helped credit risk management in all financial institutions. With up-to-date (almost real-time) data and coverage of almost 5 million consumer and commercial

borrowers, it provides financial institutions, both large and small, an invaluable risk management tool. The SBP will further develop operational software for borrower analysis and credit scoring which will help in credit analysis of banks.

- **Credit rating agencies:** Corporate ratings are needed for the standardized approach of Basel II implementation as well as for the development of a private debt securities market and for listing of companies on the stock exchange. There are two rating agencies who have rated a few companies, as there is little need and few incentives for companies to subject themselves to external scrutiny. The incentive framework for the services provided by private rating agencies needs to be analyzed with a view towards identifying measures and incentives that will result in more company ratings which would also help facilitate listings of private debt securities.
- **Land and property registries:** Land and property titles are available in urban but not in rural areas. Improved land titling systems in rural areas could be seen as a necessary underpinning for an improved credit extension process by allowing collateralized lending for the agriculture, SME and housing sectors. Security of title is essential. The SBP is exploring ways to facilitate pilot studies and efforts to develop off the shelf systems and make it affordable for local and provincial governments to introduce new registries and systems over the medium term.
- **The judicial system:** An efficient financial system requires legal certainty and enforceability of contracts. The present court system needs to be further equipped to deal with financial transactions and disputes. This would require a long term programme to train judges in commercial and financial law and perhaps to establish more specialized courts to deal with financial matters.

11.7.9 **Further strengthening of supervisory regime:** The main focus of the strategy is the further refinement of regulations and the supervision framework and involves the following strategic thrusts:

11.7.9.1 **Consumer protection infrastructure:** In the coming years, the financial sector will increasingly be deregulated so as to increase competition. The challenge is to ensure that this deregulation does not disrupt the level or reliability of service to consumers. The government's strategy in this area includes policy recommendations to guarantee consumer protection in an increasingly market-oriented financial system. The SBP on its part is focusing on effective compliance with customer service regulations and following it up with proper enforcement to motivate banks to render good service and deal fairly with customers. To supplement and reinforce this, the SBP plans to:

- **Introduce a Consumer Protection Bill**, in line with international best practices, which would among others provide guidance on issues of transparency, confidentiality, availability of statements, account servicing, protection against fraud, unfair contracts and lending practices, methods of debt collection, arbitrary penalties, etc. An appropriate dispute settlement mechanism will be established;

- **Encourage Pakistan Banks' Association** (PBA) to adopt a Banking Code to commit banks to fairness, disclosure and ethical standards;
- **Strengthen the newly established Consumer Protection Department of the SBP** to monitor compliance with such new laws, regulations and codes;
- **Transform and strengthen the role and functions of Banking Ombudsman,** which will remain an independent body from the regulators, to be better aligned with the above developments; and
- A long-term campaign to enhance financial literacy will be launched in rural and urban areas both by commercial banks and the SBP with the support of the IBP, NIBAF and PBA.

11.7.9.2 **Depositor protection scheme:** Since private banks, which form the bulk of the financial system, are outside the Banks' (Nationalization) Act, 1974, the SBP is developing a blue print for a limited deposit protection scheme (DPS) to protect small depositors.

11.7.10 **Strengthening risk management:** Pakistan has instituted an all-embracing framework viz. the Institutional Risk Assessment Framework (IRAF) to further strengthen the supervisory mechanism and for mitigation of the variety of risks. The framework envisages a collaborative supervisory focus amongst different supervisory departments within the SBP to ensure cohesive monitoring of risks within banks and Development Finance Institutions. The framework is highly technology driven — integrating off-site surveillance, onsite examination, and current market information — and provides for the timely flow of information, thereby enabling the SBP to supervise financial institutions more effectively.

11.7.10.1 Further, considering the importance of a forward looking approach to risk management, the SBP has instituted and is strengthening a framework of stress-testing. The framework is based on single factor sensitivity and regression-based analysis. Using this framework, the exposure of all banks towards five major risks — interest rate risk; credit risk; real estate price risk; equity price risk; and exchange rate risk — will be assessed, after subjecting the underlying risk factors to unusual, but plausible, shocks. These exercises help considerably to assess overall risk exposures as well as structural vulnerabilities in banks.

11.7.10.2 The SBP is taking action to ensure that these methods of risk management are internalized and used in a consistent manner in the financial institutions. To this end, the SBP has issued guidelines on stress testing. These guidelines contain a framework for regular stress testing, the technique and scope of stress testing, along with methodologies and calibration of shocks.

11.7.11 **Consolidation of supervision:** Recognizing the need to evolve an appropriate oversight policy mechanism for its evolving financial structure, the SBP, as part of its overall financial sector reforms launched in July 2008, has advocated the need for legislature to empower the central bank to augment its oversight of the financial sector. The significant challenges posed by universal banking, large financial groups and holding company structures now warrant a matching legal framework to avoid any major disruptions in the economy and in the process of financial intermediation. Recognizing these challenges, SBP has sought in principle approval from the requisite forums for amendments in the Banking Companies Ordinance (BCO) to enable it to supervise banks, groups and financial holding companies in line with international trends. The legislative reforms in this area have recently been approved, in principle, by the Cabinet and are to be tabled for consideration of the Parliament.

11.7.11.1 Besides forestalling various risks, these amendments would enable significant benefits in the form of operational efficiency, lower costs, reduced prices and innovation in products and services. Moreover, one of the Core Principles for effective banking supervision (CP-24) issued by the Basel Committee on Banking Supervision requires that a banking supervisor should be able to supervise the banking groups on a consolidated basis. Presently, Pakistan is either compliant or largely compliant with all the core principles except those dealing with consolidated supervision. The proposed amendments in the BCO would also enable Pakistan to ensure compliance with this principle.

11.7.12 **Basel II implementation:** The SBP has initiated the implementation of the new Basel II minimum capital adequacy requirements. Banks have made major advances in implementation of the new framework though many face challenges in areas like integrated risk management policy, collateral management and the limited availability of credit ratings for counterparts.

11.8 Non-banking sector

11.8.5 Capital markets

11.8.5.1 Pakistan's stock market has been one of the best performing markets in the region in recent years. However, the situation has changed since the start of 2008. The global financial crisis, unprecedented current account deficit, hyper inflation, reduction of foreign exchange reserves, and depreciation of Pak Rupee against the US dollar coupled with political uncertainty and a deteriorating law and order situation have hurt the stock market badly.

11.8.5.2 Prudent macroeconomic management, supported by healthy macroeconomic indicators and broad-based reforms, is critical for the revitalization of capital market and flow of foreign investment. Sustainable economic policies will build long term interest of the capital markets providing impetus to the investment climate and engendering investor confidence, thus paving the way for a healthy and dynamic capital market that is fair, efficient and transparent for all stakeholders.

11.8.5.3 The SECP is an autonomous statutory body that is entrusted with the integrated administration and regulation of, inter alia, the capital markets, corporate sector and financial (non-banking) sectors in Pakistan. Their regulatory ambit extends to the Insurance sector, NBFIs and to the significant components of capital markets such as Stock Exchanges, Commodity exchange, CDC and NCCPL, besides the vast and growing corporate sector. The policy making for each of these areas also falls under preview that entails not only the revision of existing laws and regulations to bring them in line with best practices but also the promulgation of new laws, etc. The mandate entrusted upon the Commission has made it a catalyst to evolve the capital markets of the country as progressive, transparent and efficient, employing best practices and safeguarding the interests of the investors at large. As the regulator of an emerging market the SECP's regulatory philosophy is based on the principle of developmental regulation. The SECP, therefore, lays considerable emphasis on market development while administering and enforcing various corporate and securities laws.

11.8.5.4 The SECP has undertaken various capital market reforms to bring stability and protect the investors. Some of these reforms include development of laws and regulations such as amendments in Proprietary Trading Regulations, 2004; amendments in National Clearing and Settlement System regulations; and development of new products, market transparency, and governance regulations. Some of these measures include the following regulations specifically for Risk Management and Corporate Governance along with the development of new products/systems:

- Conversion of Carry-Over Trade (COT) transactions into Continuous Funding System (CFS) to improve liquidity in capital market;
- Redefining of Net capital balance in line with international standards;
- Introduction of Capital adequacy standards for brokers;
- Strengthening of Margin deposits with pre-trade margin verification at the exchanges;
- Defining of position limit for brokers in the ready, futures and CFS Market;
- Elimination of Group accounts and prohibition of Brokers from trading via accounts of other brokers;
- Launching of Universal Identification Number (UIN) at pre trade level to strengthen the disclosure regime to deter any wrongdoing; and
- Implementation of T+3 settlement system replacing weekly settlement bringing the market at par with various international jurisdictions and assisted in reducing the overall settlement risk in the market. The reduction in settlement cycle is also beneficial to the brokers as it provides them a relief in their capital adequacy and margining requirements.

11.9.10 Corporate Governance Reforms

- Independent management has been appointed at the stock exchanges to run daily operations. The structure of boards of directors of stock exchanges has been changed through nomination of non-member directors, one of whom must also be the chairman of the board.

- Pursuant to the introduction of the Code of Corporate Governance in March 2002, the SECP has taken several measures to increase the level of transparency and disclosure in corporate reporting. Several amendments were made to the Companies Ordinance, 1984 so as to make key provisions of the Code applicable to all companies including public sector listed companies.
- A significant development along the road to sustainable corporate governance reforms is the establishment of the Pakistan Institute of Corporate Governance (PICG) that would impart training and education, create awareness, undertake research, publish guidelines and other resource material, and would be a forum for discussion on corporate governance.

11.9.10.1 **Development of New Products/Systems - Market Development**

- **Free Float Index:** KSE-30 Sensitive Index based on free float of scrips was put in place with effect from September 1, 2006. There had been a need to introduce a free float index that is representative of the market as the capitalization weighted KSE 100 Index was not representative because of over weightage of a few scrips.
- **Introduction of Cash Settled Futures Contracts Market**: Cash settled futures contracts were introduced at KSE on April 2, 2007 subsequent to promulgation of the Regulations Governing Cash Settled Futures Contracts. Cash Settled Futures Market being a derivatives market provides another avenue for source of financing for the Capital Market, increasing the liquidity thereof.
- **Unified Trading System Platform:** The introduction of a unified trading platform will enable the exchanges to expand their trading activities and enter into a new era which envisages increased trading volumes, better price discovery, and a better quality of trade execution for the investors.
- **Introduction of Financial Institutions (FIs) Margining System**: This system was implemented by NCCPL in December 07, 2007 and the salient features thereof are as follows:
  - Margins deposited by FI's directly with NCCPL;
  - Release of Margins of Brokers once margins deposited by corresponding FI's;
  - Default management by NCCPL in case of Non Broker Clearing Member; and
  - Risk Management of Non Broker Clearing Member at NCCPL.
- **Index Futures Contracts:** The KSE has introduced Index Futures Contract on KSE 30 Index from March 2008. Index Futures Contracts Market is a derivatives market which provides another avenue of source of financing for the Capital Market, increasing the liquidity thereof.
- **Establishment of Islamic Index:** The Commission had earlier proposed introduction of an Islamic Index at the stock exchanges for the purpose of promoting listing of Shariah-compliant companies on the Pakistani stock market and encouraging

international and local players to list and trade their Shariah-based shares/instruments on an Islamic index. The Karachi Stock Exchange, in collaboration with Al-Meezan Investment Management Ltd, has successfully launched the first co-branded Islamic index, KSE-Meezan Index (KMI), comprising of 30 Shariah-compliant companies. A soft launch of the index was carried out on July 1, 2008 and the KMI was formally launched and became fully operational from the 1st of *Ramadan*[161] this year i.e. September 02, 2008.

11.9.10.2 The government has launched comprehensive second generation of capital market reforms to facilitate the mobilization of financial resources for productive investment and employment generation. The reform agenda aims at:

- The development of institutional investors to facilitate long term capital formation and increase the demand for securities;
- Improving the efficiency of securities markets to increase the supply of corporate securities and optimize the allocation of financial resources into productive investment; and
- Strengthening the governance of capital markets to improve market transparency and protect investors.

11.9.10.3 The government plans to put special emphasis on strengthening the enabling environment for pension funds and other non-bank financial institutions, given the strong causal relationship between the level of development of institutional investors and the deepening of capital markets. While limited supply of suitable assets, including corporate equity and debt, clearly hampers the development of institutional investors, the relative underdevelopment of contractual saving schemes offered by institutional investors limits the demand for securities.

11.9.10.4 To restore investor confidence, the regulator is strengthening the governance of exchanges by restructuring Boards and appointing independent management, encouraging the demutualization of exchanges, while strengthening risk management systems (including the introduction of T+3 settlement[162] and circuit breaker limits[163], and raising the requirements on capital adequacy for brokers). Investor confidence will be further enhanced as the Code of Corporate Governance has been incorporated into the listing regulations of stock exchanges. There is enhanced vigilance to check undisclosed trading and front running, and effective enforcement mechanisms are implemented. Additional efforts to develop the market include the introduction of stock futures, an over-the-counter market and online access for internet trading, and gradually

[161] Islamic holy month of fasting.
[162] Investors must complete or "settle" their security transactions within three business days. T+3 means that when you buy a security, your payment must be received by your brokerage firm no later than three business days after the trade is executed.
[163] These are trading limits designed to cap maximum stock market price decline in a single day.

phasing out badla (a form of short-selling) with the Continuous Funding System (CFS) and eventually margin financing to provide funding to leveraged investors.

11.9.11 **Demutualization of the Stock Exchanges:** Demutualization is the process of converting a non-profit, mutually owned organization to a for-profit entity owned by the shareholders. In the context of stock exchange the demutualization process involves not only Corporatization, which is conversion of a stock exchange limited by guarantee into the one limited by shares but also it segregates ownership and trading rights. Hence demutualization brings balance among interest of different stakeholders in the corporate and governance structure of a stock exchange. The SECP in consultation with the stock exchanges developed the draft Stock Exchanges (Corporatization, Demutualization and Integration) Rules, 2008, which are in the pipeline for approval.

11.9.12 **Development of New Regulatory Laws:** The following Rules/Regulations have been drafted which would be notified after necessary review and due deliberation by the Commission:

- Balloters and Securities Registrars Rules;
- Underwriter (Registration and Regulation) Rules;
- Bankers to an Issue Regulations;
- Debenture Trustee Regulations.

11.9.13 **Draft Futures Trading ACT, 2008:** Future Contracts are legally binding agreements between two parties through a regulated future exchange. The SECP is currently working on Futures Trading Act to provide for a comprehensive and independent legal framework for the regulation of Futures contracts.

11.9.14 **Non-bank financial institutions (NBFIs)**

11.9.14.1 In Pakistan non-banking finance sector includes mutual funds, venture capital funds, *Modaraba,*[164] pension funds, Real Estate Investment Trusts (REITs) as well as companies engaged in the business of leasing, investment banking, house financing and investment advisory services. The concept of Non-Bank Finance Corporations (NBFC) regime was introduced jointly by the SBP and the Commission through amendments in the Company's Ordinance 1984, pursuant to which regulatory oversight over NBFCs was transferred from the SBP to the Commission in 2002.

11.9.14.2 In order to bring efficiency to the financial sector and consolidate the fragmented business of NBFIs, rules relating to NBFC were promulgated in 2003. These were followed up by the introduction of the Universal NBFC concept in 2005 with the objective to consolidate the non-bank financial services sector by allowing multiple

[164] A special kind of Islamic partnership where one partner gives money to another for investing in a commercial enterprise.

business lines under one umbrella. Key statistics of NBFCs sector, as at June 30th, 2008 are as under:

Table 11.4: Key Statistics of NBFIs FY 2007/08

Sector	Total Assets	Total Deposits
Mutual Funds	339.718	
Leasing Companies	65.920	11.035
Investment banks	58.017	14.411
Modarabas	29.703	3.719
Venture Capital	3.760	-
Housing Finance	0.149	0.005
Total	**497.267**	

Source: Securities and Exchange Commission of Pakistan, Government of Pakistan, 2008.

11.9.14.3 Over the past few years, the mutual funds industry has been the star performers amongst NBFIs. The emergence of the mutual funds in the financial sector will allow small investors to take on diversified risks in the capital markets. In terms of assets size, mutual funds constitute 68 percent of the entire NBFCs sector. During the last several years, mutual funds have shown the highest growth in terms of numbers and assets. The total number of mutual funds increased from 67 as of 30-06-2007 to 87 as of 30-06-2008, while their net assets increased from Rs 295 billion to Rs 326.822 billion during the period, depicting a growth of 10 percent. Details of assets managed under different categories of mutual funds are provided below:

Table 11.5: Assets Structure of Mutual Funds FY 2007/08

Sr. No.	Nature of Mutual Fund	Closed End Funds		Open End Funds		Grand Total		percent to Total Assets
		No.	Total Assets (Rs million)	No.	Total Assets (Rs million)	No.	Total Assets (Rs million)	
1	**Asset Allocation Funds**	1	3,272.31	7	5,769.19	8	9,041.50	2.7
2	**Balanced Funds**	3	3,926.15	4	11,224.06	7	15,150.21	4.5
3	**Capital Pro. Funds**	3	1,426.79	4	5,048.48	7	6,475.27	1.9
4	**Equity Funds**	10	32,906.38	7	102,768.57	17	135,674.95	39.9
5	**Fund of Funds**	1	609.54	1	1,302.81	2	1,912.34	0.6
6	**Income Funds**	-	-	21	117,941.71	21	117,941.71	34.7
7	**Index Funds**	-	-	5	7,857.15	5	7,857.15	2.3
8	**Islamic Funds**	2	3,366.37	12	20,875.74	14	24,242.07	7.1
9	**Money Market Funds**	-	-	4	19,213.42	4	19,213.42	5.7
10	**Sector Funds**	2	2,209.56	-	-	2	2,209.56	0.7
TOTAL		**22**	**47,717.06**	**65**	**292,001.14**	**87**	**339,718.20**	**100**

Source: Securities and Exchange Commission of Pakistan, Government of Pakistan, 2008.

11.9.14.4 Future plans for the sector include promulgation of the regulatory framework for real estate investment trusts, promulgation of a regulatory framework for private equity and venture capital funds, amendments to NBFC rules in the light of international best practices, strengthening of on-site and off-site monitoring of entities along with computerized quarterly analysis of information to assess the financial health of NBFIs. An independent NBFC Law is also being processed to overcome the encumbrances of being a subordinate to the Companies Ordinance.

11.9.15 **Insurance**

11.9.15.1 As of 30th June 2008, there were five life insurance companies, 51 non-life insurance companies, one *Takaful*[165] operator, and one reinsurance company operating in Pakistan. Since 2000, various laws have been administered in order to reform insurance regulation. These include the Insurance Ordinance 2000, SEC (Insurance) Rules 2002, Ministry of Commerce Rules 2002 and *Takaful* Rules 2005. Other regulatory changes include the abolition of the office of controller of insurance and conversion of Corporate Law Authority into SECP within which a separate department was formed to look after the affairs of the insurance industry.

11.9.15.2 The financial sector strategy includes reforms to the pension and insurance systems. As a beginning, the government is encouraging the Voluntary Pension Schemes and allowing Asset Management Companies and Life Insurance Companies, meeting the proper criteria, to be licensed to act as Pension Fund Managers. Life insurance companies will be authorized to offer Annuity Plans at the retirement age of participants. For insurance businesses, stringent solvency standards have been introduced and minimum capital requirements have been enhanced. Insurance companies have also been directed to obtain reinsurance treaties from international 'A' class reinsurers.

11.9.15.3 Further reforms in the insurance sector will bring Postal Life Insurance under the ambit of the Insurance Ordinance 2000; remove anomalies in the tax laws and change the governance structure of public sector insurance companies. In order to ensure that the insurance industry penetrates the rural areas and reaches the marginalized groups, steps will be taken to make group insurance compulsory. Moreover, under the financial sector strategy, a framework will be developed whereby all insurers will be required to write a certain proportion of their business in rural areas as well as among the socially deprived by introducing micro-insurance schemes.

11.9.16 **Foreign investment**

11.9.16.1 Reforms have transformed the financial sector into a privately-owned and a competitive field making it one of the top three destinations for foreign investment inflows.[166] The sector has seen booming FDI inflows in Pakistan during recent years (FY 2002/03-FY 2006/07). These inflows were further strengthened by aggressive privatization programme and saving glut available in the international market. As a consequence, FDI increased from below US $1billion in FY 2002/03 to US $5.1 billion in FY2006/07. Importantly,

[165] Islamic insurance. In principle, the Takaful system is based on mutual co-operation, responsibility, assurance, protection and assistance between groups of participants.
[166] FDI in the top three sectors for Juyl-March FY 2006/07: Telecommunications — US $1.35 billion, Financial Business — US $696.1 million, Oil & Gas Explorations — US $420.1 million.

Pakistan has been able to record close to US $5.2 billion FDI in FY 2007/08, despite heightened political uncertainty and emerging economic imbalances during the period.

11.9.16.2 A significant change in the composition of FDI is also witnessed in the last five years. Oil and gas producing sectors have traditionally dominated the preferences of foreign investors which now stand diversified to telecommunication and financial sectors in the wake of liberalization of the latter. The increased inflows in the telecommunication and financial sectors not only benefited the consumers in the form of variety of products and low prices but it also contributed significantly in the overall GDP growth through expansion of services.

11.9.16.3 Many of the existing foreign banks have enhanced their stake and new foreign banks have entered the domestic market for the first time, either through acquisitions or by establishing new banks. Thus, for example, Standard Chartered Bank acquired Union bank, ABN Amro acquired Prime bank, while Tamasek of Singapore established NIB bank. Several other transactions are in the pipeline; all this activity reflects the profitability of the banking sector in Pakistan.

11.9.16.4 In the last three years (FY 2004/05-2006/07) foreign flows in portfolio investment picked up sharply in the wake of a combination of factors. On the one hand, liquidity comfort in international market and political and economic stability at home enabled Pakistan to raise funds from international capital market, in the form of euro (sukuk) bonds and Global Depository Receipts (GDR), at favourable rate. On the other hand, remarkable performance of stock market also attracted sizeable amount of foreign investment in the last two years. As a result, Foreign Portfolio Investment (FPI) increased from US $0.6 billion in FY 2004/05 to US $3.3 billion in FY 2006/07. However, the congenial international and domestic environment changed in FY 2007/08. The crisis that hit international financial markets led to capital flight from emerging economies' stock markets and also increased the risk premium of raising funds. The effect of the adverse development on external front was further compounded by political uncertainty and emerging imbalances in Pakistan economy which increased country risk as was reflected by Standard & Poor's downward revision (from stable to negative) of Pakistan outlook on the long term foreign and local currency sovereign credit rating. Consequently, FPI plunged to US $36 million in FY 2007/08.

11.9.16.5 The country's privatisation programme has further spurred interest on the part of foreign investors for buying stakes in local companies. In FY 2006/07, the government successfully completed privatisation of 7 transactions amounting to Rs 104.315 billion. This includes sale of OGDCL GDR, UBL GDR, OGDCL SPO, Pak American Fertilizers, Javedan Cement Limited, Lyallpur Chemical & Fertilizers and Lasbella Textile Mills. During the period from July to December 2007 3.26 percent UBL shares have been sold through GDR for Rs 5.159 billion and 7.5 percent shares of HBL have been sold through IPO for Rs 12.161 billion. To date, the government had completed or approved 166 transactions at gross sale price of Rs 475,081.2 million.

11.9.17 Future Outlook

11.9.17.1 Pakistan has been quite successful in attracting FDI in recent years. However, the country has the potential to increase FDI inflows substantially because of its favorable geographical location and a relatively large population which offers a vast potential for the marketing of both consumer and durable goods. The 'WTO Trade Policy Review (TPR) for Pakistan, 2008' indicates that the major remaining investment limitations include: poor coordination and collaboration between relevant regulatory bodies; duplication of requisite permissions; inadequate implementation of incentives, and their non-competitiveness compared to those offered by regional governments; an improper domestic arbitration framework to resolve commercial disputes; and lengthy and time-consuming judicial procedures. Moreover, investors also remain discouraged by political instability, sectarian violence, weak infrastructure and high crime rates. In addition, the portfolio investment inflows are less likely to pick up in the near future due to deteriorating economic fundamentals and worsening global financial crises. Given the volatile nature of the portfolio investment, there is need to devise some sort of mechanism to control sudden outflow of capital to avoid market volatility as has been experimented in some of the Latin American countries.

11.9.17.2 In addition, FDI in Pakistan is mostly concentrated in non-tradable sectors which have relatively limited potential to generate exportable surplus and thereby alleviate pressure on country's external account. Thus, there is a need to channel FDI inflows to tradable sectors such as agriculture, textile, leather, automobiles and chemicals, etc. Likewise, within services sector, instead of narrowing FDI down to financial and telecommunication sector, it should be encouraged in wholesale and retail trade as well as in transport and housing sectors. Keeping in view the recent developments involving the approval by the IMF's Board of Directors of a US $7.6 billion loan in support of Pakistan's economic stabilization programme and the government's concrete efforts to generate foreign reserves while maintaining economic stability in the country, investor's confidence would get boosted which will help restore flows of Foreign Investment in the country.

Chapter 12 - Pillar IX: Governance for a Just and Fair System

12.1 Governance is the manner in which public institutions and officials acquire and exercise authority to shape public policy and provide public goods and services. It is a critical pillar of Pakistan's Poverty Reduction Strategy, because it is the poor that especially suffer from lack of security, empowerment, and opportunities.

12.2 The government is committed to delivering public services in an efficient and effective manner. In the past, much of the effort towards this objective was focused on establishing a well-performing, merit-based public service and efficient public financial management. But this core of public administration tends to become self-serving unless stimulated by the 'demand' upon government for good administration and public services — coming from the National Assembly, the judiciary, the media and civil society — institutions that hold the government accountable. The Local Government Ordinance, 2001 led to fundamental restructuring of parts of the political and administrative setup in order to devolve significant powers away from the federal and provincial authorities towards local governments.

12.3 Political and administrative devolution have helped improve some social indicators. The survey findings from the Household Consumption Expenditure Survey (HCES) 2004, relating to the local government functions are encouraging and show an improvement in the living conditions of population since FY 2000/2001. This includes an increase in the sources of drinking water, households using flush system and use of underground sanitation. Other social sector indices, such as education, have registered an increase in the last three years. Another recent survey (CIET/NRB Survey[167]) also shows that there is improvement in access to services, citizen's satisfaction levels have improved, and revenue generation by local governments has shown significant increases.

12.4 The governance agenda for the PRSP II period will need to comprise both (i) stimulating the demand for good governance; and (ii) increasing the government's capacity to efficiently implement the required response. During 2004-2007, the government's effectiveness and regulatory quality have been estimated in the 25th to 50th percentile, while voice and accountability, rule of law, and control of corruption have been in the 10th to 25th percentile among 212 countries for which these indicators are available.[168]

12.5 This rebalancing of political authority will strengthen demand and require policymakers to respond quickly and effectively. This view of governance is especially relevant to the current time. For more than half its history, Pakistan has not had a democratic government. The return of democracy, therefore, is likely to bring in its train pressures for governance to

[167] Registered in February 1994 as a non-profit, NGO based in New York, Community Information and Epidemiological Technologies (CIET) is an international group of professionals from a variety of disciplines, including epidemiology, medicine, planning, communications and other social sciences, who bring scientific research methods to community levels.
[168] Worldwide Governance Indicators, World Bank Institute at http://info.worldbank.org/governance/wgi/index.asp

take directions towards which the country did not previously perhaps show the same urgency.

12.6 Demand for Good Governance

12.6.1 Locally elected leaders are more familiar with their constituents' needs than are authorities at the national level, and physical proximity can make it easier for citizens to hold local officials accountable for their acts. This reasoning lay behind Pakistan's decision to devolve increasing amounts of power and fiscal responsibility from the federal to the provincial, and from the provincial to the district levels of government.

12.6.2 The share of women in national decision-making has improved significantly. The 33 percent quota under the devolution plan for women at the union, tehsil and district levels provides a platform for mainstreaming women in the development process. Seats for minorities, peasants and workers, on each local council ensure inclusion of the vulnerable and poor groups.

12.6.3 The devolution plan institutionalizes community participation by setting up an institutional base of Citizens Community Boards (CCBs) at the grassroots level for participatory development and bottom-up planning. The CCBs through voluntary and self-help initiatives take up improvement of service delivery and development and management of new public facilities. More than 42,469 CCBs have been registered in the provinces and projects have been initiated. Under the law, at least 25 percent of the development budget is to be expended through CCBs. The unspent CCB funds are credited in the following year's budget. The maximum share of the Local Government is 80 percent and the CCBs are required to contribute at least 20 percent. In addition, as envisaged in LGO 2001, the Devolution Trust for Community Empowerment (DTCE) has been established as a non-profit, non-governmental organization working to promote community empowerment through citizen participation at the grassroots level by facilitating the organization of CCBs and implementation of CCB development projects. DTCE has made networking arrangements with the Rural Support Programme Network (RSPN) and National Council for Human Development (NCHD) to enhance its effectiveness.

12.6.4 More vigorous civil participation requires continuing changes in the manner in which economic and other policies are conducted: more transparency and accountability for actions by the upper tiers of government. This, not unexpectedly, caused some discomfort initially in certain areas of the government, but overall has made government actions more effective because they are increasingly seen as more responsive to people's felt needs (see the participation levels of stakeholders' consultations in Annex I). However, the wider diffusion of political authority is not simply a force that urges greater efficiency on the supply of services; it also works in important ways to create new demands for better governance.

12.6.5 The more direct reactions from the grassroots level have affected the contours of the Poverty Reduction Strategy in at least four ways. First, all stakeholders emphasized the importance of strengthening and enforcing the rule of law. If this vital pillar of governance is not effective, the lack of security would prejudice not only economic activities (such as investment), but would severely diminish the quality of life. The poor would be worst affected, because they have the least resources to cope with insecurity and a lack of justice.

12.6.6 Second, the increased awareness of political power puts more pressure on making the provision of full employment a central tenet of economic policy-making. This will call for a delicate balance. The country's resources do not permit the creation of large numbers of 'make work' jobs in the public sector. Hence, most of the jobs will have to be created in the private sector. Yet, in dealing with the private sector, an important asymmetry exists. The authorities can prevent the private sector from doing certain things (by, for example, passing a law or denying the sector access to some key input), but they cannot make the private sector do something; they can only provide incentives that the private sector will consider sufficient. A key challenge for governance in realizing the country's poverty reduction goals will be to create a business environment in which the private sector feels secure and in which it is willing to invest on the scale that would create the required number of productive jobs, while ensuring that the response to the profit motive does not damage the country's key social goals. These issues are explored at greater length in the chapter on creating a more competitive economy.

12.6.7 Third, the dialogue with the stakeholders showed that greater grassroots political participation (such as through the devolution process) would increase the demand for improved social services, particularly health and education. The country cannot exempt itself from such pressures. One cannot, for example, envisage a Pakistan 20 years hence in which the majority of women are illiterate or where medical care is so inequitably distributed. As a result of these demands, the government's development strategy must incorporate substantial improvements in the coverage and quality of health care, in access to higher quality education, and in the improvement of technical training to make it more relevant for the needs of a competitive market economy in the 21st century.

12.6.8 Fourth, participatory politics puts much more stress on equity in the distribution of incomes, both between persons and between different regions of the country. There are also pressures to develop more comprehensive social safety nets so that the disadvantaged are, to a significant extent, protected from disaster. The development strategy must explicitly incorporate policies to redress large-scale differences in the distribution of incomes between individuals, and explicit regional policies to stimulate the development of the more backward regions of the country, which also means paying special attention to the requirements of the rural areas.

12.6.9 Procurement reforms are an integral part of improved public financial management and wider governance reform initiatives. The primary objective of undertaking reform of the existing procurement systems is improved efficiency and transparency that delivers substantial direct and indirect economic gains. Benefits are not limited to savings that accrue on the acquisition of goods, works and services, but extend to the improvement in the way services are delivered. A transparent, modern procurement system will not only create economic opportunities for local suppliers helping to create healthy competition for goods and services acquired by the government but also encourage foreign direct investment which is one of the key goals in the government's economic strategy. Finally, such a system would enable external partners rely on the province's own systems, rather than prescribe their own procurement rules and procedures for use under programmes they finance.

12.6.10 The 2000 Country Procurement Assessment Report (CPAR) of the World Bank called for a number of institutional and procedural reforms in Public Procurement in Pakistan. These reforms are a necessary part of good governance and transparency in the use of public funds. In May 2003, the Public Procurement Regulatory Authority (PPRA) was set up through an Ordinance to regulate and take such actions as may be required to provide efficiency and transparency in public procurement. In May 2004, a set of Public Procurement Rules (PPR) were prepared by the PPRA and notified. Although these rule conform to good practice in most areas, there remain some in which improvements need to be made. A suite of standard bidding documents is under preparation. Some of these documents have a jurisdictional overlap with the Pakistan Engineering Council (PEC) Rules. Consequently, the PPRA has mandated that pending the finalization of its own standard Bidding Documents, those of PEC will be used for engineering works and goods.

12.6.11 The foregoing considerations are discussed in more detail in different chapters of this report. However, it is to highlight these issues here as they play a profound role in shaping the poverty reduction strategy and these demands are a direct concomitant of an administration's accepting a more responsive approach to governance.

12.7 Increasing Government's Efficiency and Effectiveness

12.7.1 The first section discussed increases in the demand for good governance that are likely to come from changes in Pakistan's social and political structures. The present section examines how the government's ability to respond to these demands can be enhanced by increasing its efficiency and effectiveness. This section describes the government's strategy in five main areas in which improved governance would increase the government's ability to respond efficiently to the demands raised by stakeholders.

12.7.2 Making decentralization more effective

12.7.2.1 The government has made substantial progress on devolution, which formed the second pillar of PRSP-I, but continuing adjustments are necessary.

12.7.2.2 The first term of local governments ended successfully in June 2005. Under the devolved system, a strategy for integrated development planning, implementation, and monitoring has been devised based on a separation of functions. Decentralized functions are to be planned and executed only by the local governments, and the policies are to be developed on a bottom-up approach — initiated at the local level and culminating at the provincial and national levels. Poverty reduction is to be addressed through elected and accountable local governments by strengthening the political, administrative, and financial structures at the local level. All rural development functions, such as livestock, agriculture (extension), fisheries, community development, social mobilization, and other social sector services are now the responsibility of local governments.

12.7.2.3 The devolution reforms were introduced when assemblies were not in place. The reforms have concentrated on moving from a system managed by the bureaucracy to a system where decisions are made through a political hierarchy. This has put political representatives in charge of service delivery at local levels.

12.7.2.4 Interest in local elections is quite high — the turnout in the 2005 local government elections was 48 percent, compared with a turnout of 42 percent in the 2002 national assembly elections. This suggests that the citizens are perhaps more interested in local issues, possibly because they feel that they are more able to influence them.

12.7.2.5 A comprehensive review of implementation problems experienced in the first term of local governments was undertaken through a consultative process (involving more than 100 meetings) during 2003 and 2004 involving all stakeholders. Based on the feedback from these consultations, amendments were made to the Local Government Ordinance (LGO). The functioning of local governments has been kept under review and studies indicate that three broad issues must be addressed.

- **The resources of local governments are poorly aligned with their responsibilities:** The revenue base for local governments is limited, and thus these entities depend heavily on inter-government transfers. However, the autonomy of local governments on the expenditure side is highly constrained, as: (i) the majority of the financial transfers are consumed by personnel costs that are in practice determined by the federal government (since wages are de facto set by the federal government); and (ii) federal and provincial interventions (through vertical programmes) in the formally devolved sectors easily overwhelm the spending that local governments could do.

- The potential for raising revenues at the local level is highly constrained. Districts have been assigned a number of revenue sources, such as education and health taxes, user fees, and tolls on new roads and bridges within the limits of the district, but these tax bases remain weak and are often difficult to impose. Thus, local governments have little effective control over or access to own-source revenues.

- **Power regarding personnel matters remains fragmented:** In particular, local governments still exercise rather limited control over staff appointments, promotions, and transfers compared with the considerable authority exercised by the provincial governments. Moreover, there have been complaints of politically motivated staff appointments and transfers — illustrated, e.g. by the short average tenures of District Coordination Officers, especially in Sindh, the NWFP, and Balochistan. These are symptomatic of managerial conflicts between the province and local governments, and only hinder the effectiveness of local governance. The problems of governance are compounded by the limited capacity of local governments, particularly in departments (such as Finance) that did not exist prior to devolution, and also in those districts in Sindh and Balochistan that have been created recently.

- **The respective roles of the provincial and local governments in development matters must be further clarified:** Provincial initiatives in the social sectors appear to have encouraged local governments in many districts to reduce their allocations to these sectors and to focus their attention on the provision of physical infrastructure. These trends dilute a main purpose behind the devolution, and do not play to the strengths of local governments because the latter do not really have the resources for significant infrastructure projects.

12.7.2.6 During the period of the PRSP-II, the government intends to make a concerted effort to correct the foregoing problems. There are four main elements in the federal and provincial governments' strategies:

- to ensure that district governments receive their due financial support in good time;
- to build up capacity for better service delivery at the district level through widespread training programmes for local officials;
- to consolidate the administrative setups at the district, tehsil, and union levels; and
- to enact new set of rules and bye-laws for the quick disposal of cases at the district and subdistrict levels.

12.7.2.7 The longer-term strategy envisages the creation of a District Service cadre with a significant input by the Public Service Commissions in selection. Investments since 2001 by development partners — such as UNDP, Asian Development Bank, JICA, CIDA, SDC, World Bank and others — have supported the institutional strengthening of the decentralization process.

12.7.2.8 The government has established a committee to revisit devolution reforms and also take into account their advantages and demerits. After review, the committee will decide whether to continue devolution reform or just preserve the benefits.

12.7.3 Fiscal decentralization

12.7.3.1 Of the problems thrown up by the reviews of the functioning of local governments, issues connected with fiscal decentralization loom large and it may be worthwhile to examine them in a little more detail.

12.7.3.2 Since the FY 2002/03, a transparent, formula-based system has determined the transfer of funds to local governments. For this purpose, a Provincial Finance Commission (PFC) has been established by each province. The PFC is chaired by the provincial Minister of Finance, and includes provincial and local government officials and representatives of the private sector. It recommends to the Governor a formula for distributing resources between the provincial and the local governments.

12.7.3.3 The transfer of shares under the PFC award is not discretionary; it is now a legal requirement. The funds are transferred according to the share of each local government. The distribution formula includes backwardness as a parametre; thus for the first time the funds have to be distributed using poverty as one of the criteria. The formula quantifies poverty through various variables. The government's efforts to consolidate fiscal decentralization during the PRSP-II period will focus on the following:

- The PFCs will be strengthened to make them fully functional. It is planned to provide them a separate budget. With the building of the institutional capacity of PFCs, they will be able to fulfill their role as defined in LGO and ensure that the fiscal decentralization process is effectively implemented. PFCs will perform the important function of monitoring the monthly releases against the award;
- The capacity of the accounts offices and officials will be built up in order to properly implement the accounting and financial rules. This capacity building will be provided under the Decentralization Support Programme (DSP) and the Project for Improvements to Financial Reporting and Accounting (PIFRA); and
- The local governments depend primarily upon fiscal transfers from the provincial government for meeting their expenditure. It is intended to increase the ability of local governments to mobilize revenues. The strategy will look at further devolution of taxes to the local levels, widening the tax base, rationalization of local taxes, and improving the collection and recovery mechanisms.

12.7.3.4 Another move towards decentralizing more fiscal resources is the revised allocation of revenues to the provinces. From July 1st, 2006 the share of the provinces from the net proceeds of taxes and duties for the PRSP-II period will be steadily increased as follows:

Table 12.1: Provincial share of net proceeds from taxes & duties for the PRSP-II period (2008-11)

Financial year	Percentage Share
2008/09	43.75
2009/10	45.00
2010/11	46.25

12.7.3.5 As a result of the greater fiscal decentralization and strengthening of the financial systems, the authorities expect to see improvements in financial management and accountability; budget management (in terms of formulation, execution and monitoring); development planning; procurement practices; the production of timely and reliable financial statements; capacity at the district level to support the devolution process; internal controls and reconciliation of accounts; and external auditing. Measures have been put in place to facilitate public hearings on financial matters. The fiscal decentralization mechanisms have been developed in a consultative process involving the provinces, local governments, the Ministry of Finance, and the Auditor General of Pakistan. The consultative process will continue during the period covered by PRSP-II.

12.7.3.6 As noted above, some important deficiencies identified in local governments relate to weaknesses in institutions and shortages of trained personnel. The government will use the Devolution Trust for Community Empowerment (DTCE) — a non-profit, non-governmental organization that promotes community empowerment through citizen participation at the grassroots level — among other organizations, to tackle these problems.

12.7.4 (b) Creating a District Service

12.7.4.1 The Provincial Local Government Ordinances, 2001 were amended in June 2005 to provide for the creation of the district service and to give disciplinary powers to Nazims. The creation of a District Service (comprising district and tehsil cadres) will ensure that local governments have full command over the officials working in the decentralized offices. The National Reconstruction Bureau will provide technical support to the provincial governments.

12.7.4.2 The creation of the District Service will impact on the civil service structures at the federal and provincial levels. The new framework for the civil services will be completed during the PRSP-II period, and will ensure, inter alia, that employees of the district service and those in the provincial services find adequate opportunities to move from one cadre to the other. The reform of the civil service is discussed later in this chapter.

12.7.5 (c) Strengthening local institutions

12.7.5.1 The efficient working of Provincial Finance Commission, Local Government Commission, Office of the *Zila Mohtasib*, *Zila Mushawarat* Committee, Accounts Committee, and Monitoring Committees is an important pre-requisite for strengthening the decentralization process. In order to make the working of these institutions/committees effective, rules, regulations, and byelaws will be required. Some of these have already been developed. Model rules are being developed by the NRB which will be promulgated by the provincial governments. In the past, the NRB had issued guidelines for the monitoring committees. These guidelines will be converted into model rules during the PRSP-II period.

12.8 Improving the rule of law

12.8.1 The chief impediment in the way of a citizen's timely access to justice are the unsatisfactory functioning of the police, the long periods taken by law courts to dispose of cases, and the legal and other expenses that these practices generate. The present outcomes result from a long history and it would be unrealistic to expect them all to be rectified within the space of three years. The strategy during the period covered by the PRSP-II aims at making a solid beginning to improving the situation in all these areas.

12.8.2 Reforming the police

12.8.2.1 The police forms the first bulwark for citizens against crime and disorder. It bears a heavy responsibility for enforcing the rule of law. The first point of contact of a citizen with the country's law and order system is with the police. The majority of stakeholders, however, reckoned the performance of the police to be far from satisfactory. This is a serious matter, not only from the point of view of protecting the rights of citizens, especially of the poor and vulnerable, but also from that of creating a secure environment in which investment and economic activity can flourish, and employment and incomes increase.

12.8.2.2 For these reasons, the government has taken a number of steps to reform the police forces of the country. The promulgation of Police Order, 2002 was a major step towards transforming police into a professionally competent, politically neutral, non-authoritarian, and publicly accountable organization.

12.8.2.3 The Order envisaged that a number of institutions, including the police, complaint authorities and Public Safety Commissions at the district, provincial and federal levels, would achieve the objectives of public oversight, checks and balances and accountability. It also listed a large number of reforms in terms of the structure of the police service (e.g. the separation of 'watch & ward' from investigation) and put a number of obligations on police leadership.

12.8.2.4 A credible system of public oversight and accountability has been provided through the establishment of two high-powered institutions at the federal level — the Federal Police Complaints Authority and the National Public Safety Commission. Additionally, Public Safety and Police Complaints Commissions have been established at the provincial and district levels. These commissions have been empowered to direct corrective actions on complaints against the police and to take cognizance of a range of issues falling within their remit.

12.8.2.5 During the period of the PRSP-II, the government intends to pursue additional police reforms, principally aimed at depoliticizing the police, increasing their accountability, and improving their functions. This will be done by strengthening checks on the conduct of the police, improving their training, upgrading equipment, and reforming the structure of pay and incentives.

12.8.3 Strengthening the judicial system

12.8.3.1 While the Supreme Court and the High Courts have generally retained the public's confidence, the performance of the judicial system at lower levels is perceived to be unsatisfactory. The subordinate courts suffer from long delays, large and increasing backlogs of cases, and even allegations of bribery leading to compromised judgments.

12.8.3.2 A number of factors have contributed to bringing about this state of affairs. The first is that the number of judges has not kept pace with the growth of the population. It has been estimated that in Pakistan there are about 1.2 judges for every 100,000 of the population; this compares with over eight in France and about 4.5 in Germany. Second, however, the efficiency of the legal system also depends upon the clearance rate, that is, the number of cases resolved divided by the number filed. Most developed countries have rates approaching 100 percent; France and Germany in a number of years have had rates exceeding 100 percent, while that in Pakistan is only about 30 percent. The rate must exceed 100 percent in order to reduce the backlog of cases; therefore, the number of pending cases in Pakistan keeps increasing. Third, a higher number of judges per capita does not necessarily translate into a higher overall clearance rate—it also depends on the productivity of judges, i.e. the number of cases cleared per judge. Singapore, for example, is amongst the countries with the fewest judges per 100,000 of the population (0.64), but it has one of the highest clearance rates (94 percent).

12.8.3.3 Reforming the judicial system in Pakistan, in terms of significantly reducing the time taken to resolve cases and improving the quality of judgments, can be expected to take several years. The government, in co-operation with international institutions (especially the Asian Development Bank) made a serious beginning with the 'Access to Justice Programme.' The process of reform includes an expansion of the number of judges, improving their training, providing them with better facilities and equipment, increasing their pay to appropriate levels, recruiting and training sufficient support staff, and simplifying a number of the procedural rules that lead to delays in disposing of cases. These measures should help speed up the delivery of justice, cut the backlog of pending cases, and make access to legal processes more affordable and the results more equitable. The reform process will continue during the period covered by the PRSP-II; additional funding and other support will be sought as needed.

12.8.4 **Fighting corruption**

12.8.4.1 An important element in the bid to improve governance is the struggle against corruption. While corruption affects all sections of society, it is especially harmful to the poor by denying them their rightful share of economic resources, by putting basic public services beyond the reach of those who cannot afford to pay bribes, and by diverting scarce resources intended for development into unproductive expenditures. By widening the gap between the 'haves' (who can afford bribes) and the 'have nots' (who cannot), it breeds a sense of inequality and injustice.

12.8.4.2 Pakistan inherited the Prevention of Corruption Act (PCA) at independence in 1947. World War II had led to an immense increase in procurement-related corruption and the first ever anti-corruption agency was created under the PCA called the Special Police Establishment. Following the PCA 1947, laws like the Public Representatives (Disqualification) Act 1949 and the Elected Bodies (Disqualification) Ordinance 1959 were promulgated. Anti-corruption agencies have also been created ever since independence. The West Pakistan Anti Corruption Establishment 1961 created the provincial Anti Corruption Establishments (ACEs). The Federal Investigation Agency (FIA) replaced the Pakistan Special police Establishment (PSPE) in 1975. The *Ehtesab*[169] Bureau was instituted in 1997 augmenting the *Ehtesab* Commission of 1996. The Bureau was entrusted with investigation of corruption while the Commission had to prosecute it.

[169] Accountability.

12.8.4.3 In 1999, the National Accountability Ordinance was promulgated which created the National Accountability Bureau (NAB) as the supreme anti-corruption agency of the Federal government. The NAB had the defunct Ehtesab Bureau as its predecessor. The Bureau has been accorded a wide range of powers enabling it to, for example, freeze assets, issue warrants for arrest, employ persons and organizations within or outside Pakistan to trace illegal assets, and to prosecute offenders.

12.8.4.4 The Bureau has previously been transferred anti corruption functions of the FIA in 2005 which, however, have now been given back in 2008. As a result, there are at present two agencies dealing with anti corruption at the federal level. Meanwhile, the National Accountability Ordinance, 1999 governing the functioning of the NAB is being revised by the Ministry of Law & Justice.

12.8.4.5 The strategy to combat corruption during the period of the PRSP-II encompasses several facets. The authorities will continue the pressure against acts of corruption using some of the powerful instruments, such as the NAB and the FIA. The anti-corruption efforts have also been strengthened by measures to counter money-laundering. Pakistan became a member of the Asia-Pacific Group (an autonomous regional anti-money-laundering organization) in 2000. Pakistan has now promulgated an Anti Money Laundering Ordinance (2007) that empowers the authorities to seize property derived from or invested in money-laundering and matters connected therewith, and to impose other suitable penalties.

12.8.4.6 The strategy will also introduce measures that seek to prevent corruption and raise the awareness of the people as to what can be done to reduce the incidence of this scourge. This, clearly, is a long haul effort. During the period of the PRSP-II the most visible effects will be a more explicit focus by the educational system on calling attention to the evils of this practice, and much greater ease of access to local and district lawgivers whose scrutiny of demands for bribes and other corrupt actions can thus be more quickly obtained.

12.8.4.7 Pakistan has also ratified the United Nations Convention Against Corruption (UNCAC) and has joined the world community in the fight against corruption.

12.8.5 **Mobilizing and managing resources for development**

12.8.5.1 A crucial requisite for improving the response to stakeholders' demands is the need to mobilize additional resources for development. This is not the place to comprehensively rehearse the government's strategy for mobilizing resources; only the more important aspects of resource mobilization that touches upon governance issues are taken up. These aspects include a strengthening of the tax administration and policies to streamline tax policy.

12.8.5.2 Strengthen tax administration

12.8.5.3 Progress has been made in many areas including: moves towards the introduction of self-assessment for income tax; extensive development of IT systems in some critical areas; the development of a strong taxpayer facilitation approach; rapid progress in e-filing; and the establishment of an increasingly modern office network, with upgraded infrastructure at many offices.

12.8.5.4 However, the process is still not complete: self-assessment is partial; the organizational structure continues to reflect separate taxes; and the full benefits of a function-based and integrated administration have yet to be realized.

12.8.5.5 In cooperation with international institutions (principally the World Bank) the government has commenced a major programme to reform the tax administration. This programme is intended to increase tax collections, to obtain the economic efficiency gains from reducing the unfair competition that results from an uneven tax burden on businesses, and to increase the confidence of the public in the tax department.

12.8.5.6 The reform process has been structured around simplification of tax laws and procedures (which should reduce the cost of doing business); a universal self-assessment scheme (which should reduce much of the friction associated with taxation); broadening of the tax base (which should increase revenue collections in an equitable manner); and rendering transparent services to the taxpayers (which should increase the confidence of the public). The reform process, therefore, focuses on questions of equity, efficiency, and increased confidence; that is, it is centered squarely on the governance aspects of revenue mobilization. The program will be pushed forward vigorously during the period covered by the PRSP-II; indeed, it is intended to complete a major portion of the reforms by December 2009.

12.8.5.7 The tax reforms, of which a major component is the reform of the tax administration, have already begun to yield dividends. Revenue collection in 2007/08 rose to Rs 1007 billion from Rs 518 billion in FY 2003/04 — an annual growth rate of over 18 percent. The tax base was also expanded — returns filed in FY 2007/08 increased to 2.1 million from only about 1 million in FY 2003/04. The numbers registered with the sales tax department increased from 101,851 to 145,000 between these two years. The increases in these indicators show that the reforms have succeeded not only in mobilizing additional resources but, by bringing in taxpayers who had hitherto apparently evaded their responsibilities, also increased the equity of the system.

12.8.5.8 Despite the progress that has been made, the government is aware that more needs to be done. The performance of the tax administration was reviewed in 2008 in cooperation with the World Bank in order to examine how it could be further improved. The government proposes to take a number of steps (outlined below) during the currency of the PRSP-II in order to increase both the efficiency and equity of tax administration.

12.8.6 **(b) Streamline tax policy**

12.8.6.1 In order to increase revenue from taxes in an equitable manner, the government will implement a number of measures to streamline tax policy during the period of the PRSP-II.

These measures will be directed towards improving tax policy and legislation, strengthening the organisation and management of key institutions; and putting in place a framework to increase taxpayer compliance.

- **Tax policy and legislation:** The government intends to follow a three-pronged approach. The first is aimed at improving tax policy and legislation and will remove weaknesses and inconsistencies in the design of the basic taxes (especially the income and sales taxes) that tend to hinder effective administration. Steps will be taken to make the sales tax more closely approximate a true value-added tax. Other issues that will receive attention during the period of the PRSP-II are: tax exemptions and tax credits; harmonization of procedures for all domestic taxes; more consistent tax treatments and definitions of small business; clarification of a number of issues relating to the sales tax, such as exemptions and zero-rating, and the application of the sales tax to services.

  - **Organization and management:** The second prong of the strategy is aimed at improving the structure and performance of key institutions that are responsible for implementing tax policy. A major objective of the reforms has been to create an organizational structure for the FBR based on functional rather than tax-type lines. This will ultimately involve the full merger of the sales tax and income tax organizations into a single organization. During the period of the PRSP-II, the government intends to review all the tax administration processes of the FBR with a view to making them more business-like. This re-engineering will include the introduction of more rigorous planning and monitoring of FBR operations, in addition to the revenue targets.

  - **Taxpayer compliance:** The third prong aims at strengthening taxpayer compliance. This is a vital element of the reforms because self-assessment forms an important part of the taxation strategy. Successful self-assessment systems depend on most taxpayers voluntarily complying with their obligations to register, keep proper records, file correct returns and pay tax on time, without the interference of a tax official. The recent efforts to facilitate taxpayer compliance through education and assistance will be augmented with a strengthened and targeted enforcement programme to detect and deter non-compliance.

  - A number of measures are under consideration to improve compliance. These measures include: dedicated task forces to pursue unregistered entities and non-filers; systematic cross checking of a range of external databases (for example, property transactions and utility accounts) against the taxpayer register; significantly increasing the risk of discovery by boosting audit coverage to 30 percent of the large taxpayer sector and 3 to 5 percent of the small and medium business sector; and consistently applying penalties to non-compliant taxpayers and prosecuting cases of serious fraud and evasion.

12.8.7 **Increase accountability and financial management**

12.8.7.1 The responsiveness of the authorities to the demand for better governance will be strengthened if the key actions of the government that impact on poverty reduction are rigorously prepared and reliably tracked. This monitoring must be conducted in terms both of financial indicators and of the physical implementation of various programmes and projects. A separate chapter examines the monitoring and evaluation of physical outcomes; the present section deals with measures to strengthen financial discipline so that the government can utilize its expenditures more effectively and deliver key services more efficiently.

12.8.7.2 **Public Financial Management (PFM)**

12.8.7.2.1 The enabling overarching legislative framework for public financial management in Pakistan is embedded in the 1973 Constitution. In 2001, the accounting function was separated from the audit and the Office of the Controller General of Accounts (CGA) was established.

12.8.7.2.2 The CGA organization is being strengthened across the country with the support of a World Bank-financed project — Project for Improvement in Financial Reporting and Auditing (PIFRA). Under this project, the government has transited to International Public Sector Accounting Standards using a computerized integrated financial management information system. As a result, the timeliness and reliability of financial reports of government have improved.

12.8.7.2.3 A number of other systemic public financial management weaknesses identified in earlier diagnostics have been remedied under the PIFRA project. The key reforms areas targeted for the period of the PRSP-II are: (a) modernization of the legal and institutional framework of PFM; (b) streamlining and updating the older financial and treasury rules; (c) strengthening the public accountability practices; and (d) improving the public audit and oversight functions across all governments.

12.8.7.2.4 These reforms will build on what has already been achieved in addressing the PFM weaknesses. These achievements include: (a) the roll-out of the new government-wide Chart of Accounts under the new accounting model for budgeting, accounting, and financial reporting, consistent with international standards, across federal, provincial and all district governments in Pakistan; (b) the improved timeliness in the rendering of accounts for audit and the completion of the audit processes using risk-based audit practices that conform to the International Standards on Auditing; (c) significant reduction in 'pay-bill' processing time as the computerized environment has minimized manual processes and human discretion; (d) more credible fiscal reports that enable better economic decisions by public officials; and (e) enhanced disclosure in financial reports. Since enhancing accountability, transparency, and reducing opportunities for corruption are core elements of the governance pillar of the Pakistan PRSP, these and other related actions will be strengthened and deepened as part of the government's ongoing reforms.

12.8.7.2.5 During the period of the PRSP-II, the government will continue to engage with development partners to deepen the diagnostics on PFM and to address weaknesses that may be identified. In addition, the government will continue to partner with the donor community in harmonizing their respective PFM practices, systems, and procedures, and aligning them with improved country systems in pursuit of the Paris Declaration on aid effectiveness.

12.8.7.2.6 An important tool that the government will use for strengthening public financial management during the period of the PRSP-II is the Medium Term Budgetary Framework (MTBF). A multi-year budget horizon will provide ministries the space and flexibility they need to formulate, plan and implement policies that focus on public service delivery or output.

12.8.7.2.7 The MTBF reforms were initiated by the federal government in 2003, and a considerable amount of time has been devoted to training staff, developing computer programmes, and identifying indicators for each output and target set for service delivery in the financial year. The system comprises two major components — a strategic or 'top-down' element implemented in the Ministry of Finance, and a 'bottom-up' element that will strengthen budget preparation through output based budgeting. The system has already been tried on a pilot basis, and the Ministry of Finance expects the full roll-out and implementation of the MTBF system across the federal government in the preparation of the budget for FY 2009/10. The system will be progressively calibrated during the period of the PRSP-II as more experience is accumulated.

12.8.7.2.8 Since the MTBF addresses only the preparation stage of the budget cycle, the realization of the full benefits of the MTBF process will require complementary efforts to strengthen management of the later stages of the budgetary cycle, namely budget execution, monitoring and evaluation and budget reporting. These will be pursued during the PRSP-II period.

12.8.7.2.9 The implementation of the MTBF is an important development for maintaining discipline in the Poverty Reduction Strategy. It provides a structured process, through the top-down component of the MTBF and through the application of output-based budgeting, to concentrate government spending, within the available resources, in defined priority areas to achieve national goals and to improve the quality of public spending. The government intends to develop the system further during the PRSP-II period so as to make it possible to conduct more effective Public Expenditure Reviews for individual ministries or sectors. It also intends to progressively link outputs defined in the budget to financial resources required for the delivery, so that it becomes possible to undertake meaningful reviews of the efficiency and cost-effectiveness of public spending.

12.9 Civil service reform

12.9.1 At the time of independence, Pakistan inherited a strong civil service that came to be known as the 'steel frame' of the administration. In the 60 years since that date, the scope and responsibilities of the civil bureaucracy have greatly expanded and, in some important ways, altered in response to the changing structure and functions of the state. The expansion of the bureaucracy can easily be explained by the need to cater to a much larger population, which has increased from about 37 million at the time of the 1951 census to over 160 million today. However, on a per capita basis, the civilian bureaucracy of Pakistan is still much smaller than that of several other countries, for example, Egypt.

12.9.2 Apart from having to deal with a much larger population, the civilian bureaucracy has had to incorporate two major changes to its remit and to its functioning. The major change to its area of responsibility is its stewardship of many aspects of Pakistan's economic development. The bureaucracy in the pre-independence and immediate post-independence period was almost exclusively concerned with questions of law and order; these days it has also to manage complicated issues that impinge on the economic development of the country. The major change to its functioning results from the devolution process, whereby a significant amount of power and responsibility is shared with administrative elements at the district and local levels. These changes require material adjustments to the recruitment, training, pay, career development, and conditions of work of the bureaucracy if it is to satisfactorily discharge its duties in the new political and economic environment.

12.9.3 A competent, effective, and neutral Civil Service is the backbone of any country's governance structure. There is a general consensus that the performance of the Civil Service in terms of output, efficiency, neutrality, objectivity and attitude towards common citizens no longer meets the exigencies of the country. Pakistan, has therefore, tried to bring about major structural changes; the most prominent among them were introduced in 1973 and in 2001.

12.9.4 The 2001 devolution to local governments is more wide ranging than previous attempts. The most significant change is that under the new system the posts of Deputy Commissioners and Commissioners have been replaced by elected Nazims as head of the District Administration with greater powers and autonomy. To some extent, these reforms have introduced a larger measure of accountability on the part of officials closer to the people, and surveys have confirmed general public satisfaction with these changes. But several problems have not yet been ironed out, and in a number of cases there are tensions between the provincial and local governments, especially where incumbents belong to different political parties. However, this reform is still considered an ongoing process, and the government is fine-tuning its working (some of the major issues relating to devolution are discussed elsewhere in this chapter).

12.9.5 A high-level commission is presently studying the reform of the civil service. Its preliminary proposals touch upon four broad areas to be implemented during the period covered by the PRSP-II.

12.9.6 Widening the talent pool by utilizing the services of professional headhunting organizations for specific senior and professional positions in the civil service;

- Aligning pay and other elements of the compensation package with present economic realities, so as to attract the best people into the service and to motivate them to perform to their potential;
- Providing regular training in subjects (such as management, law, economics, regional languages, etc.) that would help maintain a more effective approach to analyzing and dealing with issues. Particular emphasis will be put on the use of IT, in order to speed

up decision-making and to monitor the implementation of decisions; and

- Greater emphasis on solving problems and on increasing the professionalization of the service. Recruitment measures could then give due weight to ability-based psychometric assessments (while minimizing the element of subjectivity in the assessment process). In particular, it is proposed that the common examination for all cadres be restricted to a small number of compulsory subjects that focus primarily on communication and problem solving skills; and that separate examinations be instituted for different occupational groups to test skills more relevant to their chosen fields (e.g. potential taxation service recruits would be tested in finance and accounting, financial management, and international standards of audit).

12.10 Public Sector Capacity Building Project

12.10.1 Public sector capacity building is yet another area of focus for increasing efficiency in the civil service. Public Sector Capacity Building Project (PSCBP) was initiated with a total cost of US $61 million including World Bank assistance of US $55 million for a period of five years. The project was launched in FY 2004/05 and is in its 5th and final year of implementation. The project seeks to undertake capacity building initiatives in three broad areas i.e. Civil Service Reforms, Policy Reforms, and Regulatory Reforms. There are currently 26 stakeholders of the Project. The PSCB Project is oriented towards improvement in economic management of the government, policy design, implementation, coordination, monitoring, adjustment and regulatory functions through an intensive resource development programme.

12.10.2 The PSCBP arranges short and long term foreign trainings for civil servants to bridge the capacity gap. Long-term foreign training for the civil servants is arranged under two programmes i.e. Professional Development Programme (PDP) and Executive Development Programme (EDP). Under the PDP until now a total of 347 officers have been sent abroad for training i.e. Master Degree courses. Similarly, a total of 186 officers have been trained under the EDP. All executing agencies have undertaken short term foreign training and till now, a total of 701 officers have benefited.

12.10.3 Localized training courses have also been arranged under the framework of the project by engaging foreign specialists/experts in the required field/subject. A total of 427 officers of the Federal, Provincial and District governments were imparted training in the specialized fields such as Capital Markets, Financial Management, Debt Management and Public Private Partnership. Local training courses have also been arranged by various executing agencies under the sponsorship of the project to impart training to their officers on subjects of their immediate concern. A total of 2,796 officers have been trained during the past four years through local training courses by the Executing Agencies.

12.10.4 The other major intervention under the Project is to bridge the skill gap in the government through recruitment of consultants. So far 36 consultants have been recruited by different executing agencies for various wings. A total of 27 research studies on various topics to build the capacity of executing agencies have also been conducted.

12.10.5 To assess the effects of these capacity building interventions on the performance and efficiency of the public sector, an impact assessment/evaluation study is currently underway with the assistance of the World Bank

12.11 Public Private Partnerships (PPPs)

12.11.1 The increasing demand for income-generating employment and the provision of key services on the one hand, and the constraints on the government's financial and human resources on the other, means that in some fields of activity the government should not seek to act as the sole provider, but should encourage the private sector to perform as a partner. Some areas are quite clear. The private sector is in general a more efficient creator of jobs; it can therefore help to alleviate poverty through employment generation and at the same time create more fiscal space by relieving pressure on the government budget.

12.11.2 In the same vein, the private sector can join hands with the public sector in delivering some key services, such as education, health and financial services. During the period covered by the PRSP-II, the government intends to encourage the private sector to join in partnership with it to deliver a wide range of services. However, this does not mean that the government will abdicate or dilute its responsibilities; rather, these will take on a more strategic hue.

12.11.3 Thus, the private sector will be permitted a larger role in utilities, but the government will devise regulations to ensure that the poor get access to better services at lower prices. In the health sector, public institutions will play to their strengths and take the lead in dealing with communicable diseases, providing a health insurance programme, and promoting equity in the distribution of health resources. The role of the private sector is likely to raise quality and promote efficiency. Similarly, the provision of primary education would appear to fall squarely within the remit of the public sector, while the balance between public and private sectors in the provision of tertiary education could be more flexible.

12.11.4 In the final analysis, however, the government will remain the referee to apply the rules of the game that will ensure that the quality of services is maintained, and that the delivery of services does not ignore the poor. The government will work on formulating appropriate regulations and developing financial options that will enable the private sector to respond to its profit motive while at the same time acting as an effective partner with the public sector in its strategy to reduce poverty.

Chapter: 13 - Results-Based Monitoring and Evaluation of PRSP-II

13.1 This chapter presents the results-based Monitoring and Evaluation (M&E), first outlining the objectives, components, features and framework of the PRS monitoring, PRSP-I monitoring experience during the last three years, followed by a description of the main challenges and steps that will be taken to address the challenges. The strategy for the PRSP-II period is then outlined with a concrete plan for M&E as well as vision for the coming years.

13.2 Undoubtedly, M&E is a powerful public management tool that can be used to improve the way governments achieve results. Just as governments need human, financial and accountability systems, governments also need good performance feedback systems.

13.3 As part of the Poverty Reduction Strategy (PRS) initiative, Pakistan has been developing results-based M&E systems to track PRS implementation and its impact on poverty. The process supports decision making, fosters accountability, and promotes dialogue. Results-based M&E is defined broadly to include the tracking of overall progress in poverty reduction, monitoring and evaluating the implementation of PRS policies and programmes, in addition to monitoring budgets and expenditures. The system, therefore, focuses on the entire 'results chain' that links the various elements. In order to response to this need, the Ministry of Finance and UNDP have instituted a joint project titled 'Strengthening Poverty Reduction Strategy (PRS) Monitoring' covering the period 2008-12. The objective of the project is to strengthen institutional capacities for results-based monitoring and evaluation of poverty reduction strategies at the federal, provincial and district levels.

13.2 Results-based Monitoring and Evaluation (M&E)

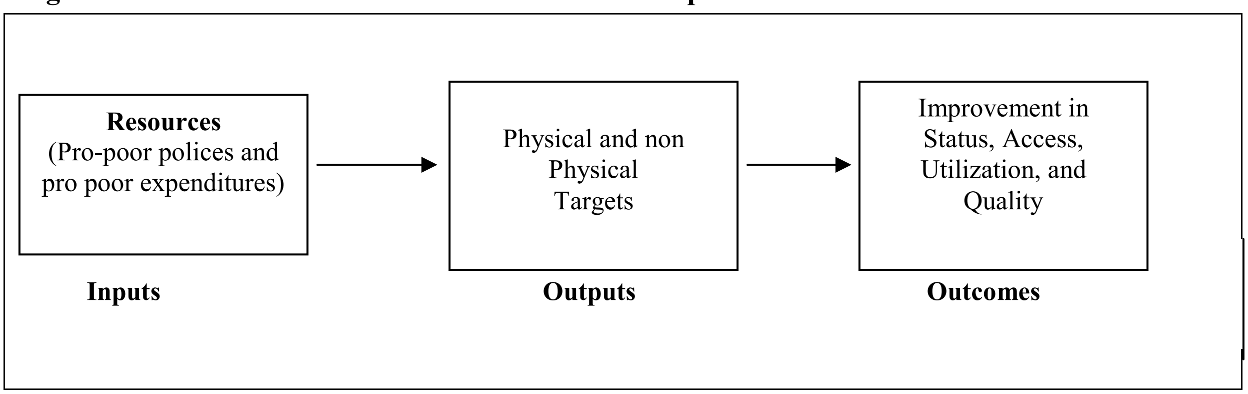
13.2.1 The success in poverty reduction depends on the availability of resources, effective implementation of the strategy, continuous monitoring and evaluation (M&E), and regular feedback to policymakers for appropriate adjustment in programmes and policies. The development of results-based M&E system is a critical component of any successful PRS. Such a system is intended both as a way of ensuring continuous improvement of the PRS and as an instrument for influencing the development policy process by making it more evidence based and results oriented. A recent review of the PRS approach[170] underlines the centrality of a monitoring system as a pillar upon which PRS can be elaborated; it helps open the policy space for dialogue, establish priorities, design programme and policies, set realistic targets, and assess implementation with a view to refine the strategy. Accordingly, the strategy includes a detailed results-based M&E framework in line with the MDGs that also includes a set of indicators to track policy inputs and expenditures, their outputs, and progress towards the intended outcomes.

[170] IMF and World Bank, 2005

13.2.2 The main objective of the results-based M&E is to enable the government to make decisions that would keep the implementation of the strategy on track. In addition, it will have the following other objectives:

- Producing high quality qualitative and quantitative data/information and its timely availability to inform decision and policy makers;
- Institutionalizing the strategic emphasis on analyzing data for accountability and lessons learning instead of merely collecting and reporting it;
- Developing a robust results-based M&E framework that also supports decentralized government policy making at provincial, district and local level (engaging key informants such as local communities, those are considered to have maximum knowledge and wisdom of the local area);
- Conducting selective impact evaluations of policies and programmes; and ensuring the real time use of the evaluations' findings in PRSP policy making for sustained poverty reduction; and
- Building and nurturing partnerships for strengthening results-based M&E capacities inhouse among federal line ministries, provincial and district levels, and within the larger community of poverty reduction actors and practitioners

Figure 13.1: The structure of the results-based M&E process:



13.2.3 The M&E system needs to be seen in the context of all programmes implemented by government and other stakeholders that are designed to reduce poverty.

13.3 Components, Features, and Framework: Poverty Monitoring

13.3.1 Pakistan's PRS monitoring system incorporates three important functions which are as follows:

13.3.2 **Poverty Monitoring:** The system tracks overall progress in poverty against the national targets and international measures of success, such as the MDGs, through periodic measurement of selected poverty indicators. This focuses on monitoring impact indicators and is accomplished through the use of census, surveys, and other investigative tools through the Federal Bureau of Statistics.

13.3.3 **Implementation of the Monitoring of PRS:** The system allows for the M&E of the progress in the implementation of PRS policies and programmes. This involves the measurement of inputs, activities, outputs and outcomes across the various sectoral programmes and thematic areas. Implementation monitoring relies on administrative data from a wide range of actors, from line ministries to provincial and district levels set up, and is therefore most difficult to manage and coordinate. The capacity constraints are often severe and difficult to address because of the numbers of actors involved. Implementation depends upon a careful selection of indicators based upon explicit result chain (that is, casual links between interventions and their desired impacts) in order to support effective assessment of programmes and polices.

13.3.4 **Expenditure Tracking:** Although conceptually a part of implementation monitoring, the measurement of expenditure is a specialised area under the PRSP Secretariat, Ministry of Finance. Normally, expenditure tracking is not always explicitly articulated as part of PRS monitoring, however, reliable and timely data on expenditure are indispensable to a well functioning PRS monitoring system in practice. Hence, the PRSP Secretariat has been taking right steps in this direction.

13.4 In order to provide the maximum assistance to policymakers, the improved M&E framework established for this strategy has the following characteristics:

- **Comparability with the PRSP-I M&E framework**: To the extent possible, the previous M&E indicators have been retained to ensure comparability and analyse trends overtime. Some indicators have, however, been dropped due to non-availability of reliable data e.g. percentage of trained teachers, absenteeism of teachers etc.

- **Continuity of PRSP-I institutional framework**: The institutional framework for the PRSP-I will continue to be retained with increased capacity and role of PRSP Secretariat in tracking output and outcome monitoring.[171]

- **Aligned with MDGs**: The framework has been completely aligned with MDGs (see Annex V).

[171] The PRSP Secretariat underpins the government's institutional mechanism for poverty monitoring. The PRSP Secretariat has been mandated with the overall lead in coordinating, monitoring, evaluating, and tracking the implementation of the PRSP; and reporting progress on anti-poverty public expenditures, intermediate social indicators, and final outcomes. A critical input in achieving the targets set out in the PRSP is the effective utilization of anti-poverty public expenditures. The PRSP secretariat is regularly tracking the budgetary and non-budgetary expenditures since FY 2001/02, and has so far generated 5 annual and 14 quarterly expenditure profiles. The sixth annual report for FY 2007/08 is in the process and will be completed very soon.

- **Feasibility:** While selecting monitoring indicators, feasibility criteria has been applied to ensure that only those indicators are selected where reliable and timely data is available through secondary sources or regularly collected through primary sources.

- **Gender disaggregated data:** The M&E framework includes human development indicators with gender disaggregation explicitly stated, or where such disaggregation is possible. A full list of those indicators where either gender disaggregation is possible or where indicators are exclusive to females is listed in Annex I.

13.5 Distribution of sectors by pillars

13.5.1 Lastly, the monitoring framework takes into consideration new strategic directions and adds new sectors for monitoring progress overtime. A distribution of pro-poor and pro-growth sectors by pillars is given in Table 11.1 below.

Table 11.1: Distribution of sectors by pillars

Pillars	Pro-Poor Sectors	Pro-Growth Sectors
I. Macroeconomic Stability		Agriculture Manufacturing SMEs Services Sector Financial Services Investments Savings
II. Protecting the Poor and the Vulnerable	Poverty Social Safety Net Social Security Interventions	
III. Increasing Productivity and Value Addition in Agriculture	Livestock Fisheries Poultry Farming	Research and Development, Extension Services and Value-addition in Agriculture
IV. Integrated Energy Development Programme		Energy and Power Oil and Gas
V. Making Industry Internationally Competitive	SME Development Labour Market	Deregulation, Privatization and Liberalization Special Economic Zones Trade
VI. Human Development for the 21st Century	Education Literacy Higher & Technical Education Health & Nutrition Water & Sanitation Population Welfare Women Empowerment	
VII. Removing Infrastructure Bottlenecks Through Public-Private	Water Resources Environment Low Cost Housing Regularization of Katchi Abadis	National Trade Corridor Industrial Clusters

Partnerships		
VIII. Capital and Finance for Development		Banking Sector Non-banking Sector
IX. Governance for a Just and Fair System	Decentralization	Second Generation Reforms Reinforcing Devolution Effective Social Service Delivery Police Reforms Anti Money Laundering Legal Reforms Tax Administration Reforms Financial Roforms Procurement Reforms

13.6 Poverty Monitoring Experience: A Brief Review

13.6.1 The poverty monitoring framework of the PRSP-I focused on regular tracking of input, intermediate and outcome indicators. The government in collaboration with its development partners finalized the list of monitorable intermediate and outcome indicators in education, health, and population planning. Intermediate and outcome indicators related to the housing sector, employment, safety net interventions, credit disbursement and environment were also incorporated into this list. The intermediate and outcome indicators were linked with public expenditures or policy inputs in the PRSP tracking/monitoring matrix.

13.6.2 Several institutional arrangements for M&E were also made. The federal PRSP Secretariat in the Ministry of Finance since then acts as a central point with focal points within the respective Provincial Planning and Development Departments. The Secretariat is also responsible for collaborating with these provincial monitoring units and other departments/agencies for poverty assessment, outcomes and impact analysis studies in addition to tracking budgetary and non-budgetary pro-poor expenditures.

13.6.3 The PRSP Secretariat has developed a system for tracking budgetary and non-budgetary expenditures (input indicators) based on the civil accounts provided by the office of the Controller General of Accounts and the Provincial Accountant Generals on a quarterly basis (with a lag of three months). The PRSP budgetary expenditures cover the following 17 sectors: roads, highways and bridges, water supply and sanitation, education, health, population planning, natural calamities, agriculture, land reclamation, rural development, rural electrification, food subsidies, social security and welfare; food support programme including Pakistan Bait-ul-Mal, Tawana Pakistan, low cost housing, administration of justice, and law and order. Non-budgetary PRSP expenditures monitored regularly include four broad heads: (a) Zakat; (b) Employees Old Age Benefit Insurance (EOBI); (c) Pakistan Bait-ul-Mal; and (d) micro-credit disbursement through microfinance lending agencies. The Secretariat has so far produced five annual and fourteen quarterly expenditures profiles.

13.6.4 For the monitoring of intermediate and outcome indicators, the PRSP secretariat relies on several sources including: (i) Management Information Systems developed by the Ministry of Education and the Ministry of Health; (ii) other relevant ministries/departments, such as Ministry of Population, Ministry of Rural Development, Ministry of Religious Affairs and Ministry of Environment; and (iii) the Pakistan Integrated Household Survey (PIHS) of the FBS has been improved to track intermediate outputs to measure MDG outcomes every third year. This renewed system is the PSLM survey instituted since FY 2004/05.

13.6.5 The PSLM follows the PIHS methodology in terms of questionnaire, sample design, and definition of indicators every third year when FBS generated data comparable with the PIHS series. In addition, it is geared to collect annual surveys to track intermediate indicators in service delivery. However, there does remain the issue of tracking important outcome indicators like nutrition (anthropometric measures), infant and child mortality.

13.6.6 Other sources of data report on intermediate indicators include administrative data from education and health management information systems. These systems, however, require a thorough assessment to ensure that they are equipped to collect quality input and output data and the results reported from these sources are consistent with similar indicators that are collected by PSLM in the relevant years. Such improvement in the reporting of these intermediate indicators from these sources is yet to be undertaken. For example, in the health sector the PRSP Progress Report FY 2004/05 reported data only for immunization and lady health workers. Data on indicators related to governance and environment could not be provided regularly by the relevant departments/ministries. Thus the monitoring of the broader set of intermediate indicators also needs significant assessment and improvements.

13.6.7 Based on the lessons learnt during the implementation of PRSP-I, there is the recognition of the need to strengthen the existing monitoring mechanism, upgrade institutional networks, improve coherence with sectoral management information systems, and reinforce evaluation systems at provincial and district levels. With Pakistan's PRS now entering its second cycle, a system-wide improvement in results-based M&E and its links to inform policy are thus crucial.

13.6.8 The overall poverty monitoring experience showed that while significant progress was made in finalizing indicators for monitoring different dimensions of programmes, particularly in the pro-poor priority sectors where investments were made; data/information has been available with varying degrees of regularity. The further strengthening of the results- based M&E system is thus a priority for the PRSP-II.

13.6.9 In order to respond to this need, the Ministry of Finance and UNDP have instituted a joint project titled 'Strengthening PRS Monitoring', with a total budget of US $6.487 million covering the period 2008-12. The objective of the project is to strengthen institutional capacities for results-based M&E of poverty reduction strategies at the federal and provincial levels. Overall, the project will ensure improved capacity to formulate and implement pro-poor policies, efficient and effective spending aimed at poverty reduction and an integrated system which will enable precise comparison of past achievements with future objectives. The project has the following three outputs:

- Improvement in quality, collection, analysis and management of PRSP data at national and provincial levels for effective tracking of PRSP targets.
- Review of public spending and allocations in pro-poor sectors, and an analysis through a gender lens[172] to better understand the contribution and needs of men and women.
- National engagement in PRSP monitoring mobilized through participatory processes.

13.7 Main Challenges and Issues

13.7.1 The challenge of designing and building a results-based M&E system is difficult. The construction of such a system is a serious undertaking, and will not happen overnight. However, it is not to be dismissed as being too complicated, too demanding, or too sophisticated. A number of important challenges remain to be addressed on results-based M&E during the strategy period. These are as follows:

- Creation of a results-based M&E system requires interdependency, alignment, and coordination across multiple government levels. This can be a challenge because, provincial and district governments are loosely interconnected, and are still working toward building strong administrative cultures and transparent financial systems. As a result, governments may have only vague information about the amount and allocation of available resources, and whether resources are, in fact, used for the purpose intended. Measuring government performance in such an environment is an approximate exercise.
- Most management information systems operate in isolation and there is no data warehouse that collates all information from such administrative data to help compilation of various indicators at a central level. This fragmentation is inefficient for gathering the required information in a timely manner at a single source to facilitate monitoring. Obtaining the relevant data requires close coordination between the information systems and the PRSP Secretariat which exhibits room for improvement.
- The devolution plan poses some challenges for poverty monitoring and for implementing poverty reduction and social safety net programmes. Capacity constraints at the local level are usually critical, especially in the under-developed and poor areas. The district governments need to develop systems to monitor poverty at the local level. This strategy aims to monitor the progress of both intermediate and outcome indicators at the province as well as district levels. While it is not an easy task to develop this system for monitoring the intermediate and outcome indicators at these sub national levels, the PSLM 2004/05 has generated data which develops information at the district level.

[172] Gender Responsive Budgeting Initiative (GRBI) Project (2005-07), housed in the Ministry of finance was initiated with the technical and financial support of UNDP and its cost sharing donors. It aims at analysing the differential impacts of public expenditure as well as revenue policy on women and girls, and men and boys, respectively. It also makes proposals for a reprioritization of expenditures and revenues which take into account the different needs and priorities of women and men.

- Monitoring is not an end in itself. The real issue is effective follow-up and implementation of remedial measures and reinforcement of accountability for results. Although M&E capacity is developing, the coordination of the flow of relevant information to decision makers still remains weak. Continuous dissemination of intermediate and outcome indicators among stakeholders in order to ensure regular feedback to policy makers for appropriate adjustment in policies is essential for more effective poverty reduction.
- The key issue is the improvement of the quality and timely availability of data. Without this, M&E will be rendered ineffective. Therefore this matter warrants a detailed discussion. Such consideration is provided in the following section.

13.8 Improving the Quality and Availability of Data

13.8.1 During PRSP-II period increased emphasis shall be placed on improving sources and quality of monitoring data. The household surveys and management information systems of the line ministries shall be strengthened to provide timely data and fill certain data gaps those can be filled in easily (see Annex III for details of data sources).

13.8.2 Some key additions and adjustments in the data sources will be as follows:

13.8.3 **Household Surveys:** In sum, PSLM, PDS/PDHS and Labour Force Survey (LFS) will be the three major data sources for monitoring outcome indicators and will cover some intermediate indicators as well. It must also be ensured that these surveys contain the modules necessary to generate the data required for the common indicators of MDGs/PRSP.

13.8.3.1 Pakistan Social and Living Standard Measurement (PSLM) Survey

13.8.3.1.1 The FBS launched the new PSLM in 2004. As PIHS, PSLM also collects household data at the province and district level that is useful for the assessment of indicators that track access, quality and use of service delivery. The new series has been designed to provide data for the province and district-level social and economic indicators in alternate years, to help assess development programmes initiated under PRSP-I.[173] Five survey rounds of PSLM for the period FY 2004/05 to FY 2008/09 have been planned. In 2004 both the district and provincial level PSLM survey rounds were started simultaneously, and completed in 2005. Since then PSLM survey was conducted in FY 2005/06 and in FY 2006-07, both providing national and provincial level data.

13.8.3.1.2 The sample for representative district level data is almost five times that for the provincial level PSLM survey. Such a large sample size enables policymakers and researchers to draw socioeconomic information that is representative at the district level. This will help meet district level data requirements for planning purposes in the context of decentralization for key intermediate indicators in service delivery.

[173] The district-level PSLM is collected through the Core Welfare Indicator Questionnaire.

13.8.3.1.3 However, the PSLM survey is not sufficiently comprehensive for monitoring all MDG and PRSP indicators. Some other MDG/PRSP indicators that the PSLM did not monitor, such as maternal mortality, under five mortality and malnutrition need to be measured and these remain an outstanding issue. The following indicators would need to be added to PSLM to enhance its coverage of PRSP/MDG indicators:

- Survival to grade 5
- ANC/Assisted Deliveries
- CPR by method (traditional vs modern methods)

13.8.3.2 Pakistan Demographic Survey (PDS)/Pakistan Demographic Health Survey (PDHS)

13.8.3.2.1 The Pakistan Demographic Survey (PDS) will be the main data source for population growth, total fertility rate, and infant and child mortality. The PDS generates statistics on births and deaths to estimate various measures of rural and urban fertility and mortality. It also helps estimate the rate of natural increase in the population. Its sample size is almost double than that of the HIES (Household Income and Expenditure Survey) or the PIHS — more than 30,000 households — which is sufficient to provide reliable estimates of key national and provincial variables.

13.8.3.2.2 However, some key elements are missing, such as data on children's height and weight (required for monitoring malnutrition, an important MDG indicator). In addition to collecting this information, the PDS/PDHS may also collect information on the height and weight of women, in order to monitor their nutritional status. Moreover, the PDS/PDHS would need to collect information on maternal mortality.

13.8.3.3 Labour Force Survey (LFS)

13.8.3.3.1 Benefits of income growth are transferred to the poor through enhanced employment opportunities, and thus employment statistics need to be monitored regularly.

13.8.4 **Management Information Systems (MIS):** The PRSP intermediate indicators including schools, teachers, student enrollments, utilization levels of health facilities and stock-outs of essential medicines, identify the priority sectors as well as sub-sectors for resource allocation. MDGs are primarily outcome indicators. Alignment of the MDGs with the PRSP described in the previous section links the former with a well-defined set of monitorable intermediate indicators. Thus real progress in these intermediate indicators is the key to achieving the MDG/PRSP targets. The MIS' of different ministries/departments and are the major source for monitoring the progress in intermediate indicators. The two major systems in the social sector that have been formally designed and implemented are Health and Education MIS' (HMIS and EMIS). However, with devolution, these systems have gradually lost their effectiveness, as timely and adequate interventions have not been made to adjust them to the new management setup. It is, therefore, important to invest in rejuvenating the existing systems and in developing new MIS, especially at the local government level. Such measures would not only improve the availability of disaggregated data on output indicators, but also strengthen management capacity to enhance service delivery as most services are delivered at the local level.

13.8.4.1 The MIS of a number of ministries also need to be strengthened or modified. This severely limits a system of poverty monitoring which is highly based on the acquisition of regular, reliable, and timely data/information.

13.8.5 **Rebasing of indicators:** A reliable baseline data of intermediate and outcome indicators is crucial to set achievable targets for the future; to monitor the progress in these indicators; and to evaluate the impact of policy inputs on the outcome/output indicators. For PRSP-I, 2000-01 was set as the base year, and the data on both intermediate and outcome indicators was reported for this year in the PRSP finalized in 2003. Using this baseline, the relevant ministries set the targets until FY 2005/06. In the PRSP-II, most indicators are, therefore, based with FY 2005/06. Indicators are rebased with the 2005/06 for the following reasons:

13.8.5.1 **First**, PIHS was not carried out in FY 2000/01. So data on several outcome indicators was based on secondary sources such as the relevant ministries/departments. The concepts and definition used in these sources do not necessarily match those commonly used in PIHS type household surveys. One such example is the baseline data on primary school enrolment. The PRSP-I reported enrolment data from the Ministry of Education, and targets were set on that basis. However, the Ministry had reported enrollment rates that were considerably higher than the enrollment reported by PIHS. To avoid this inconsistency, there is a need to rely on reliable and consistent sources for any particular indicator.

13.8.5.2 **Second**, with the availability of data from the new series of PSLM, rebasing of indicators seems to be preferable. This point is particularly relevant in the context of developing the baseline data for provinces and ultimately extending it to all districts. This can be done only by using the PSLM FY 2005/06 data. It thus makes sense to have a same basis for the baseline data at the national as well as the province and district levels.

13.8.5.3 **Third,** PRSP-I did not report baseline data for certain sectors e.g. governance. Although all the required data on governance indicators are still not available, partial data has enabled to setting up of at least a partial baseline. Another area which needs careful data gathering is social safety net programmes to ensure that under coverage, leakage rates can be measured to assess the efficiency of targeting of the programmes. This would also need to include the new programmes like Benazir Income Support Programme and Punjab Food Support Scheme that have been recently launched (detailed explanation is given in chapter 5).

13.9 The Way Forward: Results-based M&E - PRSP-II

13.9.1 A new Statistics Law, strengthening autonomy and functioning of national statistical system, will be approved shortly for further strengthening of statistical system which will provide more reliable and timely economic and social data for policy analysis and formulation. The amended draft law for the Pakistan Bureau of Statistics is at advanced stages of approval.

13.9.2 The monitoring experience during PRSP-I has shown greater need for building institutional capacities for an improved coordination and oversight of PRSP implementation, tracking expenditures, and monitoring progress. The new monitoring framework is envisaged to ensure an ongoing and sustainable system, developed to deliver timely and reliable data against a set of well-defined indicators that feeds into the policy process and engages national and sub-national levels. Without this essential capacity, the monitoring function will remain an adhoc activity with varying degree of success over quality, timing and completeness of data flowing in from different sources. To respond to the demands and to facilitate the understanding and ownership of the PRSP process, a comprehensive organizational structure that: (a) links the two tiers of the government; (b) has required capacity to plan and implement monitoring agenda at the federal and provincial levels; with (c) mechanisms mobilized at the federal and provincial levels to enhance technical coordination for effective PRS monitoring, is required.

13.9.3 The PRS Monitoring Project has initiated revision of the current M&E framework identified during the PRSP-I term (2003-06). With Pakistan's Poverty Reduction Strategy having entered its second cycle, a system-wide improvement in impact assessment is being processed. A PRS Monitoring Secretariat has been established in Punjab and will soon be set-up in the rest of the provinces. The federal PRS Secretariat is responsible for ensuring coordination with the Technical Working Groups (TWGs) and convening of their meetings as and when required. The meetings of six Technical Working Groups were held to get feedback from the relevant policy makers in the finalization of monitorable indicators for key sectors such as education, health, labour/employment, gender, environment/water supply & sanitation, and social safety net etc. The TWGs on other pro-poor sectors will be held in the later stages as and when required.

13.9.4 The decentralization process has now been underway for five years in Pakistan. One of the main objectives of results-based M&E under this strategy is to increase the degree of participation and ownership of monitoring mechanism by the provincial and district governments. Provincial PRSP Secretariats will be strengthened, and districts will be involved in the monitoring process. As a first step, baseline data for the indicators will be developed at the province as well as district levels. The PSLM FY 2005/06 data will be utilized for this purpose. Since PSLM FY 2005/06 covers only provincial level data, the decision regarding district level data to be undertaken later on. Provinces and districts will be encouraged to set their own targets.

13.9.5 The PRSP expenditure tracking exercise will measure the achievement of certain key outcome targets. However, in the last three years, only a few studies were carried out to evaluate the impact of the policy inputs and expenditures on poverty reduction or other identified outcome indicators. In FY 2005/06 the Government of Pakistan in conjunction with the UK Department for International Development (DFID) decided to conduct a

Poverty and Social Impact Analysis (PSIA)[174] of its microfinance policies. The PSIA validates that the MF sector in Pakistan is now in a position to consolidate the gains it has made during the years since the passing of the MF Ordinance in 2001, and is ready to embark on a major expansion in size and scope, given the right conditions. In terms of size, the analysis confirms that there is a scope for a major expansion in the number of beneficiaries in the next decade, from hundreds of thousands to millions. However, being a late starter, Pakistan still has some way to go compared with most of its neighbours in terms of the depth of the financial sector as a whole and the reach of the banking sector, especially in relation to access by low-income households and micro enterprises.

13.9.6 More impact studies are needed to make efficient use of resources being expanded. The PRSP Secretariat plans to conduct more PSIAs on various sectors, such as energy, social safety nets, etc. to analyze the impact of policies on poverty reduction.

13.9.7 The monitoring indicators will be rebased to make them more relevant and to increase their congruence with the availability of new data series. The main features of the proposed rebasing are as follows:

- Since the Strategy is a rolling plan for the next three years, the targets using the new baseline data will be set for the terminal fiscal year 2010/11. The MDG targets for 2015 will be aligned with them;
- Targets have been set by the relevant ministries/department, showing their ownership to achieve them in a given period of time;
- Following the alignment with MDGs, both outcome and intermediate indicators has been rebased; and
- For the outcome indicators, the major source for rebasing is the PSLM FY 2005/06. However, since this source does not provide information on all variables, as discussed earlier, the Planning Commission has attempted to fill some gaps in the 2005 MDG report. The Planning Commission estimates will be adjusted when the results of latest PDS/PDHS are available.

13.9.8 The success of PRS monitoring system closely tied to the development of budget planning and public expenditure management systems, which is currently in progress here and at an early stage. The functioning of quality medium term expenditure framework (MTEF) is very critical here. Special efforts to strengthen this system during the PRSP-II are discussed later in the chapter.

13.9.9 Designing and building a reporting system that can produce trustworthy, timely, and relevant information on the performance of projects, programmes, and policies requires

[174] The PSIAs are simply analytical exercises that attempt to understand the likely poverty and social impact of particular policy choices. The PSIAs often draw on a wide range of analytical tools and data sources in attempting to understand policy impact. These tools range from those that are highly qualitative and participatory, to those that are quantitative and often driven by economic theory.

experience, skill and real institutional capacity. Building such capacity for these systems is a long term effort and many initiatives in this regard need to be undertaken during the PRSP-II.

13.9.10 The earlier quarterly progress reporting of indicators will remain same but for some indicators the reporting will be half-yearly. The focus will be more on the analysis of policy inputs and expenditures and intermediate indicators. The progress in the outcome indicators will be primarily reported whenever the results of the three identified household surveys—PSLM, PDS and LFS—are available.

13.9.11 Statistical systems are meant to encompass both FBS and other producers of statistics, including provincial governments' and district governments. Generally, there is a disconnect between the central agencies and the wider system, which often results in gaps and redundancies. The peripheral agencies also typically perform less well than the central ones, resulting in the weaknesses in administrative data mentioned elsewhere above. An analysis of the availability of statistics for monitoring the MDGs identifies the peripheral agencies as the weakest part of the system. This area requires special attention of the policy makers for extra measures in this regard during the PRSP-II period.

13.9.12 The production of specific outputs and their dissemination is a major weakness in the PRS monitoring systems. Generally monitoring systems are focused mainly on the production of an annual progress report. Under the PRSP, the annual progress report is an opportunity to review and update the PRS on a regular basis. In practice, these reports are typically not being used this way. They tend to have weak analytical content and, in the first PRS cycle, are often produced in adhoc manners which do not draw on the monitoring system. It is important to ensure that the outputs of the PRS monitoring system are appropriate to the needs of the national policy process. Activity to Output Based Monitoring (ATOM) System would be introduced during PRSP II for more analytical and higher level analysis for the policy makers.

13.9.13 Creating a link between PRS monitoring and the budget process is a critical objective for a PRS monitoring system. The need to access public resources creates powerful incentives across all public agencies and provides the most promising hook for creating demand for effective monitoring. Moreover, unless this link is established, the PRS monitoring system will fail to meet its central objective of information-based decision making because budgets are the central mechanism for policy implementation. The M&E matrices for poverty and the nine pillars of the PRSP-II are given below.

Table 13.2 (a) Poverty monitoring matrix

	Input Indicators (Expenditure heads)	Output Indicators	Outcome Indicators	Data Sources
Consumption Poverty	▪ Expenditure on pro-poor sectors (Rs billion)	▪ Percentage of population below poverty line ▪ Share of poorest quintile in national consumption	▪ Gini Coefficient ▪ People below poverty line moved upwards to the poverty line. ▪ Poverty headcount ratio (calorie approach)	ES, PSLM, MoF, CPRSPD

Table 13.2 (b): Monitoring matrix

Pillars	Input Indicators (Expenditure heads)	Output Indicators	Outcome Indicators	Data Sources
I. Macro-economic Stability	▪ Expenditure (Rs billion) ▪ PRSP Expenditure (% of GDP)	▪ Revenue as percentage GDP ▪ Exports as percentage GDP ▪ Consumer price Index (%) p.a. ▪ Proportion of pro-poor spending to total spending	▪ Real GDP Growth ▪ Sectoral Growth Rates ▪ Inflation (GDP deflator) ▪ Total Revenue (Rs. in bn) ▪ Nominal GDP (Rs billion)	ES, MoF
II. Protecting the Poor and the Vulnerable	▪ Social Security & Welfare ▪ Food Subsidies ▪ Food Support Programme ▪ Khushal Pakistan Fund ▪ Natural Calamities and Other Disasters ▪ Low Cost Housing ▪ Punjab Food Support Scheme ▪ Benazir Income Support Programme	▪ Zakat beneficiaries and disbursement (by category) ▪ Guzara Allowance ▪ Educational Stipends ▪ Stipends to students of Deeni Madaris ▪ Health Care ▪ Social Welfare/Rehabilitation ▪ Marriage Assistance to Unmarried ▪ Permanent Rehabilitation Scheme ▪ Eid Grant ▪ Tech. Education Stipends ▪ Leprosy Patients ▪ National Level Health Institutions ▪ National Level *Deeni Madaris*/Islamic schools ▪ Pakistan Bait-ul-Mal disbursement and beneficiaries (by category)	▪ Percentage of Social Safety Net Programme reaching out to the: ▪ Poor ▪ Ultra Poor ▪ Extremely Poor ▪ Poverty headcount ratio (calorie approach)	MoRA, PBM, EOBI, Cabinet Div. Industries Deptt. MoLM, CPRSD

		▪ Food Support Programme beneficiaries & disbursements ▪ Individual Financial Assistance ▪ National Centres for Rehabilitation of Child Labour ▪ *Dastkari*/Vocational Schools ▪ Institutional Rehabilitation (Grant-in-Aid to NGOs) ▪ EOBI beneficiaries and disbursements (by category) ▪ Old Age Pension ▪ Invalidity Pension ▪ Survivors Pension ▪ Old-Age Grants ▪ Benazir Income Support Programme beneficiaries and disbursements ▪ Punjab Food Support Scheme beneficiaries and disbursements ▪ Workers Welfare Fund beneficiaries and disbursements		
		▪ Microfinance disbursements (by category) ▪ No. of borrowers ▪ No. of depositors ▪ No. of borrowers/depositors insured ▪ Micro finance default by category ▪ No. of default customers ▪ Districts with micro-		PMN, KB, PPAF, RSPs, Micro Finance Banks

		finance coverage		
III. Increasing Productivity and Value Addition in Agriculture		▪ Agriculture sector growth ▪ Agriculture, Livestock and rural enterprise sector credit[175] ▪ Percentage of unpaid family workers	▪ Share of agriculture to GDP ▪ Protected area as percentage of total area ▪ Percentage of land area covered by forests ▪ Decertified area reduced	MINFAL, MoLM, ES, MoE
IV. Integrated Energy Development Programme		▪ Households electrified ▪ No of Union councils/Villages electrified	▪ Per capita consumption of electricity (kwh) ▪ Energy Supply Growth ▪ Energy demand ▪ Village Electrification ▪ GDP (at constant factor cost) per unit of energy efficiency in Rs./kg OE	MoPet, MoF, MoWP, ENERCON, MoE
V. Making Industry Internationally Competitive		▪ Proportion of exports (by value and excluding arms) admitted free of duties and quotas ▪ Ozone Depleting Substances (level of CFC reduced) ▪ Share in GDP (industry, services)	▪ Global Competitiveness Index ▪ Growth rate (%) p.a. (industry, services) ▪ Foreign Direct Investment (US$ bn) ▪ Private Investment to GDP ▪ Trade to GDP ▪ Gross Exports ▪ Percentage of self-employed persons (Male / Female) ▪ Labour Productivity	GCR, SBP, WB, MoLM, ES, MoCom, Mo Env.

[175] Data sources for these sectors are being ascertained.

VI. Human Development for the 21st Century	▪ Education ▪ Health ▪ Population Planning ▪ Water Supply and Sanitation	▪ No. of functional primary/middle schools ▪ No. of non-functional primary/middle schools ▪ Access to school (physical distance) ▪ Percentage of schools with four basic facilities ▪ No. of private schools ▪ No. of districts with no primary schools ▪ No. of madrassas mainstreamed	▪ NER Primary, Middle, Secondary ▪ GER Primary, Middle, Secondary ▪ Drop-out rate (primary) ▪ Gender Parity Index (GPI) primary	PSLM, NEMIS, MoE
		▪ No. of overseas scholarships awarded ▪ Number of Indigenous scholarships awarded	▪ Literacy Rate (10+) male and female separately ▪ Youth Literacy Rate (15-24) male and female separately ▪ GPI Literacy (10+) ▪ GPI Youth Literacy	PSLM, NEMIS, HEC

		▪ Contraceptive Prevalence Rate (CPR) ▪ Percentage of TB Cases detected and cured under TB DOTS ▪ Utilization Rate of First Level Care Facilities/Day (FLCFs/HOPS) ▪ Lady Health Worker's Coverage ▪ HIV prevalence among vulnerable groups (%) ▪ HIV prevalence among 15-24 year old pregnant women (%) ▪ Prevalence of Hepatitis in general population ▪ Prevalence of Hepatitis in high risk group ▪ Proportion of children under five who suffered from diarrhea in the last 30 days & received ORT ▪ Prevalence of blindness ▪ Fully immunized (12-23m) ▪ TT2 immunization ▪ ANC coverage ▪ ORT Use rate ▪ Births attended by skilled birth attendants ▪ Stock-outs of essential medicines	▪ Total Fertility Rate ▪ Infant Mortality Rate ▪ Under-five Mortality Rate ▪ Maternal Mortality Rate ▪ Proportion of population in malaria risk areas using effective malaria prevention treatment ▪ Incidence of TB/100,000 ▪ Underweight children	PDHS, MoPW, PSLM, MoH, HMIS, NPFP & PHC,
		▪ No. of water purification plants installed under Clean Drinking Water Programme ▪ No. of functional/operational water purification plants ▪ No. of industrial waste water treatment plants ▪ Type of toilet used by households ▪ Flush ▪ Non-flush ▪ No toilet	▪ Proportion of population with access to clean (Rural/Urban) water ▪ Proportion of population with access to sanitation (Rural/Urban)	PSLM, MoIPSI

		▪ Total no. of women councillors ▪ No. of women Councillors trained in LG system ▪ No. of entrepreneurs ▪ Male ▪ Female ▪ No. of trainings in poultry farming ▪ Percentage of Microcredit to women	▪ Proportion of seats held by women in national parliament/provincial assembly/local councils ▪ Share of women in wage employment in non-agri sectors ▪ Share of women in wage employment in agriculture sector ▪ Actual percentage of women in public service(including provinces) ▪ Share of women in public service (including provinces)	MoWD, GBG, LFS, SMEDA, NAVTEC, MINFAL, PPAF, PMN, KB, ECP, NRB, Est. Div, S&GADs
		▪ Total Labour force (million) ▪ Employed labour force (million) ▪ People's Works Programme development schemes ▪ No. of People's Rozgar scheme beneficiaries ▪ No. of TVET graduates ▪ No. of internships provided under National internship Programme (Male/Female)	▪ Unemployment rate 10+ ▪ Youth Unemployment rate (15-24) ▪ Underemployment rate ▪ Employment to Population ratio	MoLM, MoF, NAVTEC, MoLGRD
VII. Removing Infrastructure Bottlenecks through Public Private Partnerships	▪ Roads, highways & bridges ▪ Low Cost Housing	▪ No. of vehicles using CNG fuel	▪ Total logistic cost (%) ▪ No. of *katchi Abadis*/Slums regularized ▪ No. of beneficiaries	WB, ES, MoEnv, ENERCON, PFD, MoCom, MoLGRD
VIII. Capital and Finance for Development		▪ Capital Adequacy (Capital to Liability Ratio) ▪ Asset Quality (NPL to Gross Advances Ratio) ▪ Management Soundness (Total expenses / total income ratio) ▪ Earnings and	▪ M2 to GDP ratio ▪ Sector-wise Credit (SMEs, agriculture, and microfinance ▪ Amount expected to be raised through new equity issues	SBP

		Profitability (ROA) ▪ Liquidity (Loans to deposit ratio) ▪ New issues in equity contributes to – percentage of marginal capital raised for development ▪ New issues in Term Finance Certificates (TFC)/Debt instrument in percentage	(Rs billion) ▪ Amount expected to be raised through new TFC issues (Rs billion)	
IX. Governance for a Just and Fair System	▪ Administration of Justice ▪ Law and Order	▪ Number of cases pending with courts ▪ Number of districts mobilized funds for CCB projects ▪ Percentage increase in revenue share of provinces		L&J Div, DTCE, MoF

13.10 PRSP-II Medium Term expenditure Framework (MTEF)

13.10.1 In an environment where the main focus of macroeconomic stabilization is towards controlling the fiscal deficit and generating resources is a difficult task, pro-poor expenditures have been fully protected. In FY 2007/08 5.46 percent of GDP was expended on pro-poor sectors while on human capital formation (education; health; and population planning) expenditure remained 2.7 percent of GDP.

13.10.2 Analysis of past budgetary expenditures suggests that expenditure incurred against budgeted allocations in pro-poor sectors account for almost 80 percent of total allocations. Maintaining the same trend in pro-poor expenditures while taking into account the fiscal obligations to reduce budget deficit by decreasing current expenditures over the next 4 years and with simultaneous increase in development expenditures (as projected in Macroeconomic Framework in chapter 4), the Medium Term Expenditure Framework (MTEF) projects the expenditures for 17 pro-poor sectors from FY 2008/09 to FY 2010/11.

13.10.3 Following the classification of pro-poor Expenditures as devised in PRSP-I, projected expenditures for PRSP-II have been presented under the same broad categories in Table 13.3 for FY 2008/09 to FY 2010/11 taking the base year budgeted allocations for FY 2008/09.

13.10.4 These broad categories for expenditures are: i) Market Access and Community Services; ii) Human Development; iii) Rural Development; iv) Safety Nets; and v) Governance. In light of changed economic realities and the subsequent initiatives by the government to protect the poor, some changes have been envisioned in the PRSP budgetary expenditure framework. The new initiatives of Benazir Income Support Programme and Punjab Food Support Programme have been placed under the broad category of Safety Nets. The pro-poor sector 'Irrigation' have been renamed as 'Agriculture' to reflect a more inclusive picture of expenditure incurred in the agriculture sector. This amended sector includes budgetary expenditure details regarding Livestock, Fisheries and Forestry in addition to Irrigation. Similarly the pro-poor sector 'Subsidies' now incorporates a larger account of subsidies being provided by the government including subsidies for financial and fiscal affairs (dairy, Utility Stores Corporation for sale of wheat); commercial affairs (oil, electricity); and food. While the subsidies on fuel and power are going to be phased out during FY 2009, therefore the total projected amount of subsidies for PRSP-II duration is capped at Rs 145 billion so that it can capture any abnormal deviation in international prices of wheat and sugar, etc.

13.10.5 It is also imperative to explain that prior to PRSP-II, under the head, Governance; Administration of Justice included only the expenditures for subordinate judiciary but during PRSP-II the expenditures will be tracked for all tiers of the Judiciary. Similarly only development expenditures were tracked under Law and Order, but now current expenditures have also been included as they reflect the costs being borne by the people owing to the 'War on Terror.'

13.10.6 The PRSP expenditures do not capture a large quantum of the development as well as current expenditures that do directly or indirectly contribute to poverty alleviation. These include expenditures on highways, power, information technology and telecommunication, women development, environment, railways, oil and gas, and works, etc. Despite the above, the size of pro-poor expenditures is expected to be higher than previous years, given the substantial increase in the PSDP in the coming years as reflected in in chapter 4. Therefore, any analysis of pro-expenditures in the country must not restrict itself to PRSP expenditures alone. Additionally, a large amount is being spent on poverty alleviation through NGOs, development partners, and philanthropy, which are not captured in the PRSP budgetary or non-budgetary expenditures.

13.10.7 In view of the above cited M&E mechanisms and identified issues, a detailed M&E plan under the Strengthening PRS Monitoring project will be developed during the first quarter (January-March 2009). The proposed M&E plan will consist of the key deliverables, specific activities, timeframe, required recourses (both financial and human) and responsibilities (key partners to be involved and accountable for, to implement the identified activities and produce the deliverables on time).

Table 13.3
Projected PRSP Budgetary Expenditures (FY2009-FY2012)

PRSP EXPENDITURE	ACTUAL 2007-08		BASELINE FY 2008-09 (Budget)		PROJECTIONS(Based upon FY 2008-09 Budget Expenditure) FY 2008-09 (Projected)		FY 2009-10 (Projected)		FY 2010-11 (Projected)		FY 2011-12 (Projected)		FY 2012-13 (Projected)	
	Rs million	% GDP	Rs million	% GDP	Rs million	% GDP	Rs million	% GDP	Rs million	% GDP	Rs million	% GDP	Rs million	% GDP
Development	270,690	2.58	455,939	3.41	409,558	3.06	517,308	3.26	649,786	3.62	800,898	3.96	995,102	4.38
Current	301,941	2.88	508,577	3.80	380,447	2.84	474,544	2.99	568,231	3.17	691,271	3.42	855,289	3.76
TOTAL	572,631	5.46	964,515	7.21	790,005	5.90	991,852	6.25	1,218,017	6.79	1,492,168	7.37	1,850,391	8.14
	MARKET ACCESS AND COMMUNITY SERVICES													
Roads, Highways & Bridges	84,825	0.81	89,146	0.67	71,316	0.53	89,693	0.56	107,325	0.60	128,430	0.63	152,947	0.67
Water Supply & Sanitation	19,817	0.19	26,496	0.20	21,197	0.16	25,905	0.16	30,120	0.17	35,023	0.17	40,528	0.18
	HUMAN DEVELOPMENT													
Education	182,646	1.74	192,552	1.44	167,251	1.25	251,632	1.58	359,611	2.01	513,960	2.54	731,023	3.22
Health	61,127	0.58	77,375	0.58	67,084	0.50	93,126	0.59	122,996	0.69	162,457	0.80	213,546	0.94
Population Planning	13,322	0.13	6,906	0.05	5,525	0.04	6,227	0.04	6,678	0.04	7,162	0.04	7,644	0.03
Natural Calamities	7,728	0.07	4,369	0.03	3,495	0.03	4,151	0.03	4,691	0.03	5,301	0.03	5,961	0.03
	RURAL DEVELOPMENT													
Agriculture	83,493	0.80	138,011	1.03	110,409	0.82	134,929	0.85	156,883	0.88	182,421	0.90	211,097	0.93
Land Reclamation	3,130	0.03	3,606	0.03	2,885	0.02	3,765	0.02	4,675	0.03	5,806	0.03	7,175	0.03
Rural Development	23,334	0.22	16,165	0.12	12,932	0.10	14,578	0.09	14,578	0.08	14,578	0.07	14,578	0.06
Rural														

Electrification (People Works Programme-II)	2,748	0.03	24,000	0.18	19,200	0.14	22,803	0.14	25,767	0.14	29,118	0.14	32,747	0.14
	SAFETY NETS													
Subsidies	54,872	0.52	182,220	1.36	145,776	1.09	145,776	0.92	145,776	0.81	145,776	0.72	145,776	0.64
Social Security & Welfare	**18,942**	**0.18**	**53,070**	**0.40**	**42,456**	**0.32**	**65,486**	**0.41**	**96,100**	**0.54**	**108,489**	**0.54**	**121,886**	**0.54**
Benazir Income Support Programme	-	-	34,000	0.25	27,200	0.20	42,160	0.27	65,348	0.36	73,773	0.36	82,883	0.36
Others	18,942	0.18	19,070	0.14	15,256	0.11	23,326	0.15	30,752	0.17	34,716	0.17	39,003	0.17
Food Support Programme (Including PBM)	**4,370**	**0.04**	**71,016**	**0.53**	**56,813**	**0.42**	**60,667**	**0.38**	**61,635**	**0.34**	**62,623**	**0.31**	**63,320**	**0.28**
Punjab Food Support Scheme (PFSS)	-		21,600	0.16	17,280	0.13	19,008	0.12	21,600	0.12	21,600	0.11	21,600	0.10
Pakistan Bait-ul-Mal	4,370	0.04	6,000	0.04	4,800	0.04	5,280	0.03	5,808	0.03	6,389	0.03	7,028	0.03
NWFP	-		43,416	0.32	34,733	0.26	36,379	0.23	34,227	0.19	34,634	0.17	34,692	0.15
People Works Programme	1,420	0.01	4,420	0.03	3,536	0.03	2,937	0.02	2,321	0.01	1,834	0.01	1,442	0.01
Low Cost Housing	597	0.01	1,827	0.01	1,462	0.01	1,821	0.01	2,158	0.01	2,558	0.01	3,018	0.01
	GOVERNANCE													
Admn. Of Justice	7,820	0.07	8,510	0.06	6,808	0.05	8,482	0.05	10,053	0.06	11,917	0.06	14,058	0.06
Law & Order (Current & Development)	2,429	0.02	64,826	0.48	51,861	0.39	59,874	0.38	66,652	0.37	74,716	0.37	83,646	0.37
TOTAL PRSP	572,620	5.46	964,515	7.21	790,005	5.90	991,852	6.25	1,218,017	6.79	1,492,168	7.37	1,850,391	8.14

* This includes (i) Labour Welfare Measures; (ii) Social Welfare Measures; (iii) Welfare of Pakistanis Abroad; (iv) Population Welfare Measures; (v) Zakat and Ushr; and (v) Others (Distribution of Winter clothes.

Chapter 14 - Costing of Millennium Development Goals (MDGs)

14.1 Rationale of MDG Costing:

14.1.1 The key instruments towards achieving Pakistan's vision of substantially reducing poverty within the next generation include acting proactively through goal-oriented interventions with relevant programmes, which in turn, requires appropriate costing and subsequent financing. This chapter will revisit key features of PRSP financing and related challenges and the methodology for estimating financing requirements. PRSP-II's costing framework in this chapter will be based on the Millennium Development Goals (MDGs) Costing Report, a study jointly undertaken by Ministry of Finance and UNDP (2007)[176] which costed three social sectors – education, health and water and sanitation.[177] The United Nations MDGs, agreed at the Millennium Summit held in New York in September 2000, are linked to Pakistan's Medium Term Expenditure Framework (MTEF), while the key focus of PRSP-II is also intertwined with the achievement of MDGs. Government expenditure on 17 budgetary pro-poor sectors under five broad headings as identified in PRSP-I[178] have remained the basic framework and main vehicle to channel funds for poverty reduction. Budgetary expenditure/PRSP allocations for the three social sectors mentioned above will be illustrated in detail, alongside MDG costing. Since costing is an extensive and ambitious task, the end of the chapter states issues which are inevitable in the process regarding whether the interventions made and the resources allocated are in line with one another.

14.1.2 The goals/targets of PRSP are fully aligned with the Medium Term Development Framework (MTDF) and the MDGs. The government's Macroeconomic Framework derives the overall guidelines for the economy, followed by consequent goals identified in the Medium Term Development Framework (MTDF) while the Medium Term Budgetary Framework (MTBF) provides the financing structure to set out a wider vision for the budget, thus making the priorities at federal and provincial levels more productive/efficient and pro-development. The MTEF, as discussed in the previous chapter, which presents detailed forecasting of pro-poor expenditures for the PRSP-II period, provides the 'linking framework' for the overall plans of the government.

14.2 PRSP-II and Medium Term Expenditure Framework (MTEF)

14.2.1 Given the significant resources required for its funding, GoP will prioritize the Poverty Reduction Strategy through MTEF. This expenditure framework will adhere to the Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005. The MTEF provides the 'linking

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[176] "Estimating the Cost to achieve MDGs in Pakistan" UNDP & Finance Division, Islamabad (2007).

[177] The initial costing parameters were determined through a consultative process during December 2005 to August 2006. However, assumptions, including the financial prices, made over two years remain valid. Expenditure incurred in FY 2007-08 has been updated with current GDP at market cost (Rs 10478194) as a result of which future projections have been readjusted.

[178] The PRSP Secretariat has institutionalized a mechanism with the Controller General of Accounts for quarterly tracking of seventeen pro-poor expenditures. The 17 pro-poor sectors, which come under five broad headings include: **Market access and community services**: (i) roads, highways and buildings, (ii) water supply and sanitation, **Human development**: (iii) education, (iv) health, (v) population planning, (vi) natural calamities, **Rural development**: (viii) agriculture, (ix) land reclamation, (x) rural development, (xi) rural electrification (People's Works Programme-II); **Safety nets:** (xi) subsidies; (xii) social security and welfare including Benazir Income Support Programme; (xiii) food support programme including Pakistan Bait-ul-Mal and Punjab Food Support Scheme; (xiv) Peoples' Works Programme; (xv) low cost housing; **Governance:** (xvi) administration of justice; and (xvii) law and order.

framework' that allows expenditures to be driven by policy priorities and disciplined by budget realities. Still a rather recent phenomenon, conceptually, the MTEF is an ideal tool for translating PRSPs into public expenditure programmes within a coherent multi-year macroeconomic and fiscal framework.

14.2.2 Tracking is a major component of PRSP's Monitoring & Evaluation (M&E) process. Federal and provincial Accountant General Offices regularly submit budgetary expenditure data on seventeen pro-poor sectors to the Finance Division for consolidation and further reporting. With the shift from the Chart of Classification based upon the legacy system to the Chart of Accounts based upon the New Accounting Model, developed under the Project for Improvement of Financial Reporting and Auditing (PIFRA), it has now become possible to separately account for district expenditures for provinces also. Quarterly and annual expenditure reports are regularly being generated and shared with stakeholders and are available on the Finance Division's website.[179] Cumulative PRSP expenditures (budgetary, as well as, non-budgetary) to address the needs of the poor and vulnerable sections of the society from 2001-08, amounted to Rs 2,410 billion. During FY 2007/08, budgetary expenditure on pro-poor sectors amounted to Rs 572.6 billion, representing 5.46 percent of the GDP.

14.2.3 The basic objective of this chapter is to examine the present situation regarding alignment of various MDG goals with PRSP-II; related interventions that may be required; the population to be served and the cost of each intervention; aggregate expenditure required to meet the MDGs; the resources provided to each of the social activity and for the interventions required for meeting MDGs; and the projection of resources that might be available and the shortfall of resources. The study also identifies various other constraints that might stifle realization of the MDGs and how to overcome those are also examined. Main focus of the costing is on improvement of human resource, which is the key to improved living standards and human development. Pakistan lags behind in social sector development though there have been some improvements in her ranking in recent years. Given the limited resources, it is imperative that resources are optimally utilized across various human resource development activities and within each of the sectors.

14.3 PRSP-II and MDG Costing

14.3.1 As mentioned in chapter 9 – Human development in the 21st century, human resource development is amongst the government's top most priorities. Three main social sectors: education; health; and water supply and sanitation - were selected to project the cost of achieving the proposed MDGs the results of which are reflected in this chapter.

14.3.2 According to the Fiscal Responsibility Debt Limitation Act (FRDLA), 2005 social and poverty related expenditures are not to be reduced below 4.5 percent of GDP in any given year. Further, budgetary allocations of health and education will be doubled from the existing level in terms of percentage of GDP during the next ten years ending in June 2013, hence further endorsing the significance of tracking social sectors. In accordance with PRSP's MTEF, pro-poor expenditure projections for water supply and sanitation will also increase during the PRSP-II period from 0.16 percent of GDP in FY 2008/09 to 0.17 percent in FY 2010/11.

[179] Please visit: www.finance.gov.pk

14.3.3 Since the government is also working towards achieving MDGs, it makes sense to align the attainment of PRSP-II goals so as to avoid duplication of efforts and resources. For attainment of 8 millennium goals the UN Millennium Declaration had fixed 18 targets and 48 indicators.[180] Pakistan has adopted 16 targets and 37 indicators for monitoring the MDGs. In the present study, the following MDGs 2, 4, 5, 6 and parts of Goal 7 are addressed:

- **Goal 2: Achieving universal primary education and improving gender balance by 2015**

  Pakistan's MDG Report identifies three specific targets to be achieved by 2015 under Goal 2 which include:
  - Attain Net Enrolment Rate of 100 percent for 5-9 years aged group children;
  - Attain Primary Completion Rate of 100 percent; and
  - Attain Adult Literacy Rate amongst 10+ aged population to rise to 88 percent.

14.3.4 In addition, targets set under Goal 3, promoting Gender Equality, include the two indicators which have bearings on actions to be taken in the education sector. These are:

- Attain Gender parity (1:1) in youth literacy (15-24 years population); and
- Attain full gender parity in primary education and a GPI of 0.94 at secondary 'stage'.

- **Goal 4: Reducing child mortality**
- **Goal 5: Improving maternal health**
- **Goal 6: Combating HIV, malaria and other diseases**

14.3.5 Specific targets under these goals are:

- Reduction in Mortality rate to 52;
- Reduction in infant mortality rate to 77;
- Reduction in neonatal mortality rate to 50;
- Proportion of fully immunized children more than 90 percent;
- Proportion of children less than one year against measles more than 90 percent;
- Prevalence of underweight children less than 20 percent;
- Proportion of children less than 5 years suffering from diarrhoea less than 10 percent;
- Lady health workers: Universal coverage;
- Reduction in maternal mortality rate to 140;
- Proportion of birth attended by skilled birth attendants more than 90 percent;
- Contraceptive prevalence rate of 55 percent;
- Total fertility rate 2.1 percent; and
- At least one antenatal care consultation: 100 percent.

- **Goal 7: Ensuring environmental sustainability (partially covered)**
  - Safe water availability for every one; and
  - Sanitation facilities to 80 percent of population.

14.3.6 Accordingly, costs for attaining these goals have been worked out for health, education and water supply and sanitation sectors.

[180] "Estimating the Cost to achieve MDGs in Pakistan" UNDP & Finance Division, Islamabad (2007), Pg 8.

14.4 MDG Costing Exercise: The Process

National/Provincial Workshops on Achieving MDGs Integrated with PRSP

14.4.1 The MDG costing exercise in Pakistan went through an intensive process of training on costing techniques, which was provided during December 2005. The first training workshop provided a basis for forming the provincial focal points, which helped in subsequent consultations at provincial levels. At a national consultation workshop held in end July 2006, the broad design of costing and the initial sets of parameter values were shared with the participants, which were subsequently taken to provincial level consultations in August 2006.

14.5 Methodology and Targets of the Strategy

MDG Costing Methodology: An Outline of the Conceptual Framework

14.5.1 The basic framework in the MDG costing exercise involves identification of interventions that are necessary to realize the targets set under the MDGs, derivation/specification of targets under each intervention package, and use of an appropriate investment model for estimation of the resource needs and the financial size of the public investment. Following the series of workshops, the resource team improved upon the template designs and engaged in a period of intensive work in compiling consistent sets of numbers for generating cost estimates.[181] Of the several modifications done, the following are noteworthy:

- Eight different regions have been dealt with in case of most exercises, and the water and sanitation exercise took cue from UNICEF's MICS design to accommodate three regions in each of the four provinces – major cities, other urban and rural. In each of the exercises, links are provided to a core file, which provides summary results with every change in target or parameter values.
- In search for consistency in the base year, and because of disaggregation of data, one may obtain greater insights into the state of a particular sector, which may be valuable inputs to policy making.
- Health modules have incorporated diseases, such as Scabies, Hepatitis B and C, which are an important concern for Pakistan. More importantly, disaggregated data have been put together to undertake costing of the health system. This would be a first step ahead in working out a more robust costing of the system that had so far been lacking.
- Education module explicitly accounts for the institutional diversity in Pakistan, and provides the policymakers with a consistent set of information to raise relevant policy questions and monitor progress.

14.5.2 There are various approaches to costing including the aggregate relationships through Computable General Equilibrium (CGE)[182] modelling and programme level costing. However, this study has employed a methodology employed by the United Nations Millennium Project

[181] Three major exercises, made available during the undertaking, reduced the need for separate consultations on interventions. These included, the MTDF 2005-10, PMDGR 2005 and the draft PRSP-II.

[182] Computable general equilibrium (CGE) models are a class of economic model that use actual economic data to estimate how an economy might react to changes in policy, technology or other external factors. CGE models are also referred to as AGE (applied general equilibrium) models.

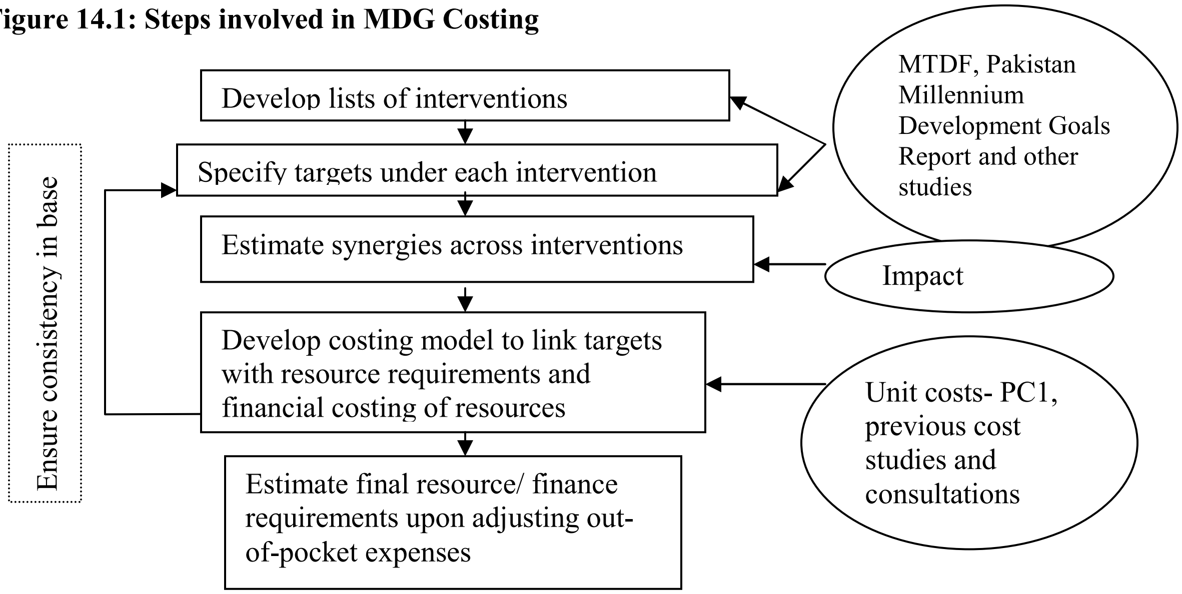
(UNMP).[183] The MDG Costing Methodology initiated by the UNMP outlines the interventions, and given targets at different tiers of interventions and estimates the resources required. Rather than resorting to a single unit cost for realizing a target, the approach makes use of financial prices of all resources to arrive at total cost of realizing a target. The logic running through a transparently laid out excel-based template is critical in linking targets with resource needs, and the design has the provision to introduce new intervention and update price and other data.

14.5.3 The MDG costing methodology outlines the interventions; identified targets at different tiers; subsequent estimates/indicative numbers of the resources required for education; health; and water supply and sanitation sectors and gaps calculated using PRSP expenditure projections. Elements of the methodology employed in the study are illustrated below:

- For identification of interventions/strategies required for achieving targets, the use has been made of available research findings and consultations with stakeholders;
- Intervention packages to reflect supply and demand side concerns and reducing overlapping as much as possible;
- Determining feasible technological and institutional options;
- Setting output level targets within each set of intervention packages;
- Using appropriate parameters to translate targets and interventions into resource needs;
- Evaluation of various types of data before using them in the costing exercise;
- Better basis for unit costs so that the marginal interventions are properly accounted for;
- Generation of province and sector level estimates for both rural and urban areas;
- Possible links between budgeting and planning exercises; and
- Information platform that may provide the basis for bringing consistency across various data usages and consensus-building on statistics.

[183] For details, please visit: http://www.unmillenniumproject.org/reports/index.htm

Figure 14.1: Steps involved in MDG Costing



14.6 Costing Education

14.6.1 In the education sector the target is universal net primary enrolment. With a view to improving the overall education and literacy levels, Pakistan has to focus on increasing the gross enrolments to a level that the universal net enrolments are achieved but at the same time those who have not been able to get admitted or could not succeed in the first attempt are also enrolled. Moreover, Pakistan has to focus on efforts to retain already enrolled children so that they are able to complete their primary education. There is also a need to provide for secondary education because parents may be reluctant to send their children to secondary schools if they feel that it may have little to do in terms of job prospects or improvements in productivity levels. The MDG aim is to attain an adult literacy rate (10 years and above aged population) of 88 percent by 2015. Achieving this goal is central in the education sector, which will be reinforced in the PRSP-II period (chapter 9). The approach to costing for education is at Annex VII.

14.7 Costing Health

14.7.1 Under the MDG costing exercise, the cost of interventions for health match well with those outlined under the PRSP. The MDG costing exercise is based on four modules:

- **Child health module:** This estimates costs of prevention of major diseases through immunization; care of newborns, treatment of various levels of severity of acute respiratory infections (ARIs) and diarrhoea; treatment of scabies; and treating deficiencies of iron, iodine, zinc and Vitamin;
- **Maternal health module:** This estimates the costs of providing pre natal and post natal care, delivery care and provision of emergency obstetric care and family planning services;
- **Other disease module:** This includes costs of preventing and treating malaria, TB and

Hepatitis B and C[184]; and

- **Health system module:** This estimates costs of health personnel e.g., Lady Health Workers (LHW), doctors, nurses, lab technicians, etc.; equipment; and supporting structure which will be required to provide the interventions required to meet the MDGs. Besides, it also incorporates costs of improving monitoring and evaluation (under the HMIS/integrated disease surveillance system).

14.7.2 An analysis (1996) of Burden of Disease (BOD)[185] indicates that around 60 percent of the disease burden is due to poverty related communicable diseases, childhood illness, reproductive health problems and malnutrition. These are the areas that comprise the integral part of the Millennium Development Goals. Three of the eight MDGs relate directly to health sector with four targets and sixteen indicators. The goals include: Reducing Child Mortality; Improving Maternal Health and Combating HIV/AIDS, Malaria and Other Diseases. Major intervention areas thus include child health, maternal health, and other diseases, such as, malaria, TB and Hepatitis B and C. Besides, treatment and prevention of these diseases, household level interventions for creating awareness are also included. Within child health, key interventions include, ARI (including pneumonia), diarrhoea, malnutrition, scabies and immunization against major killer diseases. Under maternal health, pre and post-natal care, child delivery, emergency obstetric care (EmOC) and family planning interventions are addressed.

14.7.3 Whereas UN MDGs focus on HIV/AIDS, but this costing exercise has laid more emphasis on Hepatitis B and C due to two main factors; Firstly, HIV/AIDS at present is of relatively small magnitude and stakeholders in the federal and provincial level agree that since the government has already launched an awareness programme and a large number of NGOs are working in this area, another intervention in the area would be duplication of resources. Secondly, Hepatitis B and C have assumed critical proportion in the country and need to be provided additional resources for complete eradication.

14.9 Costing Water Supply and Sanitation

14.9.1 Whereas the MDG Report of Pakistan has various environment targets including pollution, energy efficient use, deforestation etc., the present costing exercise focuses on water and sanitation since it is estimated that almost 60 percent of all the diseases in Pakistan are water borne and improved water and sanitation facilities would help in reducing the incidence of diseases and the expenditure on health. Although safe water availability is a major issue/health hazard in Pakistan, unfortunately the available data relates to sources of water supplies rather than on their safety levels. The notion of 'safe water' is determined by statistical agencies on the basis of water source. For example, the tap water and water from the hand pump is considered safe in Pakistan Social and Living Standards Measurement (PSLM) Survey. Revitalizing the infrastructure and increasing the coverage under filtration plants are also included in the costing exercise.

[184] Provincial consultation suggested exclusion of HIV/AIDS in the costing given its low incidence in the country.
[185] "Estimating the Cost to achieve MDGs in Pakistan" UNDP & Finance Division, Islamabad (2007).

14.9.2 The second target, that is, sanitation refers to the household and community need for human excreta management required for privacy, healthy living conditions and a clean environment. Improved sanitation facilities are perceived in three dimensions:

- Conventional sanitation in terms of hygienic disposal of human defecate;
- Safe disposal of waste water from households, commercial and industrial units; and
- Safe disposal of solid wastes from households and from other enterprises including industrial and medical units.

14.9.3 PRSP-II assures the provision of clean drinking water to the entire population; improving and expanding delivery of water services; ensuring conservation of water and increasing system efficiencies; and to maximize the coverage of sanitation services both in urban and rural areas through a National Drinking Water and Sanitation Policy along with the Clean Drinking Water for All Programme.

14.10 Medium Term Expenditure Framework

14.10.1 Expenditure on human development is an extension to the tracking of indicators and is a long-term investment by the government to reduce chronic poverty and weaken the transmission of inter-generational poverty. While budgetary expenditure tracks development activities in pro-poor sectors, non-budgetary expenditure under safety nets supplements the meagre incomes of the most vulnerable and poorest of the poor in the society. Quarterly tracking of budgetary and non-budgetary expenditure and annual reporting of all monitoring indicators occurs regularly. Table 14.1 presents expenditure forecasts for three pro-poor sectors during the PRSP-II period.

Table 14.1: Pro-poor budgetary expenditure: FY 2006/07 to FY 2010/11 **(Rs million)**

Sectors	Provisional Expenditure		Projected Expenditure		
	2006/07	**2007/08**	**2008/09**	**2009/2010**	**2010/2011**
Community Services					
Water supply and sanitation	16,619	18,895	21,197	25,905	30,120
Human Development					
Education	162,084	182,646	167,251	251,632	359,611
Health	53,166	61,127	67,084	93,126	122,996
Total Expenditure	**426,680***	**572,620***	**790,005**	**991,852**	**1,218,017**
% of GDP	4.89	5.46	5.90	6.25	6.79
Development	**210,957**	**270,685**	**409,558**	**517,308**	**649,786**
% of GDP	2.42	2.58	3.06	3.26	3.62
Current	**215,722**	**301,935**	**380,447**	**474,544**	**568,231**
% of GDP	2.47	2.88	2.84	2.99	3.17

Source: Civil Accounts provided by Accountant General's Office & PRSP Annual Reports, Ministry of Finance, Government of Pakistan, 2008.
Note 1: GDP (mp) at current factor cost for FY07 and FY08 in Rs million amounts to 8723215 and 10478194 respectively. Source: Economic Adviser's Wing, Finance Division, 2008.
*Based on actual expenditure.

14.11 Education – Total PRSP Expenditure (2000-08):

14.11.1 PRSP expenditure on education, both development and non-development, of the federal and provincial governments, is illustrated in Table: 14.2.

Table 14.2: Pro-poor (development and non-development) budgetary expenditure on education: FY 2000-08 (Rs million)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Federal	6,599	11,541	14,800	17,594	25,412	33,758	40,840	40,756
Punjab	24,935	27,472	31,712	44,729	50,581	55,903	71,353	73,431
Sindh	12,371	14,427	15,663	18,196	20,641	27,600	23,221	37,951
NWFP	8,803	8,890	11,929	11,969	14,397	18,355	19,447	23,012
Balochistan	3,828	3,960	4,343	5,209	5,842	6,086	7,223	7,496
Grand Total	**56,536**	**66,290**	**78,447**	**97,697**	**116,873**	**141,702**	**162,084**	**182,646**
Current	54,574	60,798	70,936	82,415	96,581	118,274	130,313	150,337
Development	1,962	5,492	7,511	15,282	20,292	23,428	31,771	32,309

Source: PRSP Annual Progress Reports, Finance Division, Government of Pakistan.

14.11.2 Education - Estimates on Total Resource Needs Based on MDG Costing:

Table 14.3: Education Sector: Proposed PRSP Allocations, MDG Costing Estimates and Resource Gap (Rs million)

	PRSP Education Allocations	MDG Costing Estimates	Resource Gap
2005/06 (Actual)	141702	150596	-8894
2006/07 (Actual)	162084	176672	-14588*
2007/08 (Actual)	182646	206863	-24217*
2008/09	167251	247910	-80659
2009/10	251632	291043	-39411
2010/11	359611	341308	18303
2011/12	513960	364972	148988
2012/13	731023	388789	342234

*Resource gap adjusted according to actual figures.

Table 14.4: Education Sector: Grand Total of Proposed PRSP Allocations, MDG Costing Estimates and Resource Gap for PRSP-II Period (FY 2008/09 - FY 2010/11) (Rs million)

	Total PRSP Education Allocations	Total MDG Costing Estimates	Total Resource Gap
Grand Total for PRSP-II Period (2008-11)	778,494	880,261	-101,767

14.12 Health - Total PRSP Expenditure (2000-08):

14.12.1 The public sector health expenditure has increased from Rs 17.5 billion in FY 2000/01 to Rs 61.1 billion in FY 2007/08.

Table 14.5: Pro-poor (development and non-development) budgetary expenditure on health: FY 2000-08 (Rs million)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Federal	3,939	4,393	5,317	6,684	8,117	11,392	14,054	16,479
Punjab	6,806	7,566	9,386	11,508	12,587	14,419	22,116	24,784
Sindh	3,281	3,679	3,808	4,310	5,150	7,371	8,710	11,559
NWFP	2,138	2,031	2,268	2,401	3,407	3,999	5,979	5,855
Balochistan	1,344	1,542	1,589	2,106	2,165	2,022	2,307	2,450
Grand Total	**17,508**	**19,211**	**22,368**	**27,009**	**31,426**	**39,203**	**53,166**	**61,127**
Current	14,984	16,717	18,847	21,441	24,777	29,410	39,268	43,971
Development	2,524	2,494	3,521	5,568	6,649	9,793	13,898	17,156

Source: PRSP Annual Progress Reports, Finance Division, Government of Pakistan.

14.12.2 **Health - Estimates on Total Resource Needs Based on MDG Costing:**

Table 14.6: Health Sector: Proposed PRSP Allocations, MDG Costing Estimates and Resource Gap (Rs million)

	PRSP Allocations to Health	MDG Costing Estimates	Resource Gap
2005/06 (Actual)	39203	53946	-14743
2006/07 (Actual)	53166	63455	-10289*
2007/08 (Actual)	61127	73922	-12795*
2008/09	67084	86323	-19239
2009/10	93126	101084	-7958
2010/11	122996	118352	4644
2011/12	162457	126033	36424
2012/13	213546	133760	79786

Resource gap adjusted according to actual figures.

Table 14.7: Health Sector: Grand Total of Proposed PRSP Allocations, MDG Costing Estimates and Resource Gap for PRSP-II Period (FY 2008/08 – FY 2010/11) (Rs million)

	Total PRSP Health Allocations	Total MDG Costing Estimates	Total Resource Gap
Grand Total for PRSP-II Period (FY 2008-11)	283,206	305,759	-22,553

14.13 **Water Supply and Sanitation - Total PRSP Expenditure (FY 2000-08):**

14.13.1 PRSP expenditure on water and sanitation increased slowly from Rs 4.5 billion in FY 2000/01 to Rs 6.5 billion in FY 2004/05 but increased sharply to Rs 10.3 billion in FY 2005/06. The expenditure amounted to Rs 19.8 billion during FY 2007/08. Table 14.8 presents a comparative picture:

Table 14.8: Pro-poor (development and non-development) budgetary expenditure on water supply & sanitation: FY 2000-08 **(Rs million)**

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Federal	142	559	527	491	469	212	376	198
Punjab	1,723	1,777	537	616	1,826	6,713	6,798	7,597
Sindh	564	937	676	1,267	1,118	604	5,657	5,290
NWFP	1,103	784	338	424	601	718	1,065	2,290
Balochistan	965	587	1,343	3,001	2,524	2,091	2,723	4,442
Grand Total	**4,497**	**4,644**	**3,421**	**5,799**	**6,538**	**10,338**	**16,619**	**19,817**
Current	2,084	1,707	1,585	1,487	2,060	2,417	5,078	5,180
Development	2,413	2,937	1,836	4,312	4,478	7,921	11,541	14,637

Source: PRSP Annual Progress Reports, Finance Division, Government of Pakistan.

14.13.2 **Water Supply and Sanitation – Total Resource Needs/Cost Estimates:**[186]

14.13.3 **Drinking water resource estimates**

14.13.3.1 It is important to recognize the issue regarding whether water is safe for drinking or not. Improved access or safety is generally associated with tap water; water distributed by trucks from the water stations;[187] public stand posts; and from groundwater sources availed by way of using tube wells.[188] It is also commonly understood that protected dug wells are a reliable source of drinking water in many parts of the rural Pakistan.[189] More recently, the government's drive for clean drinking water by installing water purification plants will be an important source of safe drinking water. Of these various sources, household (or community) use of pumps and tube wells at their own expenses are considered outside the purview of costing the resources to be provided by the government. Thus, two sets of sources are identified on the supply side: connections (household tap water, stand posts, and purification plants) provided by the public agencies to deliver water to households by investing on a larger scheme (identified in the exercise as system), and other sources (protected dug wells, community tanks, etc.) that need attention from the government, at local or higher levels, for regular up-keeping. Given current distribution of households in terms of the sources of drinking water and the number of households currently availing a single source, one may work out the number of such 'connections' (units of each of these sources). Some of these connections (say, number of stand posts) are assumed to have a fixed relation with the larger scheme. Such assumptions allow one to relate a specific target on household coverage (improved access to drinking water) with resource requirements at distribution channel (connections) and at system (scheme) level.

14.13.3.2 The 2015 MDG target for drinking water is to increase access from 66 percent in FY 2004/05 to 100 percent in 2015. Per capita water consumption varies significantly in urban and rural areas. In urban areas, more water is used due to easy access to infrastructural network and better socio-economic conditions.

[186] "Estimating the Cost to achieve MDGs in Pakistan" UNDP & Finance Division, Islamabad (2007).
[187] This is common practice in Karachi which was brought to notice during field visits. Unfortunately, no data exists on the extent (coverage) of such practice; nor is there any information on the intensity of supply failures. It is assumed that those reporting of having a connection have access to improved source of water even if they have to rely on non-piped water during most of the week.
[188] Groundwater is considered safe in the northern regions and in some limited areas in Sindh and Balochistan – and no generalization is therefore possible.
[189] Unfortunately, the PSLM Survey FY 2004/05 does not distinguish between protected (closed) and unprotected (open) dugwells.

14.13.4 Sanitation resource estimates

14.13.4.1 Costing is done separately for access to drinking water and for sanitation. The MDG target for adequate sanitation by 2015 is set at 80 percent from current 54 percent in FY 2004/05. Sanitation template underscores three sub-components, i.e. sanitation, waste water and solid waste management.

14.13.4.2 Total water and sanitation costing for the period 2007-15 allocates an estimated 42 percent share to water and the remaining 58 percent to sanitation; which will further account for 48 percent for waste water, 10 percent for sanitation, and negligible/zero percent for solid waste management.[190] Table 14.9 below shows that allocations are inadequate for the provision of safe drinking water and sanitation. A resource gap of Rs 95,046 million exists for water supply & sanitation during the PRSP-II period.

Table 14.9: Total allocations and revenue for water supply and sanitation (Rs million)

	PRSP Allocations	MDG Costing Estimates	Resource Gap
2005/06 (Actual)	10338	40853	-30515
2006/07 (Actual)	16619	44383	-27764*
2007/08 (Actual)	19817	48112	-28295*
2008/09	21197	52323	-31126
2009/10	25905	56823	-30918
2010/11	30120	63122	-33002
2011/12	35023	68733	-33710
2012/13	40528	74544	-34016

*Resource gap adjusted according to actual figure

14.13.5 Costing allocations during the PRSP-II will amount to Rs 77.2 billion whereas the total requirement estimated in accordance with MDG costing stands at Rs 172.26 billion (Table 14.10).

Table 14.10: Water supply and sanitation sector: Grand total of proposed PRSP allocations, MDG costing estimates and resource gap for PRSP-II period (FY 2007/08 – FY 2010/11) (Rs million)

	Total PRSP Water and Sanitation Allocations	Total MDG Costing Estimates	Total Resource Gap
Grand Total for PRSP-II Period (FY 2008-11)	77,222	172,268	-95,046

14.14 Total Proposed PRSP-II Allocations, MDG Costing Estimates and Resource Gap on Social Sectors:

14.14.1 Tables 14.11 and 14.12 illustrate that the total resource requirement for the three sectors during the PRSP-II period is a gap of Rs 219,366 million.

[190] "Estimating the Cost to achieve MDGs in Pakistan" UNDP & Finance Division, Islamabad (2007).

Table 14.11: Total proposed PRSP-II allocations, MDG costing estimates and resource gap on social sectors (Rs million)

	Education		Health		Water & Sanitation		Total resource gap in three *social* sectors
	PRSP Allocation	MDG Costing	PRSP Allocation	MDG Costing	PRSP Allocation	MDG Costing	
2005/06 (Actual)	141702	150596	39203	53946	10338	40853	-54152
2006/07 (Actual)	162084	176672	53166	63455	16619	44383	-32641*
2007/08 (Actual)	182646	206863	61127	73922	19817	48112	-65307*
2008/09	167251	247910	67084	86323	21197	52323	-131024
2009/10	251632	291043	93126	101084	25905	56823	-78287
2010/11	359611	341308	122996	118352	30120	63122	-10055
2011/12	513960	364972	162457	126033	35023	68733	151702
2012/13	731023	388789	213546	133760	40528	74544	388004

Source: PRSP Secretariat, Finance Division, Government of Pakistan.
*Resource gap adjusted according to actual figures.

Table 14.12: Total proposed PRSP-II allocations, MDG costing estimates and resource gap on all three social sectors during PRSP-II (FY 2007/08 – 2010/11) (Rs million)

	Education		Health		Water & Sanitation		Total resource gap in three *social* sectors
	PRSP Allocation	MDG Costing	PRSP Allocation	MDG Costing	PRSP Allocation	MDG Costing	
Grand Total for PRSP-II Period (FY 2008-11)	778,494	880,261	283,206	305,759	77,222	172,268	-219,366

14.15 Total Resource Gap

14.15.1 The gaps for each activity have been reported for the entire country. Whereas the PRSP projected expenditures show a sharp increase in the health and education expenditure as a percentage of GDP, the expenditure on water supply and sanitation as percentage of GDP reflects a steadily increasing trend. In view of the fact that most of the diseases in Pakistan are waterborne, the expenditure on water and sanitation must be increased substantially. Therefore, readjustment targets over time, user charges especially in case of water and sanitation as per past practice (but keeping in view the proportion of usage by the poor), and the increase in share of expenditure on water and sanitation as done in the case of education and health will be required. The total costing allocations for the three sectors during the PRSP-II period reflect a negative gap of Rs. 219.4 billion.

Table 14.13: Allocations to social sectors as percentage of GDP in PRSP

	Education	Health	Water & Sanitation
2007/08 (Actual)	**1.74**	**0.58**	**0.19**
2008/09	**1.25**	**0.50**	**0.16**
2009/10	**1.58**	**0.59**	**0.16**
2010/11	**2.01**	**0.69**	**0.17**
2011/12	2.54	0.80	0.17
2012/13	3.22	0.94	0.18

14.16 Limitations of the Costing Exercise
Challenges and issues in alignment of MDG and PRSP-II targets

14.16.1 The MDG costing is a difficult exercise since the MDGs are the outcomes and by-products of various government policies not necessarily those focusing on a specific sector. For example, reduction in infant mortality would not just be the result of health interventions but of a number of other developments taking place in the economy, such as in the water and sanitation sector. Extraneous factors can also have adverse impacts on the achievement of MDG targets.

14.16.2 A detailed assessment of the impact of particular spending categories is not possible due to informational constraints. In some cases, the impact of public spending is subject to time lags of varying lengths (e.g. in case of education) making it difficult to attribute outcomes in the present to public expenditure policy in the past. Hence, assessment of government objectives/efforts should not be confined to a specific timeframe.

14.16.3 Quantified targets outlined by PRSP quote statistics on an overall national basis for Pakistan, whereas MDG costing exercise uses provincial information from a variety of sources e.g. PSLMS, MICS, and National Nutrition Survey and yields provincial estimates, separately for rural and urban locations for all four provinces.

14.16.4 The link between public spending on health and education according to targeted outcomes is weak, as finance is only one of many inputs and the effectiveness of spending is contingent on the institutional environment. This undoubtedly underlines the importance of improving service delivery rather than just stepping up financing.

14.16.5 Many interventions are typically complementary, both in terms of provision and in terms of consumption. A typical example of a complementary provision is that in order to provide infrastructure-related services which can be used effectively, infrastructure needs to be both constructed *and* maintained. This implies that the impact of one particular intervention depends on whether public spending finances complementary activities. Thus, it is also essential to assign sufficient financial resources to maintain the water infrastructure in good repair. Pakistan's large stock of major irrigation and bulk water infrastructure has an estimated replacement cost of about US $60 billion.[191] Much of this infrastructure is very old, with major

[191] World Bank, (2005), Ibid., pp. 58 & 110.

structures operating well beyond their designed life. Consequently, it is important to note that requirements of funds for physical infrastructure are not portrayed in the form of a costing exercise like MDG Costing but are in fact PSDP projections of expenditure based on project feasibility studies. Nevertheless, they will have a significant impact upon availability and use of public resources and cannot be ignored while assessing expenditure on social delivery during the PRSP-II period and beyond.

14.16.6 In general, costing PRSPs (or MDGs) suffers from five main weaknesses:

- Different approaches exist for reaching any particular goal, each of them has different unit costs and cost functions;
- Costs might not be linear, but affected by economies or diseconomies of scale;
- Different goals are interrelated, so adding up of costs would lead to overestimates;
- Absorptive capacity can reduce the efficiency of spending when scaling up interventions; and
- There is no means of indicating cost estimates affected by, say, conflict or epidemics.

14.16.7 It must be kept in mind that assumptions related to costing each social sector in the MDG Costing exercise cannot be considered sacrosanct. Changes in assumptions can occur due to extraneous factors, which can lead to varying numbers in the cost estimates. However, this first ever costing exercise should be assumed as far as possible, as providing indicative requirements of funds, ceterus paribus. Overall, the costing framework will act as a useful planning tool for public policy managers. The proposed framework is only a projection; the recommendations given are not iron cast, which means there is always room for improvement and valuable feedback from stakeholders.

14.16.8 The PRSP Secretariat will endeavour to initiate costing of other sectors as well as new estimates of the above mentioned social sectors during the PRSP period. This would help in arriving at a more realistic figure pertaining to the resource gap. Needless to mention that filling up of resource gaps with the help of development partners, would be a prerequisite to achieve MDGs.

ANNEX I

Gross Enrolment Rate (GER) & Net Enrollment Rate (NER) at the Primary and Middle Level
In urban areas, the GER is notable in all provinces, ranging from 92 percent in Balochistan to 112 percent in Punjab. The overall progress made by Balochistan from 67 percent in FY 2004/05 to 72 percent in FY 2006/07 is quite impressive. In rural areas, Punjab has made a marked progress particularly in female GER, which increased from 61 percent in FY 2001/02 to 88 percent in FY FY 2006/07. This progress has been modest in NWFP, and slow in Balochistan as well as Sindh. In rural Balochistan, e.g. female GER increased only marginally from 38 percent in FY 2001/02 to 45 percent in FY 2006/07 (Table 2.1A) and this can be again attributed to the social factors and cultural norms more prevalent in these two provinces.

Table 2.1A: Gross Enrolment Rate at primary level (age 5-9) by province & region (excluding *katchi* class)

Region and Provinces	FY 2001/02 PIHS			FY 2004/05 PSLM			FY 2005/06 PSLM			FY 2006/07 PSLM		
	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both
Urban Areas	**94**	**87**	**91**	**107**	**100**	**104**	**107**	**100**	**104**	**108**	**104**	**106**
Punjab	95	93	94	111	108	110	112	107	110	113	111	112
Sindh	91	78	84	103	94	99	103	96	100	105	101	103
NWFP	100	86	93	100	84	92	98	84	91	98	89	94
Balochistan	98	75	88	101	86	94	100	83	92	104	78	92
Rural Areas	**80**	**52**	**66**	**89**	**68**	**79**	**89**	**71**	**80**	**95**	**72**	**84**
Punjab	80	61	70	96	82	89	93	83	88	103	88	96
Sindh	69	37	53	70	44	58	79	51	66	77	45	63
NWFP	96	52	74	92	62	78	93	67	81	96	63	80
Balochistan	73	38	57	79	41	61	72	41	57	85	45	67
Overall	**83**	**61**	**72**	**94**	**77**	**86**	**94**	**80**	**87**	**99**	**81**	**91**
Punjab	84	69	76	100	89	95	98	89	94	106	95	100
Sindh	76	51	63	84	65	75	88	71	80	88	68	79
NWFP	97	56	77	93	65	80	93	70	83	96	67	82
Balochistan	77	44	62	83	49	67	79	50	65	89	52	72

Note: For PRSP baseline year FY 2000/01; GER for male: 94 percent, for female: 68 percent and for both: 83 percent. The PRSP GER projection for FY 2005/06 (FY 2004/05); for male: 114 percent, for female: 94 percent and for both: 104 percent.
Source: PSLM FY 2006/07, Pakistan Millennium Development Goals Report 2004 and Accelerating Economic Growth and Reducing Poverty: The Road Ahead, Poverty Reduction Strategy Paper, 2003.

The performance of Punjab, particularly in increasing female NER in rural areas, was impressive as shown in Table 2.2A. However, the NER gap between Punjab and Balochistan increased from 13 percent in FY 2001/02 to 21 percent in FY 2006/07. The gap between Punjab and Sindh doubled, from 5 percent in FY 2001/02 to 10 percent in FY 2004/05 while reduced to 8 percent in FY 2006/07. These trends highlight the need for designing accelerated education programmes for rural areas of Sindh, the NWFP and Balochistan to bring these at par with Punjab in terms of primary school enrolment.

Table 2.2A: Net Enrolment Rate (NER) at the primary level (age 5-9) by province & region excluding *katchi* class)

Region and Province	Baseline Year PRSP FY 2001/02 PIHS			FY 2004/05 PSLM			FY 2005/06 PSLM			Y 2006/07 PSLM		
	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both
Urban Areas	**57**	**54**	**56**	**66**	**63**	**64**	**66**	**64**	**65**	**67**	**65**	**66**
Punjab	57	58	57	69	68	68	72	68	70	69	70	70
Sindh	56	50	53	64	59	61	62	63	62	67	61	64
NWFP	59	51	55	58	52	56	59	52	55	59	53	56
Balochistan	55	41	49	59	53	56	51	42	47	58	49	54
Rural Areas	**43**	**33**	**38**	**53**	**42**	**48**	**53**	**42**	**47**	**57**	**46**	**52**
Punjab	44	38	41	57	50	54	56	47	52	62	55	59
Sindh	41	25	33	45	29	38	48	34	42	49	31	41
NWFP	47	31	39	52	37	45	54	40	47	56	39	48
Balochistan	36	21	29	41	24	33	36	23	30	46	28	38
Overall	**46**	**38**	**42**	**56**	**48**	**52**	**56**	**48**	**53**	**60**	**51**	**56**
Punjab	47	43	45	60	55	58	60	53	57	64	59	62
Sindh	46	34	40	53	42	48	54	47	50	56	43	50
NWFP	48	33	41	53	40	47	54	42	49	56	41	49
Balochistan	39	24	32	44	29	37	39	27	34	49	32	41

Source: PSLM FY 2006/07, Pakistan Millennium Development Goals Report 2004 and Accelerating Economic Growth and Reducing Poverty: The Road Ahead, Poverty Reduction Strategy Paper, 2003.
Notes: MDG baseline year FY 1990/91 NER overall; 46 percent, PRSP projected NER FY 2005/06 overall; 58 percent MDG target for overall NER 2015 is 100 percent
Net Enrolment Rate: [Number of children aged 5-9 years attending primary level (classes (1-5) divided by number of children aged 5-9 years] multiplied by 100. Enrolment in katchi is excluded.
Numerator of NER: Raised sum of all individuals aged 5-9 years who report currently attending primary level.
Denominator of NER: Raised sum of all individuals aged 5-9 years who respond to the relevant questions.

The PRSP projected target for the middle level GER of 53 percent in FY 2005/06 was slightly missed. Table 2.3A shows that the middle level GER increased from 46 percent in FY 2004/05 to 51 percent in FY 2006/07. The increase for male was 57 percent and 44 percent for female. There is a large gap between urban and rural areas in the middle-level GER — 69 percent and 43 percent respectively. Net enrolment rates at the middle-level are drastically lower than GER. One reason for this difference can be attributed to enrollment of large number of overage children in these classes. At the matriculation level, the GER was 48 percent in FY 2006/07 registering an increase of 4 percent over 44 percent in FY 2005/06. The NER is almost constant at 10 percent since FY 2004/05 with a wider gender gap.

Table 2.3A: GER at the middle level

Region and Province	FY 2004/05 PSLM			FY 2005/06 PSLM			FY 2006/07 PSLM		
	Male	Female	Both	Male	Female	Both	Male	Female	Both
Urban Areas:	**64**	**63**	**64**	**67**	**68**	**68**	**69**	**68**	**69**
Punjab	64	668	66	66	75	70	68	74	71
Sindh	64	58	61	70	65	67	69	62	66
NWFP	71	54	63	70	59	65	74	58	66
Balochistan	57	49	53	56	40	48	72	59	66
Rural Areas:	**46**	**29**	**38**	**50**	**31**	**41**	**52**	**32**	**43**
Punjab	47	36	42	54	37	45	55	41	48
Sindh	34	13	25	35	9	23	34	12	24

NWFP	59	27	44	63	37	50	67	31	50
Balochistan	33	14	25	28	9	20	37	10	25
Overall:	**51**	**40**	**46**	**55**	**42**	**49**	**57**	**44**	**51**
Punjab	52	45	49	58	48	53	59	51	55
Sindh	47	35	42	51	37	44	49	36	43
NWFP	61	31	47	64	40	52	68	35	53
Balochistan	37	21	30	34	18	27	44	20	34

Source: PSLM FY 2004/05.

Table2.4A: NER at the middle level

Region and Province	FY 2004/05 PSLM			FY 2005/06 PSLM			FY 2006/07 PSLM		
	Male	Female	Both	Male	Female	Both	Male	Female	Both
Urban Areas:	**27**	**27**	**27**	**27**	**28**	**28**	**27**	**27**	**27**
Punjab	28	30	29	31	31	31	27	29	28
Sindh	28	25	26	25	28	26	27	25	26
NWFP	24	22	23	23	19	21	25	19	23
Balochistan	18	17	17	17	15	14	19	22	20
Rural Areas:	**17**	**11**	**14**	**15**	**11**	**13**	**17**	**11**	**14**
Punjab	18	14	16	17	14	16	19	14	17
Sindh	14	5	10	12	3	8	13	5	9
NWFP	19	9	14	14	12	13	19	9	15
Balochistan	8	4	6	6	2	4	9	3	6
Overall:	**20**	**16**	**18**	**19**	**16**	**18**	**20**	**16**	**18**
Punjab	21	19	20	21	19	20	21	19	20
Sindh	20	15	18	18	16	17	19	14	17
NWFP	20	11	16	15	12	14	20	11	16
Balochistan	10	7	8	8	6	7	11	7	9

Source: PSLM FY 2004/05.

Gender Disparities: A historical analysis of the available data shows that the disparities were lower in urban areas (16 percent) than in rural areas (29 percent) in FY 2004/05. The explanation rests with girls not being sent to schools for a variety of reasons — distance of school from home, perceived lack of security in schools (such as resulting from a lack of boundary walls), assistance in domestic work, etc. Other cultural and social norms also pose obstacles; for example, according to the Participatory Poverty Assessment 2003, poor households in the Northern Areas consider it pointless to invest in girls' education as they are expected to get married and move to another household.

Table 2.5A: Gender gap in literacy (Age 10 years and above)

Region and Province	Census 1961	Census 1972	Census 1981	FY 1998/9 9 PIHS	FY 2001/0 2 PIHS	FY 2004/05 PSLM
Urban Areas	23.6	19	18	17	16	16
Punjab	-	-	-	13	11	12
Sindh	-	-	-	21	20	18
NWFP	-	-	-	26	29	28
Balochistan	-	-	-	33	35	32
Rural Areas	15.8	17.9	18.9	32	30	29
Punjab	-	-	-	28	25	24
Sindh	-	-	-	38	37	38
NWFP	-	-	-	38	39	38
Balochistan	-	-	-	39	38	34
Pakistan	18	19	19	28	26	25
Punjab	-	-	-	23	21	21
Sindh	-	-	-	30	29	27
NWFP	-	-	-	36	37	38
Balochistan	-	-	-	38	38	33

Source: PSLM FY 2004/05 & Population of Pakistan: An Analysis of 1998 Population and Housing Census.

Gender disparity in GER at the primary level declined in all provinces except Balochistan, where it increased by one percentage point. Punjab has the lowest gender disparity at 11 percent and Balochistan the highest at 34 percent. Gender disparity in urban areas remained the same at about 7 percent between FY 2001/02 and FY 2004/05, because the male and female GER increased by same proportion (13 percent).

It is encouraging that the gender gap in GER at the primary level in rural areas declined by 7 percentage points between FY 2001/02 and FY 2004/05 (Table 2.6A). This decline resulted from the relatively greater increase in the female GER than in the male.

Table 2.6A: Gender gap in GER at the primary level (age 5-9)

Region and Province	FY 1998/99 PIHS	FY 2001/02 PIHS	FY 2004/05 PSLM
Urban Areas	3	7	7
Punjab	-6	2	3
Sindh	12	13	9
NWFP	14	14	16
Balochistan	22	23	15
Rural Areas	25	28	21
Punjab	21	19	14
Sindh	26	32	26
NWFP	33	44	30
Balochistan	35	35	38
Overall	19	22	17
Punjab	14	15	11

Sindh	21	25	19
NWFP	30	41	28
Balochistan	33	33	34

Source: PSLM FY 2004/05.

Across provinces the gender disparity in the Punjab was the lowest at 5 percent in FY 2004/05. However, it has increased by one percentage point since FY 2001/02. This increase was due to the larger increase in the male NER (13 percent) than the female (12 percent) at the primary level between FY 2001/02 and 2004-05. The gender gap in NER at the primary level declined in Sindh and the NWFP and remained unchanged in Balochistan between FY 2001/02 and FY 2004/05.

Table 2.7A: Gender gap in NER at the primary level (age 5-9)

Region and Province	FY 1998/99 PIHS	FY 2001/02 PIHS	FY 2004/05 PSLM
Urban Areas	2	3	3
Punjab	-3	-1	1
Sindh	6	6	5
NWFP	10	8	6
Balochistan	7	14	6
Rural Areas	13	10	11
Punjab	9	6	7
Sindh	16	16	16
NWFP	18	16	15
Balochistan	17	15	17
Overall	10	8	8
Punjab	7	4	5
Sindh	12	12	11
NWFP	17	15	13
Balochistan	16	15	15

Source: PSLM FY 2004/05.

Gender disparity in urban Balochistan in the NER fell by 8 percentage points and is now at par with the NWFP at 6 percent. The gender gap in the NER increased between FY 2001/02 and FY 2004/05 by one percentage point at the primary level in rural areas. In rural Balochistan the gender gap in NER at the primary level increased by two percentage points.

The analysis on gender disparities is incomplete as it is not based on the latest information but offers somewhat realistic picture about an overall scenario and calls for enhanced efforts to monitor gender disparities at regular basis owing to its importance as an MDG Goal 3.

ANNEX II

Number of participants in nationwide consultations for PRSP-II

	Workshop Title	Number of Participants
National Consultative Workshops		
1.	**Consultation on PRSP-II with Economists, Researchers & Academics** on December 12, 2005	80
2.	**Workshops on Education, Health & Governance** (July 24-26, 2006):	287
3.	Workshop on **MDG Costing** (September 19th, 2006):	140
4.	**Pakistan Development Forum** (April 25-27, 2007) attended by Federal Ministries/Divisions, Provincial Departments, International Development Partners, Civil Society, Community Representatives and Academia	480
5.	**National Workshop on new pillars in PRSP-II** (July 17, 2007) attended by Federal Ministries/Divisions, Provincial Departments, International Development Partners, Civil Society, Community Representatives and Academia	137
6.	**National Workshop for Sharing Draft PRSP-II on** November 14th, 2008, attended by Federal Ministries/Divisions, Provincial Departments, International Development Partners, Civil Society, Community Representatives and Academia	200
Provincial Consultative Workshops		
1.	Provincial Workshop in **Balochistan**	46
2.	Provincial Workshop in **Sindh**	34
3.	Provincial Workshop in **Punjab**	44
4.	Provincial Workshop in **NWFP**	56
Community Consultations		
1.	**During February 2006, 54 dialogues were held in 21 districts of Pakistan**	1,214 participants including 646 male and 568 female Participants.
Consultations with International Development Partners		
1.	**Consultation on the Draft Summary of PRSP-II** (presented in PDF) with various International Development partners were held	65
2.	**Consultative Workshop to share the Draft PRSP-II with International Development Partners** on November 19th, 2008	80
Consultations with the Parliamentarians:		
1.	**Consultative Workshop to share the Draft PRSP-II with the Parliamentarians** held on December 4th, 2008	Parliamentarians along with representatives from line ministries attended the workshop

ANNEX III (a)

Ongoing Projects with IPDF's Active Involvement

Sr. No.	Projects
1	Federal Bureau of Revenue (FBR) – PACCS Project
2	Pakistan Software Export Board - IT Park Islamabad
3	CNG Bus Project – Karachi
4	Charsadda Solid Waste Management System
5	NTC Cool Chain Project
6	Gawadar and Port Qasim Shipyards
7	Faisalabad: Solid Waste Management System
8	Faisalabad WASA : Metreing, Billing & Revenue Collection System
9	Multipurpose Water Reservoirs (MWR)/Dams

ANNEX III (b)
Projects identified by concerned agencies for private sector participation

Sr. No	Name of Project	Sector	Institution	Investment Rs' million
1	Iran-Pakistan-India Gas Pipeline - PipeCo 1	Energy	Inter State Gas Systems	149,940
2	Bhasha Dam	Energy & MWR	WAPDA	560,000
3	Neelum Jehlum Hydropower	Energy & MWR	WAPDA	151,200
4	IT Park at Islamabad- National park Area	Facilities Management	PSEB	26,600
5	IT Park at Lahore- Allama Iqbal International Airport	Facilities Management	PSEB	5,250
6	IT Park at Karachi – Jinnah International Airport	Facilities Management	PSEB	5,250
7	Shahdara Flyover Project (N-5)	Transport & Logistics	National Highway Authority	3,150
8	Rawalpindi Bypass Packaged with Turnol Interchange	Transport & Logistics	National Highway Authority	8,540
9	Karachi Northern Bypass Project (Additional Carriagway)	Transport & Logistics	National Highway Authority	2,750
10	Dualization of Muzafargarh – D.G Khan Section of N-70	Transport & Logistics	National Highway Authority	Not Known
11	Dualization of D.G Khan – Rajanpur Section of Indus Highway (N-55)	Transport & Logistics	National Highway Authority	6,500
12	Taxila – Haripur Road (N-105)	Transport & Logistics	National Highway Authority	3,075
13	Lakpass Tunnel	Transport & Logistics	National Highway Authority	679
14	Kolpur Bypass	Transport & Logistics	National Highway Authority	340
15	Industrial Park Bostan District Pishin	Facilities Management	P&D Dept, Balochistan	200
16	Power Generation in LIEDA	Facilities Management	P&D Dept, Balochistan	Not Known
17	Fisheries project	Facilities Management	P&D Dept, Balochistan	336
18	Primary Schools Project	Facilities Management	P&D Dept, Balochistan	408
19	Date Processing Plant, Turbat	Industry	P&D Dept, Balochistan	253
20	Strengthening of Civil Works Division of BDA	Transport & Logistics	P&D Dept, Balochistan	560

21	Slaughterhouse at Quetta	Facilities Management	Livestock & Dairy Dev Dept, Balochistan	132
22	Thar Coal Mining Project	Energy	Ministry of Petroleum & Natural Resources	Not Known
23	Oil Refinery at Gwadar	Energy	Ministry of Petroleum & Natural Resources	Not Known
24	Reko-diq – Gwadar Rail Track	Transport & Logistics	Ministry of Railways	Not Known
25	Lahore Rapid Mass Transit System (LRMTS)	Urban Mass Transport	Transport Dept, Government of Punjab	168,000
26	Bus Rapid Transit System (BRTS) - Karachi	Urban Mass Transport	Karachi Mass Transit Cell	35,000
27	Circular Railway, Karachi	Urban Mass Transport	Karachi Mass Transit Cell	Not Known
28	Mass Transit Project, Karachi	Urban Mass Transport	Karachi Mass Transit Cell	Not Known
29	New Islamabad International Airport	Transport & Logistics	Civil Aviation Authority	17,500
30	PTDC Office Complex	Facilities Management	PTDC	1,400
31	Islamabad Tourist Village	Tourism	PTDC	14,000
32	Gadani Beach Resort	Tourism	PTDC	105,000
33	Deep Water Container Port	Transport & Logistics	Karachi Port Trust	76,090
34	Bus Terminal	Transport & Logistics	P&D Department, Punjab	Not Known
35	7 MW D.G. Khan Link III Hydropower Project	Energy	P&D Department, Punjab	1,260
36	Dualisation of Mirpurkhas Hyderabad Road (65 km)	Transport & Logistics	P&D Department, Sindh	4,550
37	Sindh Coastal Highway	Transport & Logistics	P&D Department, Sindh	6,000
38	Low Cost Housing in Hyderabad	Housing	P&D Department, Sindh	2,665
39	Intra City Bus Terminal, Karachi	Transport & Logistics	P&D Department, Sindh	Not Known
40	Motor Vehicle Inspection System, Karachi	Transport & Logistics	P&D Department, Sindh	Not Known
41	Car Parking Garages, Karachi	Transport & Logistics	P&D Department, Sindh	Not Known
42	Islamabad Rawalpindi Mass Transit	Urban Mass Transport	Ministry of Railways	28,000
43	Cargo Villages at all airports	Transport & Logistics	Civil Aviation Authority	Not Known
44	Peshawar Airport terminal expansion	Transport & Logistics	Civil Aviation Authority	Not Known
45	Construction of Road from Chakdara to Rashaki Interchange Including Malakand Tunnel	Transport & Logistics	National Highway Authority	12,720

46	Construction of Lakki By-Pass	Transport & Logistics	W&S Dept, NWFP	150
47	Construction of Batkhela Bypass Road Including Bridges	Transport & Logistics	W&S Dept, NWFP	250
48	Construction of Charsadda By-Pass Road	Transport & Logistics	W&S Dept, NWFP	300
49	Construction of Sawabi By-Pass Road	Transport & Logistics	W&S Dept, NWFP	180
50	Construction of Peshawar Southern By-Pass Road	Transport & Logistics	W&S Dept, NWFP	600
51	Improvement/Widening Including Construction of Service Road & Centre Media of Ring Road Peshawar	Transport & Logistics	City Development & Municipal Dept, Peshawar	1,179
52	Solid Waste & Effluent Management System in N.W.F.P (Peshawar, Mingora & D.I.Khan)	Solid Waste Management	District Governments	600
53	Peshawar Bus Terminal	Transport & Logistics	District Government Peshawar	1,010
54	New International Airport at Peshawar	Airport	Civil Aviation Authority	2,000
55	Feasibility & Provision of Bulk Water Supply System From Warsak Dam	Water	District Government Peshawar	1,485
56	Development of 2-New Satellite Towns in Peshawar & 4-New Towns/Cities along Motorway / Highway in N.W.F.P	Housing	District Government Peshawar	1,900
57	Construction of Fly-Overs at Gulbahar Chowk, Hayatabad and Ashraf Road Peshawar	Transport & Logistics	District Government Peshawar	4,027
58	Secondary & Tertiary Sewerage Line in City District Peshawar, Mardan, & Bannu	Sanitation	District Governments	3,000
59	Summar Gah Hydropower Project	Energy	Sarhad Hydel Development Organisation	3,500
Total				**1,417,529**

ANNEX III (c)

Potential PPP projects identified in Public Sector Development Programme (PSDP) FY 2008/09

	Name & Location of Project	Division	Estimated Cost	Expenditure upto June 2008	Throw forward on June 2008	Allocation for FY 2008/09
1	Peshawar Northern Bypass (34 Km). Including Land Acquisition	Communication	3,078	51	3,027	100
2	Ghaggar Phatak Bridge to Kotri (N-5)	Communication	2,850	-	2,850	100
3	Additional Carriageway - Indus Highway (N-55), Sehwan - Ratodero (200 km)	Communication	12,342	200	12,142	1,355
4	Peshawar - Torkhum (Section-I) 34 km (ADB)	Communication	5,640	300	5,340	10
5	Hassanabdal - Abbottabad - Mansehra Expressway (9 7 km)	Communication	18,000	-	18,000	300
6	Peshawar - Torkhum (Section-II) 17 km	Communication	5,400	-	5,400	300
7	Basima - Khuzdar Road (110 Km) of N-30	Communication	3,300	-	3,300	10
8	Chakdara - Kalam Road N-95 (135 Km)	Communication	5,400	-	5,400	5
9	Khanewal - Lodheran Expressway (100 Km) NTC	Communication	19,960	51	19,909	100
10	Khawazakhela - Besham Road N-90 (64 Km)	Communication	2,660	-	2,660	10
11	Wazirabad - Pindi Bhattian Expressway (100 km) NTC	Communication	20,685	100	20,585	10
12	Karachi - Hyderabad Motorway M-9 (136 Km) Land Acquisition	Communication	2,500	100	2,400	5
13	Rawalpindi Bypass (28 Km) & Ternol Interchange at N-5	Communication	1,377	5	1,372	20
14	Faisalabad - Khanewal Expressway (184 Km) Land Acquisition	Communication	3,957	434	3,523	600
15	Faisalabad - Khanewal Expressway, 184 km (Construction)	Communication	28,790	-	28,790	2,000
16	Bridge Over River Chenab at Chund	Communication	1,085	-	1,085	200
17	Widening & Improvement of KKH (Manshera-Sazin Section) 258 km	Communication	11,578	-	11,578	100
18	Construction of Road from Gharo to Ketti Bunder (190 km)	Communication	3,000	-	3,000	500
19	Dualization of Sakrand - Nawab Shah Road - 35 Km	Communication	1,000	-	1,000	400
20	Construction of Bridge over River Indus at Sun - Sakrand and Sakrand Bypass	Communication	6,000	-	6,000	500
21	Rehabilitation of Larkana-Naudero Lakhi G.T. Road (6 1 Km)	Communication	1,404	-	1,404	500
22	Rehabilitation of Kamber Shahdadkot	Communication	713	-	713	200

23	Rehabilitation of Larkana Nasirabad Road via Rasheed Wagan Road	Communication	798	-	798	200
24	Dualization/ Rehabilitation of Larkana Moenjo-Daro Road upto Airport (28 Km)	Communication	1,756	-	1,756	500
25	Multan southern Bypass (20 Km) Including two interchanges)	Communication	2,000	-	2,000	
26	Eastbay Expressway to Link National Road Network, Gwadar	Ports & Shipping	3,767	57	3,710	
27	Dualization of Kasur - Depalpur Carriageway Carriageway	Finance	1,442	26	1,416	
28	Const . of Northern Bypass for Multan	Finance	665	0	665	
29	Victoria Bridge to Provide Crossing of Vehicular traffic by road as well	Finance	700	50	650	
30	Leh Nulla Expressway, Rawalpindi	Finance	8,885	557	8,328	
31	Development of Infrastructure in the Industrial areas, matched by Government of Sindh	Finance	1,000	20	980	
32	Development of Summer Resort , Gorakh Hill, Sindh	Finance	500	0	500	
33	Construction of Dual Carriageway from Gujrat to Salam Interchange through Mandi Bahauddin	Finance	1,442	255	1,187	
34	Accident & Emergency Center and Ancillary Services Complex at Civil Hospital Karachi	Health	1,438	188	1,251	
35	Construction of Building for Gomal Medical College D.I.Khan	Health	962	50	912	
36	Improvement and Standardization of DHQ Hospital , Nowshera	Health	918	50	868	
37	Establishment of Peshawar Institute of Cardiology Peshawar Phase II	Health	1,455	13	1,442	
38	Improvement of Perinatology and Perinatal Care, PIMS, Islamabad	Health	859	90	769	1
39	Research and Development (R&D) Laboratories for Biological products, NIH, Islamabad	Health	721	-	721	1
40	NWFP Institute of Child Health & Hospital	Health	859	-	859	50
41	Improvement & Up -gradation of Facilities at JPMC, Karachi	Health	3,200	-	3,200	5
42	Improvement & Up -gradation of Facilities at PIMS, Islamabad	Health	2,200	-	2,200	5
43	Purchase of Land in Karachi and Lahore for Establishment of IT Parks	IT & Telecom	1,020	500	520	520
44	Construction of New Gwadar International Airport	Defence	6,400	50	6,350	750
45	Addition of 3rd & 4th Lane Kashmir Highway from Peshawar more to Gholra more	Cabinet	2,192	50	2,142	50
46	Construction of Offices for Chairman Standing Committees	Cabinet	1,469	25	1,444	50
47	Construction of NSPP Headquarters at Islamabad	Establishment	800	-	800	100
	TOTAL		**208,167**	**3,221**	**204,946**	**11,970**

ANNEX III (d)

Proposed Projects to be undertaken under PPPs through IPDF

Sr. No	Name & Location of Project	Source	Sector	Estimated Cost	Expenditure upto June 2008	Throw-forward on June 2008	Allocation for FY 2008/09
1	Peshawar Northern Bypass (34 Km)	PSDP	Transport & Logistics	3,078	51	3,027	100
2	Multan Southern Bypass (20 Km) Including two interchanges	PSDP	Transport & Logistics	2,000	-	2,000	800
3	Rawalpindi Bypass (28 Km) & Ternol Interchange at N-5	PSDP	Transport & Logistics	1,377	5	1,372	20
4	Hassanabdal - Abbottabad - Mansehra Expressway (97 km)	PSDP	Transport & Logistics	18,000	-	18,000	300
5	Faisalabad - Khanewal Expressway (184 Km)	PSDP	Transport & Logistics	32,747	434	32,313	2,600
6	Peshawar - Torkhum (Section-I) 34 km (ADB)	PSDP	Transport & Logistics	5,640	300	5,340	10
7	Peshawar - Torkhum (Section-II) 17 km	PSDP	Transport & Logistics	5,400	-	5,400	300
8	Dualization of Kasur - Depalpur Carriageway Carriageway	PSDP	Transport & Logistics	1,442	26	1,416	500
9	Construction of Bridge over River Indus at Sun - Sakrand & Sakrand Bypass	PSDP	Transport & Logistics	6,000	-	6,000	500
10	Leh Nulla Expressway, Rawalpindi	PSDP	Transport & Logistics	8,885	557	8,328	106
11	Addition of 3rd & 4th Lane Kashmir Highway from Peshawar more to Gholra more	PSDP	Transport & Logistics	2,192	50	2,142	50
12	Development of Infrastructure in the Industrial areas, matched by Government of Sindh	PSDP	Industrial Park	1,000	20	980	100
13	New Medical Tower at JPMC, Karachi	PSDP	Facilities Management	3,200	-	3,200	5
14	Improvement & Up -gradation of Facilities at PIMS, Islamabad	PSDP	Facilities Management	2,200	-	2,200	5
15	Establishment of IT Parks in Karachi & Lahore	PSDP	Facilities Management	1,020	500	520	520
16	Bus Rapid Transit System, Karachi	Outside PSDP	Urban Mass Transport	35,000	-	-	-

17	Lahore Mass Transit Project	Outside PSDP	Urban Mass Transport	168,000			
18	Karachi Mass Transit Project	Outside PSDP	Urban Mass Transport	Not Known			
19	Islamabad Airport	Outside PSDP	Airport	17,500			
20	Karachi Circular Railways	Outside PSDP	Urban Mass Transport	Not Known			
21	Islamabad Bulk Water Supply	Outside PSDP	Water	46,928			
22	Dualization of Mirpurkhas-Hyderabad Road (65 km)	Outside PSDP	Transport & Logistics	4,550			
23	Islamabad-Rawalpindi Mass Transit	Outside PSDP	Urban Mass Transport	28,000			
	Total			394,158	1,943	93,237	5,916

ANNEX IV

Output (intermediate) and Outcome (final) Indicators

Poverty

S#	Output Indicator (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Share of poorest quintile in national consumption	ES, PSLM, CPRSPD	Y			

S#	Outcome Indicator (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Percentage of population below poverty line	ES, PSLM, CPRSPD	Y			
2.	Gini Coefficient	ES, PSLM, CPRSPD	Y			
3.	People below poverty line moved upwards to the poverty line	ES, PSLM, CPRSPD	Y			

Pillar I: Macroeconomic Stability

S#	Output Indicator (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Revenue as percentage GDP	ES	Y	14.2	14.9	15.8
2.	Exports as percentage GDP	ES	Y	13.0	13.8	15.1
3.	Consumer price Index (%) p.a.	ES	Y	7.9	23.0	7.0
4.	Proportion of pro-poor spending to total spending	ES	Y	26.7	31.5	35.5

S#	Outcome Indicator (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Real GDP Growth	ES	Y	5.8	3.4	5.5
2.	Sectoral Growth Rate					

S#	Outcome Indicator (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
	a. Agriculture b. Manufacturing c. Services	ES	Y	1.5 5.4 4.2	3 1.5 4.2	3.8 5.1 6.1
3.	Inflation (GDP deflator)	ES	Y	12.0	23.0	7.0
4.	Total Revenue (Rs. In bn)	ES	Y	1,499.4	1,995.0	2,935.0
5.	Nominal GDP (Rs. In bn) at MP	ES	Y	10,478	13,384	17,926

* Provided by Economic Advisor's Wing

Pillar II: Protecting the Poor and the Vulnerable

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline Year 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
	Social Safety Net					
1.	Zakat disbursement (by category) & No. of beneficiaries:	MoRA	Q**			***
	• **Guzara Allowance:** Disbursement (Rs. Million) Male Beneficiaries (000) Female Beneficiaries (000)			2043.347 361,535 344,177	2225.429 -	
	• **Educational Stipends:** Disbursement (Rs. Million) Male Beneficiaries (000) Female Beneficiaries (000)			499.789 444,741 121,605	667.629 -	
	• **Stipends to students of Deeni Madaris:** Disbursement (Rs. Million) Male Beneficiaries (000) Female Beneficiaries (000)			254.805 114,361 18,148	296.723 -	
	• **Health Care:** Disbursement (Rs. Million) Male Beneficiaries (000) Female Beneficiaries (000)			185.084 119,194 46,146	222.542 -	
	• **Social Welfare / Rehabilitation:** Disbursement (Rs. Million) Male Beneficiaries (000) Female Beneficiaries (000)			119.261 25,844 17,187	148.363 -	

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline Year 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
	• **Marriage Assistance to unmarried:** Disbursement (Rs. Million) Male Beneficiaries (000) Female Beneficiaries (000)			131.541 51 13,780	148.363 -	
	• **Permanent Rehabilitation Scheme:** Disbursement (Rs. Million) Male Beneficiaries (000) Female Beneficiaries (000)			20.380 1,834 204	- -	
	• **Eid Grant:** Disbursement (Rs. Million) Male Beneficiaries (000) Female Beneficiaries (000)			207.624 209,119 215,789	185.455 -	
	• **Leprosy Patients:** Disbursement (Rs. Million) Male Beneficiaries (000) Female Beneficiaries (000)			0.570 114 70	0.570 -	
	• **Tech. Education Stipends:** Disbursement (Rs. Million) Male Beneficiaries (000) Female Beneficiaries (000)			714.037 43,089 19,865	1228.920 -	
	• **National Level Health Institutions:** Disbursement (Rs. Million) Total Beneficiaries (000)			339.573 250,057	600 -	
	• **National Level Deeni Madaris:** Disbursement (Rs. Million) Total Beneficiaries (000)			3.936 6,174		
2.	Pakistan Bait-ul-Mal disbursements (by category) & No. of Beneficiaries	PBM	Q			
	• **Food Support Programme:** Disbursement (Rs. Million) No. of Beneficiaries (000) - Illiterate (%) - Male (%) - Female (%)			3,081 1,460,000 77.59 50.26 46.64	6 (bil) 2,000,000	26.4 (bil) 2,200,000
	• **Child Support Programme:**					

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline Year 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
	Disbursement (Rs. Million) No. of Beneficiaries (000)			450 27,229	650 10~	3407 86
	• **Individual Financial Assistance:** Disbursement (Rs. Million) No. of Beneficiaries (000)			139 13,440	600 45,000	900 60,000
	• **National Centres for Rehabilitation of Child Labor:** Disbursement (Rs. Million) No. of Beneficiaries (000)			71 13,156	350~ 151~~~	377 151
	• **Vocational / Dastkari schools:** Disbursement (Rs. Million) No. of Beneficiaries (000)			97 1,615,938	305~~ 144~~~	504 144
	• **Institutional Rehabilitation (Grant-in-Aid to NGOs):** Disbursement (Rs. Million) No. of Beneficiaries (000)				60 Existing + New NGOs	100 Existing + New NGOs
3.	**Benazir Income Support Programme (BISP):** Disbursements (Rs. Billion)	Cab. Div.	Y	-	34	-
	No. of Beneficiaries (million)			-	3.4	7
4.	**Punjab Food Support Scheme:** Disbursements (Rs. billion)	Indus. Deptt.	Y	-	21.60	****
	No. of Households (million): Male Female			-	1.8	****

** Quarterly
*** No targets have been set by MoRA
**** Projection wil likely to be based on poverty assessment from poor to extremely poor band given in the economic surveys FY 2008/09 and FY 2009/10.
~ No. of Districts
~~ Actual demand for FY 2008/09 is Rs 655 million, whereas only Rs 74 million has been allocated, creating a budget deficit of Rs 581 million in view to the meager budgetary allocation, projects are likely to be squeezed in FY 2008/09
~~~ No. of Centres
~~~

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline Year 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
Social Security Interventions						
1.	EOBI disbursements (by category) & No. of beneficiaries	EOBI	Q			
	a. Old Age Pension:					
	Disbursement (Rs. Million)			2,275.555	4,839	7,174
	No. Beneficiaries (000)			194,661	194,506	235,122
	b. Invalidity Pension:					
	Disbursement (Rs. Million)			28.804	113	168
	No. Beneficiaries (000)			4,027	4,546	5,496
	c. Survivors Pension:					
	Disbursement (Rs. Million)			576.090	2,483	3,682
	No. Beneficiaries (000)			80,640	99,826	120,669
	d. Old-Age Grants:					
	Disbursement (Rs. Million)			18.913	29	35
	No. of Beneficiaries (000)			1,467	1,600	1,930
2.	**Workers Welfare Fund:** Disbursements (Rs. Million)	MoLM	Y	2,609	27,975	28,661
	No. of beneficiaries (000)			160,597	23,760	28,749

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline Year 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
3.	**Microfinance Disbursement / No. of beneficiaries:**	PPAF, KB, PMN	Q			
	- PPAF Disb. (mill)			3,706	8,500	
	No. of Borrowers (000)					
	- Male			202	473	
	- Female			103	437	
	- Khushali Bank Dib. (mill)			2,922	4,387	
	No. of Borrowers (000)					
	- Male			229	356	
	- Female			44	89	
	- NRSP Disb. (mill)			3,178	20,762	
	No. of Borrowers (000)					
	- Male			157	1,201	
	- Female			89	1,879	
	- FMBL^ Disb. (mill)			2,123	3,658	
	No. of Borrowers (000)					
	- Male			72	88	
	- Female			38	162	
	- RMB^^ Disb. (mill)			n/a	120.00	
	No. of Borrowers (000)					
	- Male				500	
	- Female				10,000	
4.	**Districts with micro-finance coverage:**	MFIs, PMN	Y			
	- Khushali Bank			82		
	- NRSP			40		
	- PPAF			79		
	- First Microfinance Bank			29		

^ First Microfinance Bank Ltd.
^^ Rozgar Microfinance Bank

S#	Outcome Indicators (Final)	Data Source
1.	Percentage of Social Safety Net Programme reaching out to the: - Poor - Ultra Poor - Extremely Poor	MoF

Pillar III: Increasing Productivity and Value Addition in Agriculture

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline Year 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Agriculture sector growth	MINFAL /EA Wing	Y		3.0	3.8
2.	Agriculture, Livestock and rural enterprise sector credit	MINFAL	Y			
3.	Percentage of unpaid family workers^^^	MoLM	Y	27.25	29.98	33.75

^^^ For Labour related indicators, the baseline year is FY 2006/07.

S#	Outcome Indicators (Final)	Data Source	Freq	Baseline Year 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Share of agriculture to GDP (%)	ES	Y	21.6	20.6	19.8
2.	Protected area as percentage of total area	MoE	Y	11.30	11.50	11.50
3.	Percentage of land area covered by forests	MoE	Y	5.01	5.2	5.4
4.	Desertified area reduced (%)	MoE	Y	44	52.5	51.5

Pillar IV: Integrated Energy Development Programme

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline Year 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Households electrified	MoWP				
2.	No of Union councils/Villages electrified	MoWP				

S#	Outcome Indicators (Final)	Data Source	Freq	Baseline Year 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Per capita consumption of electricity (kwh)	MoPet,	Y	477.66		509.89

S#	Outcome Indicators (Final)	Data Source	Freq	Baseline Year 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
		MoWP				
2.	Energy Supply Growth (%)	MoPet, MoWP	Y		7.2	8.8
3.	Energy demand (%)	MoPet, MoWP	Y		8.5	7.7
4.	Village electrification	MoF	Y		148,045	
5.	GDP (at constant factor cost) per unit of energy efficiency in Rs./kg OE*	ENERCON, MoE	Y	143	140	141

* Based on estimated GDP and energy consumption growth of 4% in FY 2008/09. Based on estimated GDP and energy consumption growth of 5% in FY 2009/10 and 5.5% growth in GDP and energy consumption respectively in FY 2010/11.

Pillar V: Making Industry Internationally Competitive

S#	Output Indicator (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Proportion of exports (by value and excluding arms) admitted free of duties and quotas	MoCom NTC	Y			
2.	Ozone Depleting Substances (level of CFC reduced)	MoEnv	Y	1679.4 MT	251.9 MT	0 MT (100% phase out w.e.f 1/1/2010)
3.	Share in GDP (industry, services)					

S#	Outcome Indicator (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Global Competitive Index (rank)	GCR	Y	91		
2.	Growth rate (%) p.a. (industry, services)	ES				
3.	FDI (billion US$)	SBP	Y	3.521		
4.	Private Investment to GDP	ES	Y	15.4	13.3	14.3
5.	Trade to GDP	ES	Y			
6.	Gross Exports (US$ mill)	MoCom	Y			

S#	Outcome Indicator (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
7.	% of self employed persons^ ○ Male ○ Female	MoLM	Y	**32.7** 30.2 2.5	**33.6** 31.0 2.6	**33.5** 30.9 2.6
8.	Labour Productivity (Rs.)^	MoLM	Y	108,969	116,065	126,048

^ For Labour related indicators, the baseline year is 2006-07.

Pillar VI: Human Development for the 21st Century

S#	Output Indicator (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
1.	Number of functional primary schools	NEMIS	Y	119,561			-
2.	Number of non-functional primary schools	NEMIS	Y				-
3.	Number of functional middle schools	NEMIS	Y	20,000			-
4.	Number of non-functional middle schools	NEMIS	Y				-
5.	Access to school (physical distance)	NEMIS	Y				-
6.	Percentage of schools with four basic facilities: a. Water b. Electricity c. Latrine d. Boundary wall	NEMIS	Y	 64 36 51 54			-
7.	No. of private schools	MoE	Y				-
8.	No. of districts with no primary schools	MoE	Y				-
9.	Number of madrassas mainstreamed	MoE	Y				-

S#	Output Indicator (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11
	Higher Education					
1.	Number of Overseas Scholarship Awarded	HEC	Y	431	830	n/a
2.	Number of Indigenous Scholarships Awarded	HEC	Y	0	1,076	n/a

S#	Outcome Indicator (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
1.	NER Primary						
	T	PSLM	Y	**53**	**59**	**63**	**100**
	M			56	62	65	
	F			48	54	56	
2.	NER Middle						
	T	PSLM	Y	**19**	**20**	**21**	-
	M			16	21	22	
	F			18	18	19	
3.	NER Secondary						
	T	PSLM	Y	**54**	**11**	**13**	-
	M			35	12	13	
	F			44	11	12	
4.	GER Primary						
	T	PSLM	Y	**87**	**95**	**101**	-
	M			94	103	107	
	F			80	88	94	
5.	GER Middle						
	T	PSLM	Y	**63**	**54**	**58**	-
	M			74	59	62	
	F			53	47	50	
6.	GER Secondary						
	T	PSLM	Y	**44**	**48**	**52**	-
	M			50	56	60	
	F			36	38	40	
7.	Drop out rate (primary)	PSLM	Y	-	-	-	-
8.	Gender Parity Index, Primary	PSLM	Y	-	-	-	1.00

S#	Outcome Indicator (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
	Literacy						
1.	Literacy Rate (10+)						
	T	PSLM	Y	**54**	**58**	**62**	**88**
	M			65	69		89
	F			42	47		87
2.	Youth Literacy Rate (15-24)	PSLM	Y				
	T			**66**	**72**	n/a	**100**
	M			79	80		100
	F			52	64		100
3.	Literacy (10+) GPI	PSLM	Y		-	-	-
4.	Youth Literacy GPI	PSLM	Y	0.67	-	-	1.00

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline 2006/07	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
			Health				
1.	Contraceptives Prevalence Rate (CPR)	PDHS, MoPW, PSLM	Y	30	34.6	37.5	55
2.	%age of TB cases detected and cured under DOTS	MoH	Y		-		85
3.	Utilization Rate of First Level Care Facilities/Day: - FLCFs ~	HMIS	Y	28	30	30	-
	- HOPS			216	217	217	-
4.	Lady Health Worker's coverage	NPFP & PHC	Y			92.2%	100%
5.	- HIV prevalence among vulnerable groups (%) - HIV prevalence among 15-24 year old pregnant women (%)	MoH	Y				To be reduced by 50%
6.	- Prevalence of Hepatitis in general population - Prevalence of Hepatitis in high risk group	MoH	Y	B:3-4% C:5-6% 6-30%	Reduction of new cases by 10%	Reduction of new cases by 10%	-
7.	Proportion of children under five who suffered from diarrhea in the last 30 days & received ORT	MoH	Y	11	-	20	<10
8.	Prevalence of blindness	MoH	Y	-	-	-	-
9.	Fully Immunized Children (12-23m)	PSLM	Y	76%	77%	80%	>90%
10.	Immunization coverage of pregnant mothers (TT2)	PSLM	Y	56%	57%	59%	>90%
11.	ANC coverage	PSLM	Y	53%	62%	68%	100%
12.	Births attended by skilled birth attendants	PSLM	Y	36%	42%	52%	>90%
13.	ORT Use Rate	PSLM	Y		-		-
14.	Stock-out of essential medicines	HMIS	Y	34	36	36	-

~ Targets are provided by MoH

S#	Outcome Indicators (Final)	Data Source	Freq	Baseline 2006/07	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
1.	Total Fertility Rate	MoPW	Y	4.1	3.50	3.25	2.1
2.	Infant Mortality Rate (per 1000 births)	PSLM	Y	78	-	62	40
3.	Under-five mortality rate (per 1000 live births)	MoH	Y	94	82	73	52
4.	Maternal Mortality Rate/100,000	MoH	Y	276	250	220	140
5.	Proportion of population in malaria risk areas using effective malaria prevention treatment	MoH	Y		-		75%

S#	Outcome Indicators (Final)	Data Source	Freq	Baseline 2006/07	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
6.	Incidence of TB/100,000	MoH	Y		-		45
7.	Underweight children (%)	MoH	Y	36	35.5	34	<20

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
	Water Supply and Sanitation						
1.	No. of water purification plants installed under Clean Drinking Water Programme	MoIPSI	BA	120			-
2.	No. of functional/operational water purification plants	MoIPSI	BA				-
3.	No. of industrial waste water treatment plants	MoIPSI	Y				-
4.	Type of toilet used by households~~	PSLM	Y				-
	▪ Flush			60	-	-	-
	▪ Non-flush			11	-	-	-
	▪ No toilet			30	-	-	-

~~ PSLM is a survey that is conducted by FBS on yearly basis, therefore, targets cannot be identified

S#	Outcome Indicators (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
1.	Proportion of population with access to clean water - **Pakistan** - Rural - Urban	PSLM	Y	**66%**		**84%**	**93%**
2.	Proportion of population with access to sanitation - **Pakistan** - Rural - Urban	PSLM	Y	**60%**		**63%**	**90%**

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
	Gender						

S#	Output Indicators (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
1.	Total no. of women councillors	MoWD	Y				-
2.	No. of women Councillors trained in LG system	GBG / MoWD	Y	22,000			-
3.	No. of entrepreneurs	SMEDA	Y				-
	▪ Male						-
	▪ Female						-
4.	No. of trainings in poultry farming	NAVTEC, MINFAL	Y				-
5.	Percentage of Microcredit to women	PPAF, KB, PMN	Y	28.7%	25 - 30%		-

S#	Outcome Indicators (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
1.	Proportion of seats held by women in national parliament/provincial assembly/local councils	ECP, NRB	Y	NA: 72/342= 21% Senate:17 /100= 17%	-	-	-
2.	Share of women in wage employment in non-agri sectors	LFS	2Y	10%			14%
3.	Share of women in wage employment in agriculture sector	LFS	2Y				-
4.	Actual percentage of women in public service(including provinces)	Est. Div. S&GAD	Y				-
5.	Share of women in public service (including provinces)	Est. Div. S&GAD	Y				-

<table>
<tr><th>S#</th><th>Output Indicators (Intermediate)</th><th>Data Source</th><th>Freq</th><th colspan="2">Baseline 2006/07</th><th colspan="2">PRSP-II Target 2008/09</th><th colspan="2">PRSP-II Target 2010/11</th><th>MDG 2015</th></tr>
<tr><td>1.</td><td>Total Labour Force (million)
- Male
- Female</td><td>MoLM</td><td>Y</td><td colspan="2">50.3
39.9
10.4</td><td colspan="2">52.1
41.3
10.8</td><td colspan="2">53.8
42.7
11.1</td><td>-</td></tr>
<tr><td>2.</td><td>% of Employed Labour Force
- Male
- Female</td><td>MoLM</td><td>Y</td><td colspan="2">94.7
75.8
19.0</td><td colspan="2">95.8
76.6
19.2</td><td colspan="2">94.9
75.9
19.0</td><td>-</td></tr>
<tr><td>3.</td><td>Number of TVET^^ graduates</td><td>NAVTEC</td><td>Y</td><td colspan="2"></td><td colspan="4">During PRSP-II, TVET enrolment as percentage of total enrolment will increase from 30 % to 35 %</td><td></td></tr>
<tr><td>4.</td><td>Number of internships provided under National Internship Programme
Male
Female
Total</td><td>Est. Div. (NIP)</td><td>Y</td><td colspan="2">^^^
15,123
10,703
25,826</td><td colspan="2">-
30,000</td><td colspan="2">To be planned/ approved</td><td>-</td></tr>
<tr><td>5.</td><td>Peoples' Works Programme
- Development Schemes
- Amount (Rs.million)</td><td>MoLGRD</td><td>Y</td><td colspan="2">3590
2197.07</td><td colspan="2">7000
4420</td><td colspan="2">6000
^^^^</td><td>-</td></tr>
<tr><td rowspan="2">6.</td><td>Peoples' Rozgar Programme beneficiaries
- Male
- Female</td><td rowspan="2">MoF</td><td rowspan="2">Q</td><td>2006:
1229
8</td><td>2007:
64668
314</td><td>2008:
12443
500</td><td>2009:
100000
1000</td><td>2010:
125000
2000</td><td>2011:
150000
4000</td><td rowspan="2">-</td></tr>
<tr><td>Amount Disbursed (Rs. Million)</td><td>27</td><td>4958</td><td colspan="2">Projected figure for FY2008-09: Rs. 32.250 bn</td><td>-</td><td>-</td></tr>
</table>

^ Total employed labour force in million
^^Technical Vocational Education and Training
^^^ For NIP the baseline year is FY 2006/07 as NIP was started in this year
^^^^ Depending on per parliamentarian allocation of funds for FY 2010/11

S#	Outcome Indicators (Final)	Data Source	Freq	Baseline 2006/07	MTDF 2009/10	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
1.	- Unemployment rates 10+ - Youth Unemployment (15-24)	MoLM	Y	2.6 7.48	4.00 6.30*	2.2 6.31	2.8 6.04	-
2.	- Underemployment rate	MoLM	Y	14.88	15.86*	15.50	16.30	-
3.	Employment to Population Ratio	MoLM	Y	30.13	-	30.46	30.11	-

* Target for FY2009/10 is provided by Ministry of Labour and Manpower.

Pillar VII: Removing Infrastructure Bottlenecks through Public Private Partnerships

S.#	Output Indicators (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
1.	No. of vehicles using CNG fuel	MoEnv	Y	n/a			920,000

S.#	Outcome Indicators (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2010/11	MDG 2015
1.	Total logistic cost (%)	MoCom	Y	29			-
2.	- No. of katchi Abadis/Slums regularized - Sindh - Punjab - NWFP - Balochistan*** - No. of beneficiaries (000) - Sindh - Punjab - NWFP - Balochistan***	MoLGRD	Y	932 110 - - 464 151 - -	214 55 - - 96 74 - -	225 245 - - 116 303 - -	

* Based on estimated GDP and energy consumption growth at 4%
** Based on GDP and energy consumption growth of 5% in FY 2009/10 and 6.5% and 5.5% growth in GDP and energy consumption respectively in FY 2010/11.
*** As per available record, 65 numbers of Katchi Abadis were identified out of which only 4 were regularized and the rest are still pending to regularization due to finalization of transfer of land lease policy.

Pillar VIII: Capital and Finance for Development

S.#	Output Indicators (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2009/10	PRSP-II Target 2010/11
1.	Capital Adequacy (Capital to Liability Ratio)	SBP	Y	-			
2.	Asset Quality (NPL to Gross Advances Ratio)	SBP	Y	6.9			
3.	Management Soundness (Total Expenses / Total Income Ratio)	SBP	Y	-			
4.	Earnings and Profitability (Return on Assets)	SBP	Y	2.1			
5.	Liquidity (Loans to Deposit Ratio)	SBP	Y	74.6			
6.	New issues in equity contributes to --- percentage of marginal capital raised for development	SECP	Y		07	04	06
7.	New issues in Term Finance Certificates (TFC)/Debt instrument in percentage	SECP	Y		04	03	05

S.#	Outcome Indicators (Final)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2009/10	PRSP-II Target 2010/11
1.	M2 to GDP Ratio	SBP	Y	55.2			
2.	Sector-wise Credit: SMEs (Rs. In million) Agriculture (Rs. In million) Microfinance (No. of clients)	SBP	Y	-	 432,194 250,000 2,138,750	 475,413 312,000 2,528,824	 522,955 390,000 3,133,202
3.	Amount expected to be raised through new equity issues (Rs. billion)	SECP	Y		5.425		9.954
4.	Amount expected to be raised through new TFC issues (Rs. billion)	SECP	Y		7.462		16.272

Pillar IX: Governance for a Fair and Just System

S.#	Output Indicators (Intermediate)	Data Source	Freq	Baseline 2005/06	PRSP-II Target 2008/09	PRSP-II Target 2008/09	PRSP-II Target 2010/11
1.	Number of cases pending with courts	L&J Div.					
2.	Number of districts mobilized funds for CCB projects	SWD					
3.	Percentage increase in revenue share of provinces	MoF	Y		43.75	45.00	46.25

ANNEX V

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 the calorie based food plus non-food poverty line 2. Poverty gap ratio (incidence x depth of poverty)
Target 2: Halve between 1990 and 2015, the proportion of people who suffer from hunger	3. Prevalence of underweight children (under-five years of age)
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	4. Net enrolment ratio in primary education 5. Proportion of pupils starting grade 1 who reach grade5 6. 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.	7. Literacy (10+) GPI 8. Youth literacy GPI 9. Share of women in wage employment in the non-agricultural sector 10. 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	11. Under-five mortality rate 12. Infant mortality rate 13. Fully Immunized children (12-23m) 14. Proportion of children under five who suffered from diarrhea in the last 30 days and received ORT 15. Lady Health Workers' coverage
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 18. Total Fertility Rate 19. Contraceptive Prevalence Rate 20. ANC coverage
Goal 6: Combat HIV/AIDS, Malaria and Other Diseases	
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.	21. HIV prevalence among 15-24 year old pregnant women 22. HIV prevalence among vulnerable group (%)
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.	23. Proportion of population in malaria risk areas using effective malaria prevention and treatment measures 24. Proportion of TB cases detected and cured under DOTS (Directly Observed Treatment Short Course) 25. Incidence of TB per 100,000 population
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.	26. Proportion of land area covered by forest 27. Land area protected as % of total area 28. No. of vehicles using CNG fuel 29. GDP per unit of energy use (as proxy for energy efficiency)

Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water	30. Proportion of population with access to clean water 31. Proportion of people with access to sanitation
Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	32. Proportion of katchi abadis (slums) regularized
Goal 8: Develop a Global Partnership for Development	
Target 12: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system. Includes a commitment to good governance, development, and poverty reduction-both nationally and internationally **Target 13:** Address the Special Needs of the Least Developed Countries Includes: tariff and quota free access for LDC exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction **Target 14:** Address the Special Needs of landlocked countries and small island developing states (through Barbados Programme and 22nd General Assembly provisions) **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	**Official Development Assistance** 33. Net ODA as percentage of DAC donors' GNI (targets of 0.7% in total and 0.15% for LDCs) 34. Proportion of ODA to basic social services (basic education, primary health care, nutrition, safe water and sanitation) 35. Proportion of ODA that is untied 36. Proportion of ODA for environment in small island developing states 37. Proportion of ODA for transport sector in land-locked countries **Market Access** 38. Proportion of exports (by value and excluding arms) admitted free of duties and quotas 39. Average tariffs and quotas on agricultural products and textiles and clothing 40. Domestic and export agricultural subsidies in OECD countries 41. Proportion of ODA provided to help build trade capacity **Debt sustainability** 42. Proportion of official bilateral HIPC debt cancelled 43. Debt service as a percentage of exports of goods and services 44. Proportion of ODA provided as debt relief 45. Number of countries reaching HIPC decision and completion points
Target 16: In co-operation with developing countries, develop and implement strategies for decent and productive work for youth	46. Unemployment rate of 15-24 year olds
Target 17: In-co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries.	47. 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.	48. Telephone lines per 1000 people 49. Personal computers per 1000 people

ANNEX VI

DATA SOURCES

Table below presents the sources that will provide data on monitoring indicators. PSLM will remain the key data source for most output/outcome indicators related to human development sectors. These include gross enrolment, student dropout, literacy, infant and child mortality, total fertility rate, access to clean water and sanitation, variability in consumption of the poorest households and landholding.

Source Abbreviation	Source Name	Description
Cab. Div.	Cabinet Division	Special Initiative Wing housed in the Cabinet Division deals with Special Initiative projects handed over to Cabinet Division on the direction of the Prime Minister. This Division is also dealing with Benazir Income Support Programme and data will be provided by the division.
CPS	Contraceptive Prevalence Survey	These are ad hoc surveys designed and conducted by National Institute of Population Studies (NIPS) designed specifically for the fertility trends, contraceptive prevalence and other reproductive health indicators.
CPRSD	Centre of Poverty Reduction and Social Development	The CPRSD, based in the Planning Commission, estimates Poverty Head Count Ratios and other poverty related indices based on national household income/expenditure surveys and other studies.
ECP	Election Commission of Pakistan	Election Commission of Pakistan is an independent and autonomous constitutional body charged with the function of conducting transparent, free, fair and impartial elections to the National and Provincial Assemblies.
ENERCON	Energy Conservation Centre	National Energy Conservation Centre (ENERCON), an attached department of the Ministry of Environment, Government of Pakistan was established in 1987. It serves as the national focal point for energy conservation/energy efficiency activities in all sectors of the economy, namely industry, agriculture, transport, building and domestic. The strategy adopted by ENERCON for promoting Energy Conservation spans a whole spectrum of activities, starting from identification of energy conservation opportunities and including technology demonstration, undertaking pilot projects, information and outreach, training and education, and replicating through market forces mass dissemination of all Energy Efficiency and Energy Conservation activities.
EOBI	Employees Old Age Benefit Institution	EOBI provides subsistence pensions to Pakistani workers who retire after completing a minimum number of years of insurable employment. The core objective is to provide monetary benefits as pension to the workers of private industrial and commercial establishments across the country.
Est. Div.	Establishment Division	The Establishment Division is the administrative arm of the Federal Government, empowered to regulate all matters of general applicability to various Occupational Groups in public

		service.
ES	Economic Survey	The Economic Survey, the annual publication of the Ministry of Finance, is the prime source of national data on economic and social indicators of Pakistan. It provides an overall statistical picture of the various sectors of the economy for the outgoing financial year, while comparing it to the corresponding previous year, with a view to determining progress as well as shortcomings.
GBG	Gender Based Governance Systems	Lessons learnt from the Gender Mainstreaming in the Planning and Development (GMP&D) & the Women's Political School (WPS) projects, Gender Based Governance Systems is designed as a sustainable, long-term initiative to institutionalize the process of enabling and empowering local representatives particularly women to raise their issues and concerns in policy agenda. GBG addresses capacity building in a holistic manner and also up streams the earlier effort of training federal government staff by applying their skills in development of an accountability framework.
GCR	Global Competitiveness Report	This is an annual report produced by the World Economic Forum – an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas. GCR provides Global and Business Competitiveness indices (GCI & BCI).
GITR	Global Information Technology Report	This report is produced annually by the World Economic Forum – an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas. The GITR has become a valuable and unique benchmarking tool to determine national ICT strengths and weaknesses, and to evaluate progress. It also highlights the continuing importance of ICT application and development for economic growth.
HEC	Higher Education Commission	The Higher Education Commission aims to facilitate the development of indigenous universities to be world-class centers of education, research and development. Through facilitating this process, the HEC intends to play its part in spearheading the building of a knowledge-based economy in Pakistan. Scholarships offered by various countries, agencies, universities etc to Pakistani nationals are co-managed by HEC.
HMIS	Health Management Information System	HMIS is a routine management information system used by the provincial health departments and federal ministry of health to monitor performance of public health care system. The system currently captures data on priority disease indicators, maternal and child healthcare, preventive health care coverage, and stock-outs of essential medicines and vaccines from the first level healthcare facilities on monthly basis.
Indus. Deptt.	Industries Department	It is on the top agenda of the present regime to provide essential food items to the poor people on subsidized rates. The data on Food Support Scheme will be provided by the Industries Department, Government of Punjab.

KB	Khushali Bank	Khushali Bank operates under the Microfinance Sector Development Programme (MSDP) which was initiated by the Government of Pakistan through a Microfinance Development Policy. The MSDP has an important objective – to provide affordable financial and social services to the poor, for a significant impact on poverty reduction.
L&J Div.	Law and Justice Division	The Law & Justice Division, tenders advice to all the Federal Government on legal and constitutional questions as well as the provincial Government on legal and legislative matters. It also deals with drafting, scrutiny and examination of bills, all legal instruments, international agreements, adoption of existing laws to bring them in conformity with the Constitution, legal proceedings and litigation through Pakistan concerning the federal government and other several subjects.
LFS	Labour Force Survey	Labour Force Survey is carried out after every two years by the Federal Bureau of Statistics to inform the policy and planning on human resources, economic growth and employment status. The survey estimates the growth in labour force especially employment by occupation and industry which ultimately reflect the economic growth of the country. The Federal Bureau of Statistics has been conducting Labour Force Surveys (LFS) since FY 1963/64.
MINFAL	Ministry of Food, Agriculture & Livestock	The Ministry of Food, Agriculture & Livestock has been bifurcated into two separate ministries: Ministry of Food and Agriculture; and Ministry of Livestock and Dairy Development. While the first is mainly responsible for policy formulation, economic coordination and planning with respect to food grain and agriculture, the latter administers major activities related to animal protection, veterinary drugs, and livestock insurance including the poultry and livestock products.
MFIs	Microfinance Institutions	MFIs include: PPAF, SMEB, FWB, RSPs, NGOs and Microfinance Banks: ▪ Khushali Bank ▪ Network Microfinance Bank ▪ The First Microfinance Bank ▪ Rozgar Microfinance Bank ▪ Tameer Microfinance Bank ▪ Pak Oman Microfinance Bank
MoCom	Ministry of Commerce	The Ministry of Commerce is responsible for management/development of external and internal trade, transit and border trade, concluding agreements/treaties, formulation of Trade and Tariff protection to the local industry, commercial intelligence/statistics, regulation and control of insurance companies, organization and control of chambers and associations of commerce and industry etc.
MoE	Ministry of Education	One of the main functions of the Ministry is the development and coordination of national policies, plans and programs in education, development of curricula and international aspect of development and planning of education.
MoEnv	Ministry of Environment	Data on water and sanitation output indicators shall be available through MoEnv.

MoF	Ministry of Finance	The Finance Division deals with the subjects pertaining to finance of the Federal Government and financial matters affecting the country as a whole, preparation of annual budget statements and supplementary/excess budget statements for the consideration of the parliament accounts and audits of the Federal Government Organization.
MoH	Ministry of Health	MoH collects and disseminates data on various national health programmes and initiatives including Family Planning and Primary Health Care, TB Control, and Malaria Control Programmes.
MoIPSI	Ministry of Industries, Production and Special Initiatives	Responsible for national policy programs and plans regarding environment, pollution, ecology, housing & physical planning, and human settlements. Ministry of Industries acts as a policy formulating agency and a focal point for promotion and expansion of industrial sector of the country. The Ministry aims to improve the requisite economic foundation by focusing on the development of human resource, technology acquisition, physical infrastructure and business support services to increase productivity.
MoLGRD	Ministry of Local Government and Rural Development	Ministry of Local Government and Rural Development was established on 2 February, 1976 with the objective to promote Local Government institutions and carry out integrated rural development, in coordination with the Provincial Governments. The present local government system was installed for establishing genuine and sustainable democracy for durable governance and irreversible transfer of power to the people of Pakistan.
MoLM	Ministry of Labour and Manpower	Ministry of Labour and Manpower is mandated to perform the functions broadly related to policy formulation regarding labor administration manpower planning and employment promotion. The main strategy is the implementation of Labour Laws and International Labour Standards through institutional improvement and strengthening of labour inspection services.
MoPet	Ministry of Petroleum	The Ministry is responsible for dealing with all matter relating to petroleum, gas and mineral affairs and it will provide the data on all relevant indicators.
MoPW	Ministry of Population Welfare	The Population Welfare Programme aims to bring about the country's social and economic development through rational choices about Family size and reproductive behavior. The focus of the Program is to consistently improve and enrich the lives of individuals, families and communities in accordance with the Reproductive Health program.
MoRA	Ministry of Religious Affairs	Ministry of Religious Affairs performs the activities like management of distribution and utilization of Zakat and Ushr Funds, investment of Zakat Funds in non-profit bearing instruments as permitted under Shariah including the monitoring of collection, disbursement and periodical annual inspection and audit.
MoWD	Ministry of Women Development	The Ministry of Women Development is responsible for making policies and programmes for the welfare of women

		and protection of their rights, ensuring that women interests and needs are adequately represented in public policy formulation by various organizations and agencies of government, promotion and undertaking of projects for development of women, matters relating to equality of opportunity in education, training, employment and facilities in health care and community development.
MoWP	Ministry of Water and Power	In the changing scenario of private sector advent to Pakistan Power sector, the Ministry of Water and Power, besides all policy matters relating to development of these two resources, performs certain specific functions, such as carrying out strategic and financial planning for the long term master plans in public and private sector.
NAVTEC	National Vocational & Technical Education Commission	The Government of Pakistan has established the National Vocational & Technical Education Commission (NAVTEC) to facilitate, regulate, and provide policy direction for technical education and vocational training to meet national and international demand for skilled manpower. The Commission will review, devise policy and evolve strategy/prepare training programmes relating to human resource development with a focus on technical education and training (TVET).
NEMIS	National Education Management Information System	These are routine management information systems developed by the four Provincial Education Departments and a NEMIS project at Islamabad that covers Islamabad, AJK and federally administered Northern and Tribal areas.
NIP	National Internship Programme	NIP, under the control of Establishment Division, can provide data on number of internships provided.
NRB	National Reconstruction Bureau	The data on proportion of seats held by women at local government level shall be provided by NRB.
NPFP&PHC	National Programme on Family Planning and Primary Health Care	This is a national health programme that has recruited, trained and deployed over 80,000 female community health workers called 'Lady Health Workers.' LHWs provide essential contraceptive advice, supplies and act as referral between community and first level care facility.
PBM	Pakistan Bait-ul-Mal	Pakistan Bait-ul-Mal collects and disseminates data on cash transfers/social safety distributions.
PFD	Provincial Forest Department	The Forest Department is responsible for the management of forests, wildlife, rangeland, watersheds, sericulture, medicinal plants, soil conservation and raising. The department focuses to conserve the existing natural resources and to put a stop to rapidly deteriorating environmental conditions.
PMN	Pakistan Microfinance Network	The Pakistan Microfinance Network (PMN) is a network of organizations engaged in microfinance and dedicated to improving the outreach and sustainability of microfinance services in Pakistan.

PPAF	Pakistan Poverty Alleviation fund	PPAF is the government's interface to provide funds to civil society organizations; the PPAF forms partnerships on the basis of rigorous criteria. The target population for the project is poor rural and urban communities, with specific emphasis being placed on gender and empowerment of women. Benefits accrue directly to the vulnerable through income generation, improved physical and social infrastructure, and training and skill development support.
PDHS	Pakistan Demographic & Health Survey	MEASURE DHS is a ten-year global programme funded by USAID Bureau for Global Health (BGH). The strategic objective of MEASURE DHS is to improve and institutionalize the collection and use of data by host countries for programme monitoring and evaluation and for policy development decisions. MEASURE DHS is funded by USAID with contributions from other donors. DHS has earned a worldwide reputation for collecting and disseminating accurate, nationally representative data on fertility, family planning, maternal and child health, as well as child survival, HIV/AIDS, malaria, and nutrition. In Pakistan, first DHS was conducted in FY 1990/91 and second in FY 2006/07.
PSLM	Pakistan Social and Living Standard Measurement Survey	The Pakistan Social and Living Standards Measurement Survey is one of the main mechanisms for monitoring the implementation of the PRSP. It provides a set of district level representative, population based estimates of social indicators and their progress under the PRSP. These include intermediate as well as 'output' measures, which assess what is being provided by the social sectors – enrolment rates in education, for example. They include a range of 'outcome' measures, which assess the welfare of the population – for example, immunization rate.
S&GAD	Services and General Administration Department	S&GAD deals with the establishment matters of the officials of the government, including the officials who are on deputation with other provincial governments. The most significant role of the services wing is to offer its valuable policy inputs to improve governance scenario in the province. The service areas also include: transfer and posting of the government officials; promotion cases of the officials, hiring consultants for various technical assignments, ascertain the vacancy position against which the recruitment has to be made by sending requisition to the respective public service commission.
SMEDA	Small and Medium Enterprises Development Authority	Premier institution of the government under Ministry of Industries and Production, SMEDA was established in October 1998 to take on the challenge of developing Small & Medium Enterprises (SMEs) in Pakistan. With a futuristic approach and professional management structure it has focus on providing an enabling environment and business development services to small and medium enterprises.

Social Audit	Social audit of governance and delivery of public services	This survey is commissioned by Development Trust for Community Empowerment with UNDP's sponsorship. The survey allows assessment of the level of engagement of the public with local government and their participation in local development in their communities. The views of local elected representatives and government officials, who have been implementing the new local government arrangements, are also included.
SBP	State Bank of Pakistan	State Bank of Pakistan publishes monetary and banking sector monitoring data on monthly, quarterly and annual basis. These reports are available online at: http://www.sbp.org.pk/ under Publications section.
SWD	Social Welfare Department	Can provide data on development expenditure on CCB projects.

ANNEX VII

An outline of the costing approach – the Education Module

The MDG costing exercise attempts to derive resource requirements from targets set, and this is possible only when specific measurable interventions are identified to realize these targets. The last part obviously involves valuing these resources with appropriate price figures. The current exercise follows these paths, but more importantly, it has developed an excel-based template that captures all relevant information for urban and rural areas in four provinces of Pakistan, and simultaneously compiles these into aggregate figures. Numbers have equal power in misleading others as well as providing greater insights into the working of a sector. Estimates framed within an accounting structure, therefore, require sound basis of the initial sets of numbers chosen. This section discusses several conceptual issues that underlie the exercise.

GER, NER and enrolments from other age groups
Quite often, confusions arise due to our failure in appreciating the accounting relations between several target (and performance) indicators. A prime example is the instance of setting 100% (primary stage) NER with a definition of primary school-aged children to include only 5-9 years age group. It is important to note that GER truly captures the actual number of students enrolled at any 'stage' of education, not the NER. However, a simple formula ties the three variables (mentioned in the subtitle) together:

(1) GER = (# total enrolled at primary stage)/(# of 5-9 years children);
(2) GER = (# enrolled children of 5-9 years age + over-aged children enrolled) divided by (# of 5-9 years age children).

One may assume that the over-aged children are from 10-14 years age group. Thus the above may be reformulated as,

(3) GER = NER + (% of 10-14 years children attending primary stage) * (ratio of 10-14 years population to 5-9 years population).

From the above relations, we may draw various inferences:

- If NER=GER=100%, there can be no children from other age group attending primary stage schools, and no children of 5-9 years aged group would be studying in pre-primary (or, secondary) schools.

- If one allows for over-aged children to participate in primary stage, GER will always be greater than NER.

- If children of 5-9 years age group participate in pre-primary schools, NER will always be less than 100%, even when all children of 5-9 years age group are attending schools.

Simulation on an excel template
Projecting into future involves simulations, and as in other instances of simulations, one is expected to ensure base year consistency across numbers. Upon ensuring base year consistencies, one may set targets and estimate resource requirements. Often the parametres (such as, student-teacher ratio) are considered as target variables so that one may choose to lower or increase the value of the parametre in the terminal year. There are several areas where consistency in numbers has been ensured, at the least, in the base year (2005) and in terminal year (2015). Some of the important ones are highlighted below.

(4) NER (all) = NER (boys) * share of boys + NER (girls) * share of girls.

The above applies to many other statistics.

(5) TGE = Σi (TE * share of ith institution in TE * % of girls in TE of ith institution),

Where, TGE = Total Girls' enrolment, TE = Total enrolment, Σ is the summation sign and * is the multiplication sign. Major institutional groups considered are, public, commercially run private, NFBE/NGO and Madrasah schools.

The above applies for boys as well. Equation (4) has important bearing on policy target and for the resource requirements in the hands of the public agencies. Current shares of various agencies (public, private, Madrasah, and NFBE/NGO) in total primary enrolment is largely assumed to remain stable, even though the excel-based template design has the provision of setting different targets on these shares. Any change in the share of public institution will change the resource requirements for realizing any given target.

(6) Total number of schools = enrolled students * (school: student ratio)

The above applies for several other ratios.

Capturing Reality in an abstract world: concepts

All the four provinces, Punjab (without FATA and with ICT included), Sindh, NWFP and Balochistan; and urban and rural areas in each of these provinces, have been separately treated. Thus, there are eight sets of data and parametre values that have been dealt with. Aggregate for Pakistan will be derived by adding the eight estimates, and adjusted by a factor in line with the proportion of the whole covered.

The coverage data, that is, number of students (boys and girls) enrolled, number of teachers, number of schools, etc. by various institutional settings (such as, government, madrassah, NFBE/NGO) ought to tally with the real world figures in the base year (2004-05). This is ensured by choice of appropriate parametre (for example, % of total enrolment in government schools, % of government school enrolment who are girls, student-teacher ratio, etc.) values. In order to ensure consistency at the aggregate levels, we incorporated enrolments in government/public schools, NFBE/NGO/CBO centers, madrasahs, and the commercially driven private sector. NFBE provides a floor figure on the second category, while 2002 study on private sector schools and briefs from recently concluded education census 2005 provide some elementary information on the last category. One obvious constraint was set by the DOE figures on enrolment in government schools, and other than for Sindh Rural, most of these could fit in our exercise. One may however note that such constraints often imposed restriction on being simultaneously consistent and realistic.[192]

Adult literacy and out-of-school programmes are considered in aggregates – and these are considered government's responsibility whether channeled through NGO/CBOs or not. Pakistan chose to associate target setting for 10+ population, partly influenced by the availability of data. At a program level, it raises quite a few complications. First, as noted above, some children aged 10-14 years enroll in primary stage and are already covered under the reported GER. Second, NFBE is targeting the out of school children from this age group. In order to account for these concerns, the module has two segments of adult literacy: providing literacy to 15-59 years age group, and

[192] For example, high reported figures on primary enrolment in Sindh Rural areas (which exceeded the figures compatible with FBS finding on GER in PSLM Survey FY 2004/05), shares of other institutions were likely to have been under-represented.

providing basic education to out-of-school children to 10-14 years. The latter takes account of secondary NER and the % of this group enrolled in primary stage.

While the costing exercises confine to estimation of resource requirements by the government, it does not confine to resource requirements for public sector education only. An important underlying assumption pertains to the role of government in the field of governance – and, therefore, resources required to play supportive or regulatory roles ought to be taken into account. This requires laying out the total canvass of the primary and related education sub-sectors. In addition, for overall consistency, having all numerical figures on all stakeholders is very critical for the costing exercise. It is to be emphasized that the targets are set for the population independent of who delivers the service to the target population! Within such a broad canvass of many stakeholders/institutions, policies are the key determinants of the numerical results from a costing exercise. And, it calls for operationally meaningful policies that allow one to set targets – such as, in shares to be accounted by various institutional stakeholders, and the supportive roles that the government intends to play in promoting their shares.

The public schools go by the names of 'mosque school', primary school, middle school, high school and higher secondary schools. While the first two do not teach students beyond class V, some of them offer *katchi* (pre-primary) classes. The last three in the list however, in most cases, offer primary stage education. We group these into three broad groups: the first includes the 'mosque school' and primary schools; the second includes middle and high schools; and the third category is the high school (which also offers classes XI and XII). Thus, enrolment in the public schools is further disaggregated into enrollments in these three categories, and percentages of public school enrollment in each of these three are considered parametres in our exercise.[193]

There is an additional dimension of categorizing public schools – boys, girls and mixed. The last does not reportedly have an official standing, even though many of the boys' schools enroll (at early stages) girls and vice versa. While some of the infrastructure parametres (such as, number of latrines, etc.) are likely to have different values for the boys' and girls' schools; unfortunately, the enrollment data on these categories are not consistent across provinces. We were thus unable to make this finer distinction.

Given a distribution of enrollment across the four institutional categories (or, a path of changing distribution), additional enrollments (consistent with the realization of the MDG targets of increasing NER at primary stage) in each of the institutions may be worked out. These figures provide the basis for most resource requirements. While the obligation to provide supports to the public schools is an obvious inclusion, supports to other activities are matters of policy choice. We do assume that NFBE through NGOs and independent NGO schooling require government or external resources. We also assume that *madrassah*[194] education will require some limited supports, outside that mobilized from voluntary contributions. The commercially driven private sector is kept outside the domain of the final cost estimates.

[193] Expansion of primary enrolment will involve increases in primary stage enrollment in the non-primary level schools as well. The costing exercise takes this into account and considers increases in the teachers required to accommodate such expansions. Any additional needs on physical resources at the non-primary level are excluded.
[194] Islamic school.

Key Interventions	Indicators	Targets			Outcomes
		2008/09	2009/10	2010/11	
Pillar I: Macroeconomic Stability					
Goal: Fiscal deficit and debt reduced to sustainable levels, and monetary aggregate consistent with the macro framework. (poverty reducing expenditures to be protected)					
Fiscal Policy: A credible and prudent fiscal policy comprised of; i. a balanced tax structure based on rational and affordable rates with minimal exemptions covering a broad range of taxpayers, ii. an expenditure policy that aims to moderate growth in non-developmental expenditure and adequately accommodative for pressing social and infrastructure needs of a developing economy, and iii. A prudent debt management policy	• The revenue deficit reaching zero in 2009/10 & thereafter	-1.2	-0.2	0.8	
	• Public guarantees annually at or below 2% of GDP	> 269,860	> 320,160	> 369,880	
	• GDP growth rate	3.4%	5%	5.5%	
	• Saving as % of GDP	13.4%	15.6%	19.2%	
	• Investment as % of GDP	19.9%	21.3%	23.8%	
	• Inflation	23%	13%	7%	
Monetary Policy: i. Tightening Monetary Policy, both through policy rates as well as statutory instruments ii. Exchange Rate to remain competitive in real terms	• Growth in money supply (M2)	10.6%	15.9%	n/a*	
	• Gross Reserves with SBP (US$ million)	8.5	9.1	10.3	
Key Interventions	**Indicators**	**Targets**			**Outcomes**
		2008/09	**2009/10**	**2010/11**	
Pillar II: Protecting the Poor and Vulnerable					
Goal: Enhanced coverage of vulnerable groups through a series of targeted interventions to pull them out of the poorest state.					
Budgetary Pro-poor Interventions for PRSP-II: **Benazir Income Support Programme (BISP)**	• Total Allocations • No. of households	Rs. 34 billion 3.4 million	Up to Rs. 50 billion 7 million		The payout is not claimed to be able to alleviate their poverty, but it will serve to protect their nutrition intake to a large extent
Punjab Food Support Scheme (PFSS): A cash grant programme of Rs. 1000 per household per month	• Total Allocations • Total households	Rs. 21.60 billion 1.8 million	n/a*	n/a*	Increase in the current purchasing power of the poor
Pakistan Bait-ul-Mal (PBM)	• Total Amount	Rs. 6 billion		Rs. 26 billion	Increase in the purchasing

* Not available (will be given when available)

Revamping Pakistan Bait-ul-Mal through new interventions.	• Increase the coverage of Food Support Programme	2 million beneficiaries		2.2 million beneficiaries	power of the poor
People's Rozgar Programme (PRP)	• Total Amount • Total no. of beneficiaries	Rs. 32.250 billion **2008:** 127,000 **2009:** 154,000	n/a*	n/a*	Creation of self-employment
People's Works Programme	• Total Allocation	Rs. 26 billion	n/a*	n/a*	
Low Cost Housing Distribution of state land (5 marla and 80 square yards in rural and urban area	• No. of housing units to be constructed	5000	n/a*	n/a*	Provision of better residential facilities to low income groups
Provision of Sasti Roti (subsidized bread) i. Prices of Roti are brought down to Rs.2-3 across the Punjab ii. A price of 20kg flour bag is ensured at Rs. 250 against the post Ramadan market price of Rs. 420	n/a*	30,000 sasta tandoors (cheap traditional clay oven) to be established	n/a*	n/a*	Provision of sasti roti would increase the nutrition intake of the poor. More jobs will be created through establishment of more tandoors (traditional clay oven)
Non-Budgetary Pro-poor Interventions for PRSP-II					
Zakat i. Review of Zakat system for improvement ii. Computerization of Zakat system for better monitoring	• Total disbursement	Rs. 6523.9942 million	n/a*	n/a*	Mitigate the suffering of the poor segment of the society and assistance to the needy
Employees' Old Age Benefit Institution (EOBI) Increase in the minimum amount of pension paid under the EOBI Act 1976 from the existing Rs. 1,500 to Rs. 2,000 per month	• Total Allocations • No. of beneficiaries	Rs. 7,464 million 300,478	Rs 9,039 million 334,311	Rs. 11,059 million 363,217	Old age benefits to insured persons employed in industrial, commercial and other organizations in the private sector
Worker's Welfare Fund (WWF)	• Total Disbursement • No. of beneficiaries (000)	Rs. 27,975 million 23,760	Rs. 30,112 million 26,136	Rs. 28,661 million 28,749	Provision of better residential facilities and Improvement in the health of the workers
Micro-credit	**Total Amount** **Active borrowers**	Rs. 37 billion n/a* i. Transformation of NRSP & KASHF into MFB ii. Conversion of legal status of Khushali Bank under MFIs Ordinance 2001	n/a* 3 million i. Launching of Community Investment Fund (CIF)	n/a* 10 million by 2015	Self-reliance Improved capacity of MFBs and MFIs which are in transformation to mobilize savings, increase microfinance outreach as well as improving financial & basic literacy amongst microfinance current/potential clients

		iii. Launching of Microfinance Credit Guarantee Facility (MFCG)	ii. Feasibility Credit rating mechanism for small borrowers	Linkages between Capital market and MF sector		
Health Insurance for the poor	• Total Amount	Rs. 15,000 – 20,000 per year			Improvement in the health of poor people	

Key Interventions	**Indicators**	**Targets**			**Outcomes**
		2008/09	**2009/10**	**2010/11**	
Pillar III: Increasing Productivity and Value Addition in Agriculture					
Goal: Raise the share of agriculture in GDP mainly by enhancing the productivity of non-crop sector.					
Crops: i. Crop Insurance Plan ii. Tube well subsidies iii. Establishing cold chains/warehouses in the private sector to minimize post harvest losses iv. Major federal agricultural initiatives include • Special Programme for Food Security and Productivity Enhancement of Small Farmers in 1012 Villages , • Establishment of Facilitation Unit for Participatory Vegetable Seed and Nursery Programme • Agribusiness Development and Diversification • National Agricultural Research Programme • National Programme for Improvement of Watercourses Water Conservation and Productivity Enhancement Through Efficiency Irrigation • Monitoring of Crops Through Satellite Technology (Phase-II)	• Share of agriculture in GDP • Agriculture sector growth target • Major crop growth target • Share of workforce in agriculture • Increase in real wages in rural areas	20.6% 3% 3.5% n/a* n/a*	20.6% 3.4% 4% n/a* n/a*	19.8% 3.8% 4% n/a* n/a*	Improvement/technologies at farm level in the production system
Non-crops: Livestock and Poultry i. Trainings in poultry farming Punjab Agri marketing Company (PAMCO)	• Livestock sector growth target	3.2%	3.5%	4%	Promoting productivity in the livestock and poultry sector
Non-crops: Dairy and Milk Milk Collection, Processing and Dairy Production The White Revolution "Dhoodh Darya"	• Share of milk and dairy products in agriculture	n/a*	n/a*	n/a*	
Non-crops: Fisheries	• Share of fisheries in GDP	n/a*	n/a*	n/a*	Promoting productivity in the

Aquaculture and Shrimp Farming					livestock and poultry Sector
Key Interventions	**Indicators**	**Targets**			**Outcomes**
		2008/09	**2009/10**	**2010/11**	
Pillar IV; Integrated Energy Development Programme					
Goal: Ensure adequate supplies of energy to meet the growth needs of the economy.					
Energy Security Plan (ESP), 2005-15: Diversifying the energy mix by expanding the share of coal, nuclear and renewable energy from its current combined share of 20% to 36% by 2030, even as the amount of energy grows from 55 MTOE[1] to 361 MTOE in 2030; **Power projects/Dams[2]:** **Thermal power projects** to generate 2000-2500 MW energy under various stages of implementation at: Chichoki Mallian, Nandipur, Guddu, Dadu and Faisalabad	• Annual growth of energy • Reduction of energy gap (MW)	7.2% Gap reduced by 500-1000 MW	7.2% Complete elimination of gap	7.2% -	Elimination of load-shedding of electricity
i. **Hydel power projects:** • Large dams under construction to be completed during 2013-2018: Kurram Tangi (83 MW); Akhori (600 MW); Munda (740 MW); Diamer Bhasha (4500 MW) • Public sector hydropower projects under construction: Neelum Jhelum, Golan Gol--106 MW, Keyal Khwar--130 MW, Malakand-III--81 MW • **Petroleum Exploration and Production (E&P) Policy, 2008** • Iran-Pakistan-India (IPI) Gas Pipeline Project to achieve first flow of gas by 2012 ii. **CNG[3] Policy, 2007** iii. **Energy Conservation Plan** iv. Preparation of National Coal Policy: Large coal based plants with total capacity of 3000 MW by 2011/12	• Medium sized hydropower dams to be completed Curtailing of subsidies • Share of wind, solar and bio-fuels in energy consumption • Curtailing of subsidies	Mirani; Sabakzai; Satpara (15.8 MW); Mangla Dam Raising Project (120 MW addl. capacity) n/a* Zero subsidy on petrol	Khan Khwar (72 MW); Jinnah (96 MW); Gomal Zam (17.4 MW) n/a*	Allai Khwar (21 MW); Khan Khwar (72 MW); Dubair Khwar (130 MW); Jinnah (96 MW) n/a*	Additional hydropower power generation, as well as, live storage for agriculture, development of fisheries Increase in exploration and production of crude oil, coal and gas; number of wells drilled; and Liquefied Petroleum Gas (LPG) supply (tones/day) to overcome energy shortage Promotion of CNG in the transport sector as an alternate fuel Share of alternate energy sources: At least 5% of the total electricity generating capacity (total: 9700 MW) by 2030

[1] MTOE: Million tons of oil equivalent
[2] Although these projects will be completed during intervals well after the PRSP-II timeframe, they have been incorporated in the policy since work has already started and annual expenditures/allocations have been devised.

Environment: National Environmental Policy (2005) Environmental Fiscal Reforms (EFR)	• Ozone depleting substances (level of CFC[4] reduced) • Percentage of land area covered by forests • Desertified area reduced	251.9 MT 5.2% 52.5%	n/a* n/a* n/a*	0 MT 5.4% 51.5%	Raise the share of clean fuels in overall energy production
Key Interventions	**Indicators**	**Targets**			**Outcomes**
		2008/09	**2009/10**	**2010/11**	
Pillar V: Making Industry Internationally Competitive					
Goal: Ensure industrial competitiveness by removing all distortions caused by tariffs anomalies, inefficient provision of utilities, excessive or unnecessary regulations, complicated procedures for clearance and multitude of laws and regulations that sap industrial energies and add to the cost of doing business.					
Industry and manufacturing: **National Productivity Organization** (NPO) to lead the productivity movement in Pakistan	• Manufacturing growth sector target	4%	5%	5.5%	Share of manufacture to rise both in GDP and exports
Labour: i. Labour Protection Policy, 2006 ii. Labour Inspection Policy iii. Increase in minimum wages from Rs 4,000 to Rs 6,000 iv. Setting up of an Employment Commission; v. Employment for one individual of each household in 50% districts of Pakistan vi. National Employment Policy	• Amendments in labour laws & legislation	• Industrial Relations (Amendment) Bill. Approval of Legislation • Employment and Service Conditions Bill, submission to Law Division for Vetting and to Cabinet for approval	Drafting & Finalization of Occupational safety and Health Bill	Drafting & Finalization of Labour Welfare & Security Bill after consultation with stakeholders	Industrial employment to rise together with real wages
Privatization To have effective private sector participation and to pursue deregulation policy of the government the Privatization Commission has planned privatization of public sector entities	• Privatization of various organizations	17 entities	13 entities	16 entities	To provide a vehicle for potential investors to invest in Pakistan, achievement of broad-based ownership to prevent concentration of resources in a few hands, ensuring privatization through competitive bidding.
Small and Medium Enterprises (SMEs): SME Policy, 2007	• Completion/launch of	Gujranwala Business Centre (GBC)			to develop small enterprises into larger business set-ups to

[3] CNG: Compressed natural gas

[4] Chlorofluorocarbons or CFCs are non-toxic and non-flammable. CFCs have been widely used as coolants in refrigeration and air conditioners, solvents in cleaners, particularly for electronic circuit boards, blowing agents in the production of foam (e.g. fire extinguishers), and as propellants in aerosols. Indeed, much of the modern lifestyle of the mid-20th century had been made possible by the use of CFCs. The 1987 Montreal Protocol required countries to phase out their usage due to their harmful affect on the ozone layer. No new CFCs have been produced since 1995 in developed nations.

Key Interventions	Indicators	Targets 2008/09	Targets 2009/10	Targets 2010/11	Outcomes
	SMEDA projects	Agro Food Processing Facilities Sports Industries Development Centre (SIDC)			enable Pakistan to become internationally competitive
Pillar VI: Human Development for the 21st Century					
Goal: Develop an educated and healthy population base by significantly investing in these sectors.					
Education: Various initiatives have been designed under following broad categories of: 1. Governance 2. Access and Equity 3. Literacy and Non-Formal Education 4. Quality **Technical Education:** i. Currently only 3.45 percent of the pubic sector budgetary allocation goes to TVET. This allocation will be doubled by the end of the PRSP 2 period. ii. During the PRSP-II period the percentage of students enrolled in the Technical and Vocational Education and Training (TVET) institutes will be doubled from currently 3percent to 6percent. **Higher Education:** A number of steps to improve quality are planned, which include; faculty development, infrastructure improvement, attainment of excellence in research, and making the system relevant to national priorities	• Double the expenditures on education as percentage of GDP as projected in MTEF of PRSP-II • Increase Literacy(10+) to 62% of the population • Universal Primary Education • % of Students Enrolled in TVET Institutes • Enrollment in higher Education Institutes	1.25 (as % of GDP) 58% GER 95% NER 59% 3% 341,168	1.58 (as % of GDP) n/a* n/a* n/a* n/a* n/a*	2.01 (as % of GDP) 62% 101% 63 % 6% 513,533	A healthy, skilled and competent workforce that can respond to the increasing demands of a steadily growing economy
Health: The strategic priorities of the health sector includes the following: i. Enhancing resource availability Essential services package includes Maternal & Child Health (MNCH) and Family Planning, Expanded Program on Immunization (EPI), The TB	• Double the expenditures on health as percentage of GDP as projected in MTEF of PRSP-II • Enhance EPI coverage	0.50 (as % of GDP) 78%	0.59 (as % of GDP) n/a*	0.69 (as % of GDP) 80%	

<table>
<tr>
<td rowspan="2">DOTS programme, National HIV & AIDS Control Programme, National Programme for Hepatitis Control, initiation of integrated Disease Surveillance System,
ii. National Health Scheme 2008
iii. The Peoples' Primary Healthcare Initiative (PPHI)
iv. Fostering partnership with the Private Sector</td>
<td rowspan="2">• Increase in No. of LHW

• Child Mortality Rate dropped to internationally acceptable level</td>
<td>105,000

82 per 1000 live births</td>
<td>n/a*

n/a*</td>
<td>115,000

73 per 1000 live births</td>
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<tr>
<td colspan="3">During PRSP-II Health Policy further aims to achieve following:
• Save 350,000 additional lives of children
• Save additional 7,000 lives of mothers
• Eradicate polio
• Prevent 1.5 million children from becoming malnourished
• Family planning services to 2.5 million additional couples
• Avert 5 million new TB cases
• Immunize 12 million children against Hepatitis B
• Reach 40 million poorest people of Pakistan to ensure provision of essential package of service delivery</td>
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<tr>
<td>Population
i. Focused Information, Education, Counselling and Advocacy
ii. Provision of safe, affordable and quality contraceptives
iii. Strengthening public private partnerships
iv. Reaching youth through population education</td>
<td>• Raise Contraceptive Prevalence Rate (CPR) to 37.5% of target population

• Total fertility Rate (TFR)Universal access to Safe Family Planning Methods by 2010-11</td>
<td>34.6

3.50</td>
<td>36

3.38</td>
<td>37.5

3.25</td>
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<td>Access to Clean Drinking Water:
i. A National Drinking Water and Sanitation Policy along with the Clean Drinking Water for All Programme will be launched during PRSP-II timeframe.
ii. Clean Drinking Water Initiative
Access to Sanitation
i. National sanitation policy roll out & provincial sanitation strategies' National Environmental Information Management System (NEIMS)
ii. Community Led Total Sanitation in Rural Areas</td>
<td>• Number of water purification plants installed under Clean Drinking Water Programmes
• Proportion of total population with access to clean water

• Proportion of total population with access to sanitations</td>
<td colspan="3">• 6035 water purification plants will be installed by 2010/11

• Access of clean water will be increased to 84% of population by 2010/11

• Access of sanitation will be increased to 63% of population by 2010/11</td>
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<td>Mainstreaming Gender and Empowering Women
The Government has launched development programmes and projects in the following</td>
<td>• Total no. of Women Councillors

• Share of women in wage</td>
<td>n/a*

n/a*</td>
<td>n/a*

n/a*</td>
<td>n/a*

n/a*</td>
<td></td>
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areas: 1. Political Empowerment 2. Economic Empowerment 3. Social Empowerment 4. Legal Empowerment	employment (both in Agri and Non-Agri) • % of Microcredit to women			25-30%	
Key Interventions	**Indicators**	**Targets**			**Outcomes**
		2008/09	**2009/10**	**2010/11**	
Pillar VII: Removing Infrastructure Bottlenecks through Public-Private Partnerships					
Goal: Develop a mechanism and make its use to eliminate all bottlenecks in key infrastructure needs to support a growing economy, in particular in such areas, like highways, motorways, ports, airports, water reservoirs and supply, transmission of electricity, railways, housing and industrial zones.					
Highways: i. Establishment of modern highway operations centers, trucking stands, trauma centers along North-South (N-S) expressway corridor and Road Safety Council at federal and provincial level ii. Application of an Intelligent Transport System (ITS)	• Transport costs • Travel time • Accidents rates			Reduce by 25% Reduce by 50% (Lahore to Karachi) Reduce by 50%	Sustain delivery of an efficient, safe and reliable National Highways system
Railways: Introducing a door-to-door service and Fast Track Access for PR freight business through involvement of private freight forwarders and cargo haulers between railway stations in Karachi and Lahore			PR to control 30% of all long-haul freight (currently 10%)		Increase rail efficiencies Reduce overall Travel time
Trucking: i. Corporatizing the National Logistics Cell; ii. Developing a truck financing scheme with private financing institutions; iii. Establishing truck drivers training facilities in association with private shippers;			1/4th truck fleet modernized Revised diesel quality plan Revised national truck specs for 2, 3, and multi-axle prime movers		Improved performance of the trucking industry which provides the range and quality of services and transport costs demanded by the economy Improve safety and sustainability of road transport
Ports and shipping: i. Preparation of a ports' master plan for the coordinated development of all ports in Pakistan; ii. Revising ports' acts and bills to corporatize ports; iii. Privatizing dockyard and bulk handling, as well as, reducing terminal handling charges; iv. Ensuring navigation available throughout the year		Reduce port charges/tariffs to regional average Full application of paperless transaction for port and custom procedures Navigation available 24 hours a day 7 days a week			Enhance ports efficiencies for reducing cost of doing business, and saving the national economy up to Rs.27 billion / year (in 5 years)

Trade Facilitation: Full automation of customs procedures, minimization of physical examinations (scanners) & personal contact and approval and implementation of a Trade Facilitation Strategy		Ending of double charging of terminal handling charges by container terminal operators and lines (effectively from US$ 54 - 27) Port Dwell Time reduced to 4 days Customs Clearance Time reduced to 1 day Establish a training institute for freight forwarders	Reduce port entry charges progressively to regional average Ports Community IT Network made fully Pakistan based Freight Forwarders targeted to take over at least 25 percent of trade logistics Exports of perishable goods to be doubled through improvements in the cold chain – [from about US $300 -600 million] Full application of paperless transactions		Facilitate international trade through systematic simplification and standardization of procedures and information flows Cold chain improvement in the NTC
Public private partnerships (PPPs): i. Infrastructure Project Financing Facility (IPFF), ii. Establishment of National Industrial Parks Development and Management Company (NIPDMC)	• Potential PPP projects identified by IPDF in PSDP	47 projects			
Housing i. Prime Minister's Housing Programme ii. People's Housing Cell has established in Sindh	• Construction of housing units • Provision of housing units for poor	5,000 housing units in 2008/09 (and 1,000,000 in 5 years) 100,000 housing units in 2008/09			All assets are fully titled and recorded, with a predictable and time-constrained transfer system; construction industry grows at its true potential duly linked and integrated with the financial system as well as administrative and judicial systems of the country.
Key Interventions	**Indicators**	**Targets**			**Outcomes**
		2008/09	**2009/10**	**2010/11**	
Pillar VIII: Capital and Finance For Development					
Goal: A system of finance and capital that mobilizes development resources from the broadest set of savers and efficiently channel it to industry, agriculture and other sectors through a wide range of equity and debt instruments.					
Banking Sector Reforms: i. Financial Inclusion Program that aims to promote access to development finances for all small and underserved markets ii. Further consolidation and restructuring	Access to credit rises for (Rs in million) a. Agriculture	432,194	475,413	522,955	Higher and sustainable economic growth, dynamic, robust and stronger financial system, increased domestic and foreign resources for private investment,

of the banking sector iii. Strengthen Competition and efficiency iv. Development of core Financial Infrastructure: v. Further strengthening of supervisory regime through consolidation of supervision vi. Consumer protection infrastructure, Depositor protection scheme vii. Strengthening risk management viii. Basel II implementation	b. SME c. Microfinance (number of clients)	250,000 2,138,750	312,000 2,528,824	390,000 3,133,202	and deepened financial penetration for poor and under served regions
Capital Markets: i. Comprehensive second generation capital market reforms to facilitate the mobilization of financial resources for productive investment and employment generation has launched ii. Special emphasis by the Government on strengthening the enabling environment for pension funds and other non-bank financial institutions iii. Demutualization of the Stock Exchanges iv. Corporate Debt Market v. Development of various Regulatory Laws	• Amount expected to be raised through new equity issues (Rs in billion) • Amount expected to be raised through new TFC issues (Rs in billion)	5,425 7,462		9,954 16,272	

Key Interventions		Indicators	Targets			Outcomes
			2008/09	**2009/10**	**2010/11**	
Pillar IX: Governance for a Fair and Just System						
Goal: Country is functioning under an effective and motivated civil service, duly supported by a range of alert and service-to-people oriented law enforcement agencies and disputes are quickly decided and resolved by the judiciary.						
Devolution Reforms	• Making decentralization more effective for provision of services at grass root level	• to ensure that district governments receive their due financial support in good time • to build up capacity for better service delivery at the district level through widespread training programs for local officials • further strengthening of local institutions				Ensure financial support in district governments and strengthen political, administrative, and financial structures at local level
Fiscal	• increase in the share of		43.75%	45.00%	46.25%	Ttransparent transfer of funds to

Decentralization	provinces from the net proceeds of taxes and duties	• Building up capacity of accounts offices and officials to properly implement the accounting and financial rules • Increasing the ability of local governments to mobilize revenues • Widening the tax base • Rationalization of local taxes • Improving the collection and recovery mechanisms	local Government
Police Reform	• Improving the rule of law	• Pursue additional police reforms, • Depoliticizing the police, • Increasing their accountability, and improving their functions	Police and other law enforcement agencies succeed in reducing crime rate, enforcement of law and are looked up on by the people as providers of security
Judicial System Reform		• Establishment of free legal advice cells for the poor • Establishment of evening and fast track courts • Review the existing laws through a comprehensive study to identify areas / cases fit for exemption or reduction of court fee • Provision of video conferencing facility between jails and sessions courts • Recruiting and training sufficient support staff, and simplifying a number of the procedural rules that lead to delays in disposing of cases	Judicial process is efficient and brought down to pendancy
Tax Administration Reform	• Mobilizing and managing resources for development	• Increase the efficiency and equity of tax administration • Streamline tax policy by improving tax policy and legislation, structure and performance of key institutions and by improving taxpayer compliance	Improved efficiency in tax administration and rendering transparent services to the taxpayers
Medium Term Budgetary Framework	• Increase accountability and control through monitoring and evaluation	• To develop the system further so as to conduct more effective Public Expenditure Reviews • To progressively link outputs defined in the budget to financial resources	Strengthening budget preparation process
Civil Service Reform	• Develop a competent, effective and neutral Civil service system	• Widening the talent pool • Greater professionalism of the service • Increased training in and more widespread use of information technology in order to speed up decision-making and to monitor the implementation of decisions	Civil service are amongst the best in region and country's youth vies to become part of it