

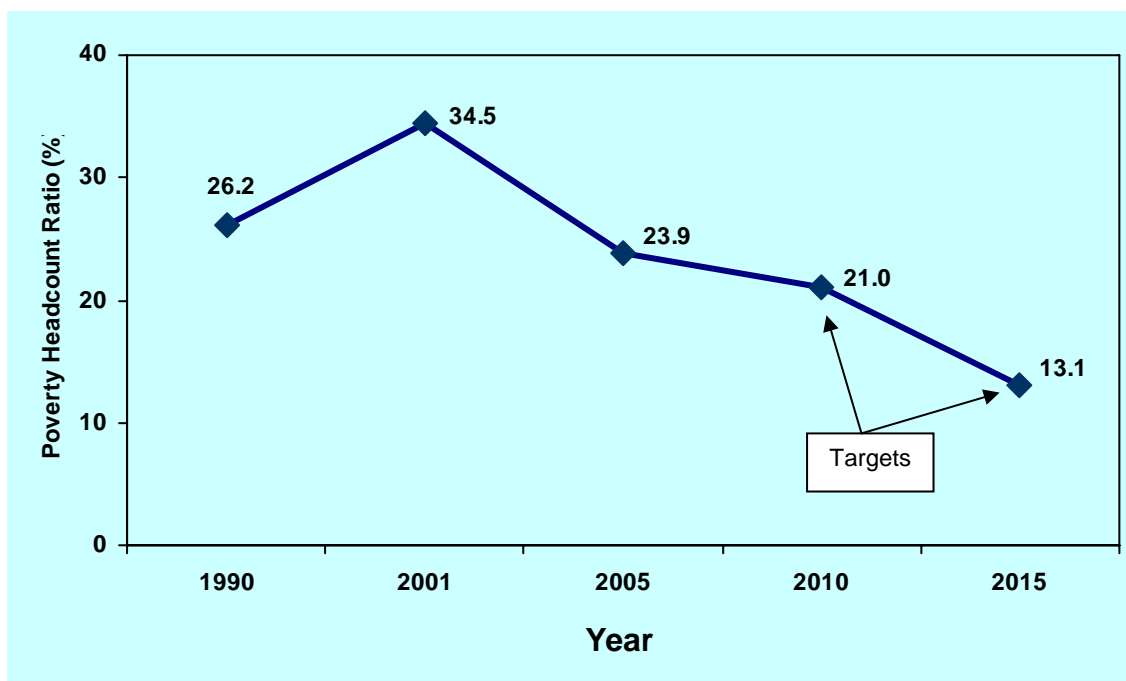
**Chapter****6****Poverty Reduction  
and Human Development****Introduction**

Poverty reduction is an overarching objective of the Medium-Term Development Framework (MTDF) 2005-10 and Vision 2030 which assign very high priority and commitment to reduce poverty by articulating holistic policies and developing synergies across sectors. Despite sharp reduction in poverty by 10.6 percentage point during 2001–2005, it is still pervasive and almost one out of four persons in Pakistan is below poverty line. Main causes of poverty in Pakistan are lack of asset ownership, inaccessibility to services, lack of employment opportunities, dominance of unskilled and semi-skilled labour force, voicelessness and powerlessness of the poor, and vulnerability to shocks. Poverty reduction policies, therefore, must embark upon a long-term pro-poor growth with macroeconomic stability, targeted investment in sectors that have high potential for employment generation and income opportunities, and access to basic social services in education, health, water supply and sanitation. High economic growth may not be sufficient to reduce poverty, especially for the chronically poor communities. Social protection to the vulnerable groups is an added feature of the poverty reduction policy since trickle down impact of economic growth to the bottom poor is very slow.

**Poverty Targets**

Continuation of economic policies and structural reforms in the last seven years, high level of public sector investment, high economic growth, targeted programs for poverty reduction and significant increase in pro-poor expenditure lifted million of poor households out of poverty in the rural and urban areas. The incidence of poverty on the basis of headcount ratio has been reduced from 34.5 percent in 2001 to 23.9 percent in 2005. Higher rate of reduction was recorded in rural poverty headcount, which came down from 39.3 percent in 2001 to 28.1 percent in 2005. The MTDF poverty reduction policies enshrine commitment of increased public sector investment, implementation of second generation reforms agenda and social protection. The achievements in poverty reduction and future targets of poverty reduction are shown in Figure 6.1.

Achievability of MTDF 2005–10 and MDG targets emphasize further underpinning economic and pro-poor policy not only to sustain but accelerate the ongoing growth momentum within a stable macroeconomic environment. More important issues for consideration of poverty reduction policy are the challenges of job creation, meeting the MDG targets and strengthening the country's physical infrastructure to support above 7 percent growth. Another important element is to gain the benefits emerging out of demographic transition currently taking place in Pakistan.

**Figure– 6.1 Poverty Achievements and Targets**

### Pro-Poor Expenditures

The government's strategy to develop social sectors either separately or together is based on:

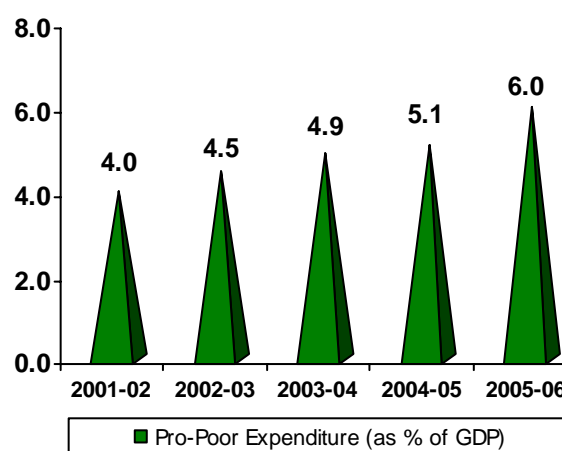
- increasing the share of public resources for social sectors development by creating additional fiscal space;
- influencing the policy environment to achieve better social outcome by developing public-private partnership to improve private provision and private funding; and,
- decentralize public service delivery system to achieve better social outcomes. Efforts are also required to maintain a comprehensive database and ensure availability of comparable data by attaching high priority to developing common concepts, definitions, classifications, standards, and measurement of social sector indicators.

Pro-poor expenditure as percentage of GDP has been continuously rising in the last seven years. In view of the sustained increase in the overall size of GDP, this increase has dual implications that not only the overall pro-poor expenditure grew with the GDP growth, its share in increased GDP also increased. This signifies the importance that the Government assigns to the challenge of poverty reduction. Pro-poor expenditures are given in Table 6.1 while its ratio as percentage of GDP may be seen at Figure 6.2.

**TABLE 6.1 Pro-Poor Expenditure**

(Rs Billion)	
Year	Expenditure
2001-02	179.90
2002-03	219.86
2003-04	276.51
2004-05	338.68
2005-06	463.60

Source: Planning Commission

**Figure 6.2 Pro-Poor Expenditure**

Expenditure on social sectors i.e., education, health, population welfare and social welfare and safety nets increased significantly at an annual average rate of 22 percent during the period 2001-02 to 2005-06, compared to the rate of increase in the overall government expenditure of about 15 percent during the same period. As a proportion of GDP, these expenditures increased from Rs 103 billion in 2001-02 (2.3 percent of GDP) to Rs 228 billion in 2005-06 (3 percent of GDP). Expenditure on education during this period increased from 1.8 percent of GDP to 2.2 percent of GDP. Details of Pro-Poor expenditure and Social Sector expenditure during 2001–02 to 2005–06 are given at Annex 6.1 and Annex 6.2, respectively.

Budgetary expenditures are also supplemented by Non-Budgetary Pro-poor expenditures. Table 6.2 compares expenditure and no of beneficiaries in 2004-05 and 2005-06. The details of the credit disbursed by the micro finance sector are given in the Table 6.3. Except the disbursements under Zakat, which record a fall of 12 percent over the FY-05, the disbursements under all other heads, as well the number of beneficiaries increased by significant rates.

**Table 6.2 Non-Budgetary Pro-Poor Expenditure**

Program	Disbursement/beneficiaries	2004-05	2005-06	percent Change
Zakat	Amount disbursed (RsMillion)	3,692	3,234	-12.4
	Total beneficiaries (000)	1,370	1,627	18.8
Pakistan Bait-UI-Mal	Amount disbursed ( RsMillion)	3,270	3,838	17.4
	Households (000)	1,671	3,130	87.3
Micro-Credit	Amount disbursed ( RsMillion)	5,431	6,655	22.5
	Total beneficiaries (000)	470	606	28.9
EOBI	Amount disbursed ( RsMillion)	1,929	2,868	48.7
	Total beneficiaries (000)	121	129	6.6
All Programs	Amount disbursed ( RsMillion)	14,323	16,595	15.9
	Total beneficiaries (000)	3,632	5,492	51.2

Source: Planning Commission

## Microfinance

Microfinance is an important instrument of poverty reduction. It has potential to create jobs for the unemployed and sources of additional income for underemployed. Small business development and access to housing finance generate new activities that contribute to the efforts for poverty alleviation. Microfinance can help in smoothing the income and consumption of the poor, and reducing their vulnerability to financial and economic shocks. These factors are key in building viable communities and contributing to the sustainable livelihood strategies of poor households. The achievements in this area in recent years is given in Table 3.

**Table 6.3 Microfinance Disbursement**

Institution		2004-05	2005-06	% Change
PPAF	Amount disbursed (RsMillion)	3,106	3,706	19.3
	No of districts	79	79	0.0
	No of male beneficiaries (000)	158	202	27.8
	No of female beneficiaries (000)	87	130	49.4
	Total beneficiaries (000)	245	332	35.5
Khushhali Bank	Amount disbursed (RsMillion)	2,277	2,922	28.3
	No of male beneficiaries (000)	174	229	31.6
	No of female beneficiaries (000)	49	44	-10.2
	Total beneficiaries (000)	223	273	22.4
ZTBL	Amount disbursed (RsMillion)	48	28	-41.7
	No of male beneficiaries (000)	2	0.7	-65.0
	No of female beneficiaries (000)	1	0.4	-60.0
	Total beneficiaries (000)	2	1.2	-40.0
Credit	Total credit (RsMillion)	5,431	6,655	22.5
	Total male beneficiaries (000)	333	433	30.0
	Total Female beneficiaries (000)	137	174	27.0
	Total beneficiaries (000)	470	606	28.9

Source: Planning Commission

## Human Development

Human Development is an integrated and holistic concept that embodies educational and health status of the nation including sustainable use of resources. However it is the government's responsibility to provide access to social services (primary education and health) and basic facilities (electricity, safe drinking water) in order to improve the human development status, specifically of the poor segment of the society. This will reduce chronic poverty and weaken the transmission of inter-generational poverty. As a result of increased allocations to social sectors in the last few years Pakistan's ranking in the widely respected Human Development Index has moved up by 10 places in a matter of 4 years from 144 in 2001 to 134 in 2004. This is also borne out by the data collected on social indicators in PIHS 2001-02 and PSLM 2004-05 and given in Table 6.4 and 6.5. During the 4 year period, the gain in access to social and basic facilities by the poor (i.e., those below the poverty line) has been higher than the increase by the non-poor. For example gross primary enrolment rate of the poor increased by 16 percentage points as compared to 8 percentage points for the non-poor. The rate of children immunized among poor families increased by 30 percentage points versus 23 percentage point gain by the non-poor families. Only in post-natal care consultation, the improvement was slower in poor households than in non-poor households. Table 6.5 compares the improvements recorded among the poor and non-poor households in basic facilities. In access to electricity sanitation and use of motorized pump for drinking water, the improvements among the poor households are higher than experienced by non-poor households. The gain in access to piped connections was equal in both categories, while the decline in use of hand pump was marginally faster for non-poor households.

**Table 6.4 Improvements in Access to Social Services between 2001-02 and 2004-05 (Percentage Points)**

	Poor	Non-Poor
Net Primary Enrolments	11	7
Gross Primary Enrolments	16	8
Literacy Rate	10	8
Fully Immunized	30	23
Pre-natal care consultation	14	11
Post-natal care consultation	7	15

**Table 6.5 Improvement in Access to Basic Facilities  
between 2001-02 and 2004-05 (Percentage Points)**

	Poor	Non-Poor
Electricity	7	3
Gas	-	2
Drinking Water Piped Connection	8	8
Drinking Water : Decline in the use of Hand Pump	9	11
Drinking Water : Motorised Pump	3	0
Sanitation : Flush	9	3
Sanitation : Percentage decline in No of households with no toilet in the house	13	9

### Social Indicators in 2005-06

The performance of social sectors in recent years has improved substantially. The country has made steady progress towards most of the social indicators, particularly those covered by the MDGs. PSLM Survey 2005–06 shows visible improvement over PIHS Survey 2001–02 in education, health, population welfare, water supply and sanitation sectors. Gross Enrolment Ratio (GER) increased from 72 percent in 2001–02 to 87 percent in 2005–06. Net Enrolment Ratio (NER) (age 5–9) increased from 42 percent to 52 percent while NER (age 6–10) increased from 51 percent to 60 percent. Literacy rate (age 10 plus) increased from 45 percent to 54 percent during the survey periods. There has been sizeable increase in immunization coverage (18 percentage point); reduction in Infant Mortality Rate (8 percentage points); and, reduction in diarrhoeal incidence (2 percentage points). Total Fertility Rate (TFR) is down by 0.7 percentage points and Contraceptive Prevalence Rate (CPR) increased by 7 percentage points. The comparison of Survey results for education, health and population indicators are given in Annex 6.3.

In case of Drinking Water Supply, the Survey shows visible shift in favour of piped water and supply of water through motor pumps. There is a corresponding decline in water supply sources from hand pumps and dug wells. In Sanitation, the percentage of population having flush system increased from 45 percent in 2001–02 to 60 percent in 2005–06. Population without toilet facility decreased from 43 percent to 30 percent during the same period. The percentage of population using different types of water supply sources and sanitation facilities over the two Survey periods is given in Annex 6.4.

### Poverty Reduction Policies

Major policies envisaged in MTRF 2005–10 designed to underpin poverty reduction efforts of the Government are summarized below.

### Urban/Rural Development

Development of mega cities and urban centers provide opportunities for overall economic development, employment opportunities and hence poverty reduction. Rise

of large urban centers and mega cities in Pakistan will accelerate the growth momentum. This growth is already happening in a period of major economic and technological change and an increasing emphasis on market based decisions.

The vision of the government for economic growth and poverty reduction sets ambitious targets, which will require massive investment in quality and affordable infrastructure. Investment in world class infrastructure will sustain high rates of private sector led growth, enhance the competitiveness of economy and to optimize locational advantage. This will be one of the primary objectives of the future poverty reduction strategy. The large infrastructure projects will be mainly financed through public private partnerships. Government is therefore committed to invest massive amounts in improving the facilities and around 45percent of total development expenditure in MTFD 2005-10 is earmarked for such projects. Infrastructure Project Development Facility (IPDF) has been established to promote public-private partnerships.

To support sustained growth and to increase competitiveness the Government has launched a major strategic initiative to improve the trade and transport logistics chain along the north-south 'National Trade Corridor' (NTC) linking Pakistan's major ports with its main industrial canterers and neighboring countries. Investment of around \$ 6 billion during MTFD 2005-10 is required for NTC Project which will help in developing an integrated approach to planning and management of the national transport logistics system.

The rural development in Pakistan aims to improve the quality of life of the rural people by improving the rural economy and living conditions in the villages by enhancing agricultural productivity, water resource availability, improving rural infrastructure, providing social services and social capital. The recently approved *Rural Development Strategy*, by the Government of Pakistan articulates important initiatives, policy measures and programs relating to agriculture development, availability of water resources, sustainable environment, rural housing and sanitation etc. This will augment both growth and employment opportunities in the rural economy thus leading to reduction in rural poverty.

### **Public-Private Partnership**

The private sector plays an important role in driving growth and creating job opportunities. The Government recognizes the importance of improving competitiveness as an instrument of its economic growth strategy. The economy has responded well to the structural reforms carried out in the last 7 years and has emerged as one of the stronger growing economies of Asia. The Government is following a policy of intensifying liberalization, deregulation, privatization, and trade linearization with a view to transforming Pakistan's economy into a truly private sector led market economy which is highly competitive. This would emphasize high growth, creating gainful employment, generating wealth and most importantly, reducing poverty. The Government intends to enhance the role of Special Economic Zones (SEZs), etc in attracting investment to achieve its goal of generating employment and further augmenting industrialization, modernization within a cohesive strategic plan. The SEZs and associated industrial parks and clusters will play an important role in increasing competitiveness.

A strong Private Sector Development (PSD) strategy will therefore be a key element in enhancing the competitiveness of the private sector. The PSD will create an enabling environment that will allow the private sector to focus on productivity,

innovation and growth, responding to opportunities in the national and global markets. The features of the strategy are:

- lowering the barriers to development of small and medium enterprises;
- developing a modern financial sector with a view to providing a wide range of financial services;
- removing irritants and impediments to private sector growth;
- strengthening the country's physical and social infrastructure;
- consistency and continuity of economic policies.

All these measures are expected to significantly improve Pakistan's investment climate, reduce the cost of doing business for the private sector, thus contributing to enhancing the competitiveness of the private sector.

## **Governance**

One of the important poverty reduction strategies is to focus on strengthening institutions, improving the competitiveness of domestic industry, building a robust financial sector in an environment of global financial restructuring, further strengthening of tax administration, promoting transparency in economic policymaking, further reform of capital markets and strengthening the country's physical and human infrastructure. Major features of Governance reform are: reinforcing devolution through fiscal decentralization; strengthening Provincial Finance Commissions; building local government capacity particularly in budgeting, planning, monitoring, financial management, accounting and audit; creation of a district service cadre; and, redefining provincial departments' role from operational to regulatory.

Effective service delivery will be an important component of the target of achieving excellence in governance. Provincial and district governments will have to focus on aligning accountabilities and expenditures. Increased spending in education and health sectors will also facilitate achieving the above targets.

## **Special Initiatives**

### **Agricultural Growth**

Agriculture dominates the rural economy in Pakistan and its incessant growth is a powerful tool for rural poverty reduction. Crop production accounts for approximately 59 percent of the Agriculture sector while livestock by 37 percent. The Government is focusing on improving rural infrastructure, water supply and management as an important step to increase agricultural productivity. It entails measures to maximize yields across the board, as well as specific steps to help small farmers. Income of the small farmers and landless constitutes around 25-30 percent of the income from livestock sector. This sub-sector which accounts for 9.7 percent of GDP, has high potential for growth. As compared to crop production, investment in livestock is relatively easy, cost effective and contains higher gains for landless people. Women can particularly benefit by investing in the livestock. Currently, lack of infrastructure is

one of the biggest constraints on growth of the rural economy. In addition, initiatives for improved infrastructure specifically geared to meeting the needs of agriculture, livestock and fisheries are essential for promoting rural growth and development as a whole. Important activities would remain in roads, electrification and improved services for education, healthcare, water supply and sanitation sectors.

### **Employment generation**

Employment generation remains the most powerful instrument in the fight against poverty. During 1999-2006, growth rate of labour force was 4.1 percent in Pakistan while growth rate in employment was 4.4 percent. During this period about 10 percent increase was registered in unskilled labour force as compared with 12 percent in skilled category of masons, carpenters, plumbers and electricians. About 3 million labour force is openly unemployed in Pakistan. An important area of concern is that about 46 percent of new jobs in last 6 years were created in the category of “contributing family workers”. The Pakistan Labour Force Survey 2005-06 reported notable reduction in the unemployment rate, from 7.7 percent in 2003-04 to 6.2 percent in 2005-06. The reduction is more in female unemployment which reduced by 3.5 percentage points while that of male reduced by 1.2 percentage points. During these years, the Government launched special initiatives for creating employment and reducing poverty. These include:

- The President’s *Rozgar* Scheme, implemented through National Bank of Pakistan, is providing employment opportunities to the matriculate unemployed in the age bracket of 18-40 years (Box 6.1).
- Implementing small demand-driven schemes for construction of roads, income generation programs, education, health, water supply & sanitation, electricity, gas and telecommunications sectors through Khushhal Pakistan Program I&II and Khushhal Pakistan Fund.
- *Aik Hunar Aik Nagar* (AHAN) a program of Small and Medium Enterprise Development Authority (SMEDA) model aims at providing the much-needed non-traditional work opportunities in the rural areas by enabling the rural businesses to access a range of appropriate technologies and financial capital.
- National Internship Program for the fresh unemployed graduates to improve their human resources by providing them opportunity to work for one year and gain hands-on experience in government organizations nationwide and selected private sector organizations. The internees are paid handsome amount of internship allowance. The program aims at enhancing the employability of the fresh graduates all over the country.
- HEC sponsored PhD Program aims at enhancing the quality of human resource and to create a pool of highly qualified experts in all the fields of study. The program envisages faculty development and improving quality of research of the young professionals.

**Box 6.1: President's Rozgar Scheme**

NBP has developed a full range of Products under the President's *Rozgar* Scheme with a brand name of "NBP KAROBAR". The scheme is offered to eligible young and literate citizens of Pakistan, falling within an age group of 18-40 years having a minimum qualification of Matriculation (except for females in the PCO/Tele-center product). Asset, life and disability insurances is provided to the beneficiaries of this scheme. The cost of life and disability insurance will be borne by the Government. The scheme is expected to generate around 5.4 million direct and indirect jobs.

Initially, under the President's *Rozgar* scheme, NBP is offering the following products:

**NBP Karobar Utility Store (Under USC Franchise):** The product has been designed in collaboration with the Utility Stores Corporation of Pakistan to provide financing facility of an average amount of Rs100,000/- for a maximum period of five years with grace period of three months. This is available to all eligible citizens of Pakistan for setting-up small-scale Retail Outlet or Mobile Utility Store. The USC gives its franchise to qualifying Pakistani citizens.

Following two financing options are available under this product:

- **NBP Karobar Utility Store (Shop):** Financing facility available to set-up a small scale Retail Outlet (Utility Store in a shop) for purchase of furniture & fixtures. This is also applicable on payment of security deposit / advance rent under franchise from the USC. However, stocks are to be purchased by the customer.
- **NBP Karobar Mobile Utility Store:** Financing facility available to purchase a 2/3 wheeler, 4 stroke Petrol/CNG/LPG Vehicle (Auto Scooter/Motorcycle Rickshaw) with attached Loader body under franchise from the USC to carry utility goods for retail sale ideally in areas where accessibility to conventional utility stores is difficult.

**NBP Karobar Mobile General Store (without USC Franchise):** This financing program has been designed on the similar pattern of Mobile Utility Store. The only difference is that the borrower has the liberty of procuring stock/supplies/grocery items from open market. Rs100,000 is given for a maximum period of five years for starting this business.

**NBP Karobar Transport:** The NBP *Karobar* Transport is designed to finance 2/3 wheeler, 4 stroke Petrol/CNG/LPG Vehicle (Auto Scooter / Motorcycle Rickshaw) to the eligible citizens of Pakistan for providing less expensive environment friendly transport facility. A sum of Rs100,000 is provided for a maximum period of five years to establish this business.

**NBP Karobar PCO:** This product is designed to finance setting-up a PCO. NBP provides financing for the purchase of Mobile/Wireless Telephone Set with connection, Credit Balance. An amount of Rs5,000 for a maximum period of two years is offered for setting up NBP *Karobar* PCO.

**v) NBP Karobar Tele-center:** This product is specially designed to finance setting-up a Tele-center. NBP provides financing for the purchase of Mobile/Wireless Telephone Set with connection, Computer, Printer and Fax machine cum Photocopier etc. to establish tele-center on a rented shop or owned premises. An amount of Rs50,000 for a maximum period of two years is offered to implement this business.

**Human Resource Development**

Human Resource Development (HRD) is one of the key factors in the development of an economy. In Pakistan a skill gap persists between supply and demand of skilled labour force. Pakistan is currently exporting low and semi-skilled work force to other countries who fetch very little wage as compared to skilled workers from other countries. Skill development of labour force in modern technology may fetch them better wages and lead to surge in home remittances. The government is trying to bridge this gap through centers of excellence by providing vocational and

technical training. Better educated and skilled workers force is essential for pushing up economic growth and productivity. It is also crucial for producing branded products which have high chances of increasing export potential.

HRD plays a major role in generating growth as well as in reducing poverty. HRD strategy has to start with education which has a positive impact on economic growth, poverty reduction, technological adaptation, innovation, and increased productivity. To take advantage of the human resource, government is determined to strengthen education system by providing continued initiatives under 'Education for All' Project, incentive packages for enhancing education while at the same time, emphasizing on higher education and promotion of a 'knowledge economy' through stressing skills development and vocational training. Government has established NAVTEC and Skill Development Council to facilitate regulate and provide policy for vocational training and technical education (box 6.2).

Gender mainstreaming and female human development will remain the focus while providing access to credit for women, preventing violence against women and implementing gender budgeting will be continued which will provide an environment of encouragement to the women.

Since employment is the principal link through which economic growth translates into benefits for the poor, a number of targeted programs for employment generation will be implemented including provision of SME and microfinance, and at the same time combating child labour.

**Box 6.2: Skill Development Councils**

The nature of work and demands for skills is changing in Pakistan and employment opportunities are shifting across industries and occupations. Skill and education levels of the workforce in the present times is gaining more and more attention because of the changing content of international trade, in which share of high technology in manufactures and services is increasing, while those based on resources or low technology content are declining. To enhance the productivity levels of the workforce, skill development which perpetuates is required. Skill Development Councils (SDC) is an attempt to formally associate employers in skills training planning and management. SDC has been established with an employer as Chairman and equal membership from private sector (Employers & Trade Unions) and Government. The main functions of SDC is to assess training needs of local and foreign market requirements and to meet these needs through contracting training to appropriate training organizations and also arrange for skill up-gradation of the existing workforce. The SDC is a good example of Public Private Partnership.

The government has envisaged a HRD strategy in MTFD (2005-10) with public-private partnership for Knowledge Economy and HRD (skill, technical and vocational education) which are pre-requisites of sustainable economic development and a cutting edge for competition in global market and poverty reduction. Pakistan's education and skill development base is low, as such investing in these sectors will pay high returns to the economy as compared with other countries having higher education and skill development level. The Government is investing huge amounts in Human Resource Development through public-private partnership to provide technical assistance in establishing centers of excellence in key disciplines, like dairy care, hotel industry, cement industry and construction sector. It is planned to establish at least one institute at each Union Council level.

During 2007, the target was to train 100,000 workers while by March 2007, 80,000 workers were trained. The target during next fiscal year will be to double this figure. By end-2008, around 500,000 workers will be trained each year.

The HRD strategy would concentrate on pushing up productivity while ensuring that the labour market mechanism is in place to translate it into higher growth of real wages. The existing Labour Regulatory Framework would be made more friendly and responsive to create an efficient, equitable and right-based labour market and favourable environment for SME sector development.

### **Social Protection Strategy**

The experience shows that specific interventions are required for chronically poor to whom trickle down effect of economic growth is very slow. Safety nets are also required for the vulnerable for their smoothing their income and consumption. This led the Government to formulate an all inclusive unidirectional Social Protection Strategy. The National Social Protection Strategy aims to develop an integrated and comprehensive social protection system, covering all the population, especially the poorest and the most vulnerable. The goals of the Strategy are:

- to support chronically poor households and protect them against destitution, food insecurity, exploitation, and social exclusion;
- to protect poor and vulnerable households from the impact of adverse shocks to their consumption and wellbeing that, if not mitigated, would push non-poor households into poverty, and poor households into deeper poverty; and
- to promote investment in human and physical assets, including health, nutrition, and education, by poor households capable of ensuring their resilience in the medium run and of interrupting the intergenerational cycle of poverty.

The Core Instruments of the Strategy include:

- expanding the coverage of cash transfers using conditional cash transfers (CCTs) supplemented with unconditional transfers, through the Food Support Program (FSP) and Zakat;
- a new public works program based on low-wage employment;
- child labour programs, and various new pilots such as (i) combination of cash transfers and basic skills development aimed at enabling the poor to qualify for microfinance and (ii) programs for bonded labour; and
- scaling up school feeding and social care services.

The main short term objective of reaching the poorest will be achieved by:

- maintaining the current level of benefits and effecting a transition to better and more comprehensive systems;
- introducing new means of testing and development of databases through some pilots across chosen rural and urban areas;
- scaling up successful pilots across the country following assessment of lessons learnt;

- extension of the current level of benefits to the target population of the poorest of the poor;
- introduction of pilot CCT programs; and
- scaling up successful pilots to the whole target population.

### **Small and Medium Enterprises (SMEs)**

SMEs in Pakistan are facing productivity issues. SME clusters should graduate to exporting units having a notable impact on Pakistan's growth statistics. This requires more skilled labor/manpower as well as better technology. Vocational training institutes are more geared to local industry than international competitiveness. Companies need to merge to bigger companies once human resources are developed adequately.

### **Khushhal Pakistan Program**

Khushhal Pakistan Program (KPP) I and II was launched in 2002–2003. The KPP–I and KPP–II are being implemented through legislators. The schemes cover all provinces and FATA which are implemented through federal executing agencies. In January 2004, scope of scheme was extended to members of Senate. Further, in order to mitigate the suffering of common man and to promote demand-driven schemes for poverty reduction, Khushhal Pakistan Fund (KPF) was created in 2005–06 with an endowment of Rs 5 billion. The allocation is being spent through district governments for implementation of projects relating to roads, water supply & sanitation, income generation activities; health and education for improving quality of life of the people. This program is also discussed in detail in Chapter 23 Rural Development and Special Areas.

### **Outlook for Poverty Reduction in the Immediate to Short Term**

An immediate challenge facing the policy makers in fight against poverty is whether the hard won improvement in poverty levels in 2004-05 can be sustained or consolidated in the immediate to short-term. The medium to longer-term challenge is to put the poverty headcount of the country on a secular declining trend. In the immediate to short-term scenario, prospects for growth in the range of 6-8 percent are favourable. One percentage point increase in PSDP to GDP ratio in 2006-07 is being further enhanced by another ½ to 1 percentage point in 2007-08 budget. The overall thrust is infrastructure development even if one looks at the Khushal Pakistan Program in the social sector. From an employment generation angle it translates into employment creation for casual, non-farm labour and temporary farm labour in the rural areas. It helps the poor just below the poverty line in moving closely above the line into the vulnerable group. If during 2007-08 conditions in the labor market further tighten, due to pump priming, the extent to which the 'trickle' converts to 'hair line flow' will depend on the bargaining power of the unskilled/semi-skilled workforce as a result of regional and temporal shortages of the labour force. In the medium term, strong political, institutional and administrative commitment to various programs, and allocations in the form of PRSP II (2007-10) targets, MTDf (2006-10) budgetary allocations, strict adherence to Fiscal Responsibility Law that stipulates 4.5 of GDP to social sectors, and the initiation of the proposed National Social Protection Strategy will ensure that poverty levels stabilize at the current levels and in fact are marginally reduced even in the advent of unforeseen tapering of growth momentum.

It is apt to mention that a significant downside risk specifically in the immediate to short-term in sustaining the recent 'headcount windfall' is downward stickiness in current inflation. It may also fuel a rise in inflationary expectations in the medium term. Rate of food inflation (relevant for poverty headcount) in 2006-7 has remained in double digits and would halve the positive impact of 7 percent growth on poverty. Apart from growth, the combined positive impact of higher level of remittances, employment, development expenditure and trade levels will sustain the 2004-05 headcount levels and may even lower them by a percentage point. This improvement is premised on expected decline in rural poverty in 2006-07 due to above targeted growth in wheat, sugarcane, gram and livestock sector.

Prolonged high current account deficits if not reduced/controlled in due course of time can also dent the government's medium term effort in alleviating poverty. So far the economy has been successful in financing these deficits without any adverse impact on exchange rate stability, foreign debt ratios, foreign reserves and inflation. The policy mix to finance sustained current account deficits in the medium to long term horizon can have positive and negative implications for inflation, growth momentum and poverty.

Arresting further deterioration in income inequalities as mentioned above is another challenge. In the short to medium term, if slight worsening of income distribution is considered an inevitable consequence of faster growth, complacency in policy interventions can lead to unwarranted worsening, given that Pakistan's economy is expected to perform well in the medium term. Therefore reactivation and re-enforcement of the re-distributive functions of the fiscal policy, i.e., expenditure and taxation instruments are suggested. However if 'pump priming' is strictly aligned with the goal of macro stabilization, the limits to increased expenditure set in early. The only alternative is to adopt growth neutral taxation instruments and/or involve private sector (e.g., micro-credit, philanthropy) that identify and re-distribute the rapidly growing incomes in the economy.

The strong evidence of reduction in non-consumption inequalities bodes well for reduction in income inequalities in the long-term and in an inter-generational context. To remain on track on this dimension of inequities, the expenditures in a "qualitative and cost-effective" sense, as a ratio of GDP not only be sustained but increased in order to strengthen and enlarge the human capital asset base and living standards of the population.

In conclusion one cannot also ignore the case for deepening governance reforms in particular reforming institutions that are more accountable, transparent and efficient and establishing national targets for reducing income and non-income inequalities.

**Annex 6.1****Pro-Poor Expenditure during, 2001-02 to 2005-06***(Rs Billion)*

<b>Sectors</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>Average Annual Growth (percent)</b>
Roads, Highways and Bridges	6.340	13.145	16.455	35.181	53.248	70.2
Water Supply and Sanitation	4.644	3.421	4.176	6.538	10.338	22.1
Education	78.924	89.827	120.488	139.307	170.708	21.3
Health	19.211	22.368	26.581	31.426	39.203	19.5
Population Planning	1.331	3.120	4.913	4.578	10.229	66.5
Social Security and Social Welfare	3.664	1.301	4.142	2.030	7.575	19.9
Natural Calamities and other disaster	0.189	0.410	0.543	0.922	19.148	217.3
Irrigation	10.133	15.535	22.938	37.871	59.819	55.9
Land Reclamation	1.838	1.733	1.997	2.111	2.673	9.8
Rural Development	12.325	16.833	18.379	15.369	15.040	5.1
Law and Order	31.000	36.293	40.000	47.416	59.567	17.7
Low cost housing		0	0.423	0.318	0.305	
Justice Administration	1.98	2.196	2.444	3.116	5.642	29.9
Food Subsidies	5.513	10.859	7.845	5.359	6.021	2.2
Food Support Program	2.017	2.017	2.804	2.703	3.081	11.2
Tawana Pakistan Program	0.800	0.800	0.400	0.078	0	
Village Electrification			1.977	4.354	1.000	
<b>Total</b>	<b>179.909</b>	<b>219.858</b>	<b>276.505</b>	<b>338.677</b>	<b>463.597</b>	<b>26.7</b>
Memo Item						
Expenditure as percent of GDP	<b>4.0</b>	<b>4.5</b>	<b>4.9</b>	<b>5.1</b>	<b>6.0</b>	

Source: Planning Commission

**Annex 6.2****Social Sector Expenditure during 2001-02 to 2005-06***(Rs Billion)*

Sector	2001-02	2002-03	2003-04	2004-05	2005-06	Annual Average Increase (%)
<b>EDUCATION</b>	<b>78.924</b>	<b>89.827</b>	<b>120.488</b>	<b>139.307</b>	<b>170.708</b>	<b>21.3</b>
Federal	14.819	19.079	27.463	36.282	45.516	32.4
Provincial	64.105	70.748	93.024	103.025	125.192	18.2
<i>Development</i>	8.525	10.368	30.287	34.387	41.852	48.9
<i>Current</i>	70.399	79.459	90.200	104.920	128.856	16.3
<b>HEALTH</b>	<b>19.211</b>	<b>22.368</b>	<b>26.581</b>	<b>31.426</b>	<b>39.203</b>	<b>19.5</b>
Federal	4.393	5.317	6.133	8.117	11.392	26.9
Provincial	14.818	17.051	20.448	23.309	27.811	17.1
<i>Development</i>	2.494	3.521	4.244	6.649	9.793	40.8
<i>Current</i>	16.717	18.847	22.337	24.777	29.410	15.2
<b>POPULATION WELFARE</b>	<b>1.331</b>	<b>3.120</b>	<b>4.913</b>	<b>4.578</b>	<b>10.229</b>	<b>66.5</b>
Federal	1.308	1.949	3.348	3.106	6.370	48.6
Provincial	0.023	1.171	1.565	1.472	3.859	259.9
<i>Development</i>	1.285	2.988	4.644	4.057	9.470	64.8
<i>Current</i>	0.046	0.132	0.269	0.521	0.759	101.5
<b>SOCIAL SECURITY AND WELFARE</b>	<b>3.664</b>	<b>1.301</b>	<b>4.142</b>	<b>2.030</b>	<b>7.575</b>	<b>19.9</b>
Federal	2.843	0.328	3.138	0.806	3.534	5.6
Provincial	0.821	0.973	1.004	1.224	4.041	49.0
<i>Development</i>	0.106	0.135	0.260	0.478	1.391	90.3
<i>Current</i>	3.558	1.166	3.882	1.552	6.184	14.8
<b>TOTAL</b>	<b>103.130</b>	<b>116.616</b>	<b>156.124</b>	<b>177.341</b>	<b>227.715</b>	<b>21.9</b>
<i>Development</i>	12.410	17.012	39.435	45.571	62.506	49.8
<i>Current</i>	907209	99.604	116.688	131.770	165.209	16.2
Memo Items: Expend. as percent of GDP						
Total	2.3	2.4	2.8	2.7	3.0	
Education	1.8	1.8	2.1	2.1	2.2	

Source: Ministry of Finance and Ministry of Education.

**Annex 6.3****Achievements in Education, Health and Population Planning Sectors**

Indicator	PIHS 2001–02	PSLM 2005–06
<b>EDUCATION</b>		
Gross Enrolment Ratio (Age 5–9)		
Boys	83	94
Girls	61	80
<b>Total</b>	<b>72</b>	<b>87</b>
Gross Enrolment Ratio (Age 6–10)		
Boys	81	95
Girls	60	79
<b>Total</b>	<b>71</b>	<b>87</b>
Net Enrolment Ratio (Age 5–9)		
Boys	46	56
Girls	38	48
<b>Total</b>	<b>42</b>	<b>52</b>
Net Enrolment Ratio (Age 6–10)		
Boys	57	64
Girls	45	55
<b>Total</b>	<b>51</b>	<b>60</b>
Literacy rate (Age 10+)		
Male	58	65
Female	32	42
<b>Total</b>	<b>45</b>	<b>54</b>
<b>HEALTH</b>		
Immunization (Children 12-23 months) Based on Recall and Record		
Urban	53	72
Rural	52	71
<b>Total</b>	<b>53</b>	<b>71</b>
Diarrhoea (Children under 5 years suffering from Diarrhoea during last 30 days)		
Urban	14	13
Rural	13	12
<b>Total</b>	<b>14</b>	<b>12</b>
Infant Mortality Rate (per 1,000 live births)		
Urban	84	73
Rural	81	67
<b>Total</b>	<b>82</b>	<b>70</b>
<b>POPULATION PLANNING</b>		
Mean number of children ever born (women aged 15 to 49)		
Urban	2.4	2.1
Rural	2.8	2.5
<b>Total</b>	<b>2.7</b>	<b>2.3</b>
Total Fertility Rate (women aged 15-49 years)		
Urban	3.5	3.6
Rural	4.9	3.9
<b>Total</b>	<b>4.5</b>	<b>3.8</b>
Contraceptive Prevalence Rate		
Urban	31	36
Rural	14	21
<b>Total</b>	<b>19</b>	<b>26</b>

Source: Federal Bureau of Statistics

**Annex 6.4****Composition of Water Supply and Sanitation Sources**

(Percentage)

Source	PIHS 2001–02			PSLM 2005–06		
	Urban	Rural	Total	Urban	Rural	Total
<b>DRINKING WATER SUPPLY</b>						
Piped Water	58	10	25	59	21	34
Hand pumps	14	56	44	12	42	32
Motor Pump	22	14	17	25	23	24
Dug Wells	2	10	7	2	7	5
Others	3	10	7	3	8	6
Total	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>SANITATION (TYPE OF TOILET)</b>						
Flush System	89	26	45	93	42	<b>60</b>
Non–Flush System	5	15	12	4	15	<b>11</b>
No Toilet	5	59	43	3	44	<b>30</b>
Total	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Federal Bureau of Statistics