

The MTFD 2005-10: An Overview

The future of Pakistan is linked with its present and its past. The country has inherited a rich civilization and a centuries old history, marked by outstanding achievements reflected in cultural enrichment, intellectual maturity and spread of knowledge. The dawn of Islam in the geographical area now constituting Pakistan served as a catalyst for the people living here to develop their innate qualities of intelligence, diligence and competence. Given the natural endowment of a well-developed mind and habits of industry of the people, the present orientation towards enlightenment and technological advancement augurs well for the future of Pakistan in economic, social and cultural spheres. Not only that economic and financial stability has been achieved, the country is on the threshold of a sustained higher growth.

Vision 2030

What is required to cross the threshold is a long-term vision, operationalised through a series of medium term frameworks. For the economy as a whole, the VISION 2030 envisages a “developed, industrialized, just and prosperous Pakistan through rapid and sustainable development in a resource constrained economy by deploying knowledge inputs”. Human Development targets have been fixed in line with the Millennium Development Goals – MDGs 2015.

Objectives

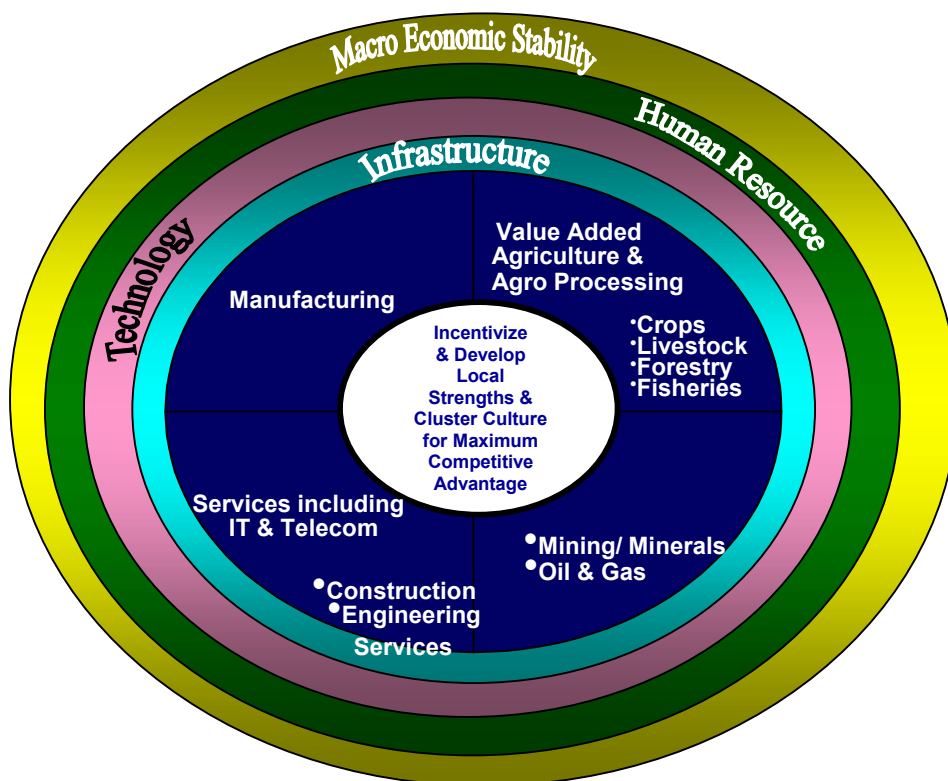
During 2005-10, the period of the first Medium Term Development Framework (MTDF), the following objectives would be kept in sight:

- i) Establish a just and sustainable economic system for reducing poverty and achieving MDGs.
- ii) Move, in an organized and disciplined manner, towards an efficient, balanced, internationally competitive, environment friendly, and technologically driven knowledge economy for rapid and sustainable growth to become an industrialized nation in 25 years.
- iii) Evolve a mature, tolerant, democratic society, which is developed economically, culturally, ethically and imbued with Islamic values of moderation and enlightenment, at peace with itself and with the rest of the world.
- iv) Build a strong and prosperous Pakistan having a fully integrated economy with a sense of common and shared destiny.
- v) Protect the right to development of every citizen particularly those of children, youth, women and minorities.
- vi) Ensure equitable development of regions.
- vii) Minimize wastages in the economy.

The MTFD 2005-10 recognizes that the value system of a society is the ultimate determinant of development. Rooted in culture, traditions and national character of the society, it gives a formal shape to the norms of politics and economy. These norms guide the formulation of policies in areas such as education, labour, trade, science and technology, taxation, and financial management. These policies then determine the size and composition of investment and structure of the knowledge base of the economy, which provide the necessary leverages and stimulus for its development.

In the era of globalization, the MTFD 2005-10 incorporates a paradigm shift towards enhancing competitiveness of the national economy through higher investment but more importantly through knowledge inputs to maximize total factor productivity. An Integrated Plan for “Pakistan Incorporated” with a focus on the tripartite elements of growth - development of infrastructure, human resource development, and technology has been brought together within the broad parameters of macroeconomic framework. It aims at incentivizing and developing the local strengths for increasing the competitive advantage in various sectors of the economy.

An Integrated Plan - “Pakistan Incorporated”



Past Performance and Impediments to Growth

Pakistan lost momentum in economic growth as GDP growth rate fell from 6.5 percent in the 1980s to 4.6 percent in the 1990s. The international political and economic environment facing Pakistan following the nuclear tests in May 1998 disrupted the medium term planning process. The GDP growth slumped to as low as 1.8 percent in 2000-01. However, with economic stabilization through a consistent, credible and transparent set of fiscal and monetary policies and wide ranging structural reforms, the GDP growth progressively increased to 5.1 percent in 2002-03 and 6.4 percent in 2003-04, and stands at an impressive 8.4 percent in 2004-05. Broad-based and high, growth in all key sectors is well above the average of past four years. Agriculture has grown by 7.5 percent, with major crops registering a spectacular growth of 17.3 percent. Cotton achieved a record production of 14.6 million bales. The manufacturing sector has also shown high growth; over the last four years on average it was 9.5 percent. Large scale manufacturing grew even higher 11.1 percent per annum during 2001-05 and 15.4 percent in 2004-05. While it did result in higher share of manufacturing in GDP, it still remains quite low compared to many other Asian countries. Pakistan has experienced for the first time in more than 30 years current account surplus in 2002-03 and 2003-04. The growth of exports and sharp increase in remittances from \$ 1 billion in the 1990s to \$ 4 billion has been sufficient to offset the trade deficit and the invisible deficit. Resultantly foreign exchange reserves increased from an average of \$ 1.3 billion in the 1990s to over \$ 12.12 billion. However, Pakistan's ranking in the human development indicators and technological development continues to be low, as can be seen in table 1.

Table 1

Ranking in Terms of Key Factors Affecting Growth									
Category	Country	Technology Index	Macro-Economic Envt. Index	Public Institution Index	Business Competitiveness Index (BCI)	Global Competitiveness Index	Human Development Index (HDI)	Availability of Scientists & Engineers	Growth Competitiveness Index-(GCI)
Leaders	Finland	3	3	3	2	2	13	2	1
	USA	1	15	21	1	1	8	8	2
	Israel	8	43	24	21	22	22	3	19
	Korea	9	35	41	24	26	28	52	29
	Ireland	37	21	17	22	27	10	26	30
Potential leaders	Malaysia	27	20	38	23	23	59	43	31
	China	62	24	55	47	32	94	67	46
Dynamic adopters	India	63	52	53	30	37	127	1	55
	Turkey	52	84	62	52	67	88	42	66
Marginalized	Pakistan	87	67	102	73	87	142*	61	91

Source: *Global Competitive Index, World Economic Forum, 2005.*

* Subsequently corrected to 138.

The impediments that constrained growth in the past have included absence of long term vision, politicization of economic policies and their frequent reversals, focus on the privileged and lack of participation of stakeholders, lack of coordination and linkages across

policies, political instability, and neglect of education, science, technology, engineering and professionalism. In the past five years, actions have been taken on several fronts but much more needs to be done. First, stability in major macroeconomic indicators has been achieved. Second, a robust and efficient financial system has been developed, but credit allocations could be more optimal. Third, structural reforms have been undertaken, but some distortions remain. Fourth, while the manufacturing sector has shown relatively improved performance there is need for (i) better leveraging to gain more competitiveness, (ii) further liberalization of industrial policy and a more market based regulatory regime, (iii) increasing share of hi-tech and medium-tech industries which are growth industries in the world, and (iv) reversing concentration of production and export structures in the resource based industries whose share is falling in the world. Fifth, issues relating to high cost of doing business in Pakistan need to be addressed. These include bureaucratic hurdles and red tapism resulting in higher transactions cost, high utility prices, high rate and multiplicity of taxes, and indiscreet use of discretionary powers by the tax authorities, government functionaries, and ruling classes. Sixth, while agriculture has shown some dynamism, it is constrained by the neglect of the non-crop sector, poor technological development, failing extension services, sub-optimal use of water, and inefficient marketing. Finally, several other areas require action including the low productivity levels of services sector, unbridled wastages, WTO challenges and pressures, physical, legal and regulatory infrastructure, unskilled labour and low productivity levels, inadequate scientific, engineering and technical manpower and R&D, and shortage of managerial capabilities and entrepreneurial skills.

An Integrated Approach to Economic Development: A New Paradigm

A review of international development experience confirms that economic development is a function of an increase in productivity levels. The higher levels of productivity in turn depend on intellectual capital, development of human capital, technology embedded in new machines by the capital goods sector in accordance with strengths of the economy and total quality management. A paradigm shift is envisaged in the MTFD 2005-10 which encourages an integrated approach for “Pakistan Incorporated”, with consistency in various economic policies and development of relevant national technological capabilities for rapid and sustainable economic development.

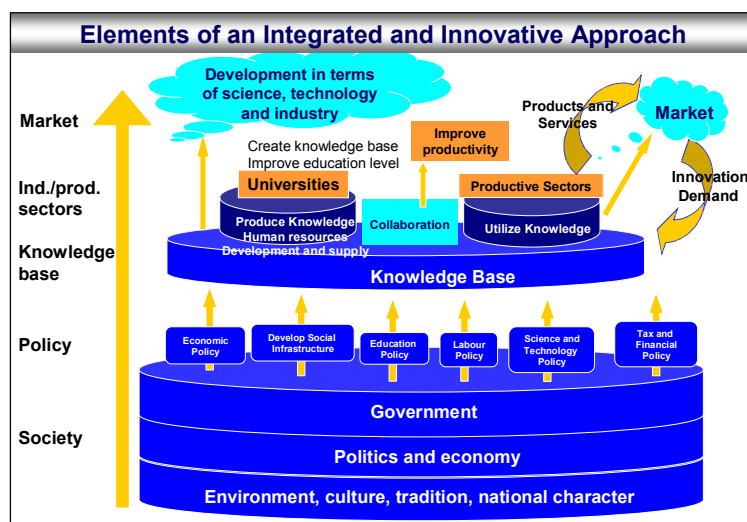


Fig 1

Strategic Thrust of the Framework

During the last five years, macroeconomic stability has been achieved and that has set the stage for sustained accelerated growth. While there are several positive features of the economy, including higher growth rates, better foreign exchange reserves and higher investor's confidence, disparities remain and poverty persists. Moreover, savings and investment, both foreign and domestic, have remained low and the development activities have been constrained due to inadequate infrastructure, institutional capacity and the quality of human resources.

The MTFD provides a framework for translating the VISION 2030 into action during 2005-10, including a judicious policy mix for sustained long-term high growth. It aims to consolidate the macroeconomic stability and rationalize the public-private mix in the development process. By strengthening the enabling role of the government through policy direction and appropriate regulatory environment, it envisages to enhance the role of private sector in various activities including infrastructure and provision of services. Enhanced role of the private sector in the economy will allow the public sector to focus on basic services such as education, health, balanced regional development, and poverty reduction.

The strategic thrust of the Framework has the following features. Fig 2 relates manufacturing, but the same principle of greater value addition applies to other sectors.

- i) Maximizing benefits to economy through the use of inherent potentials and strategic advantages such as inherent skills and large work force; abundant natural resources including water, land, oil, gas and mineral resources; large domestic market demand; competitive manpower; and geographical location
- ii) Facilitating the development of human capital and private sector as the engines of economic growth
- iii) Providing a conducive environment through provision of appropriate infrastructure including intellectual (vision, policy direction and policy instruments; design engineering capabilities; and databases), physical, technological, financial, legal and regulatory
- iv) Strengthening public institutions
- v) Making use of opportunities created by globalization

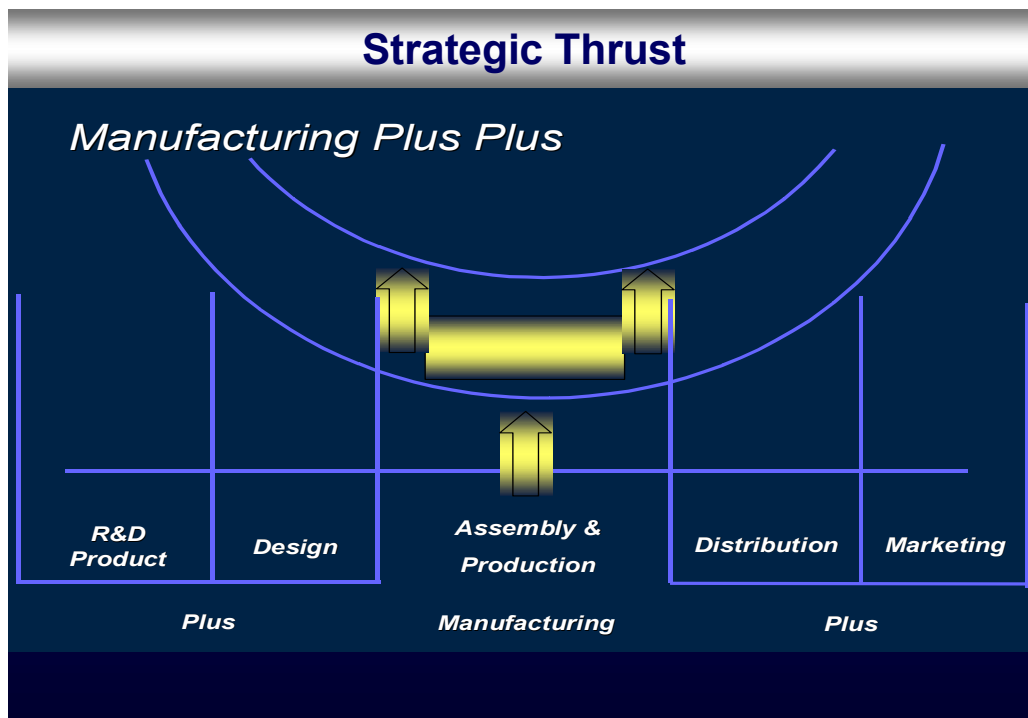


Fig 2

Eliminating Wastages

Pakistan suffers an annual loss of at least Rs. 650 billion due to wastage in almost all sectors of the economy including agriculture, manufacturing, water resources, transportation, education and health. Wastage in the agriculture sector consist of post-harvest losses in various crops, fruits and vegetables, low yields, sub-optimal use of water and seepage, theft of forest wood and cutting of trees, and a lack of veterinary facilities in the rural areas causing damage to livestock and poultry. About half the water supplied to cities and towns is wasted through physical leakages, pilferages, and inefficiencies in billing and collection.

Wastages in the manufacturing sector result from material wastages, high energy consumption, poor quality, and inadequate skills. In the minerals sector, there are losses due to improper and poor mining, cutting and polishing of gemstones. The performance of the transport system has been poor, with high economic losses from inefficiencies, congestion, and poor quality roads. In the power sector, huge revenue is lost annually due to high transmission, distribution, and auxiliary losses and pilferage. Considerable energy losses and wastages also occur due to poor and old equipment.

Minimizing and eliminating wastages in the economy is an important focus of the MTFD 2005-10. This would be achieved by administrative and technical efficiencies, skill development and programmes for upgrading of facilities and equipment as appropriate. There will be a focus on better asset management, including an emphasis on maintenance, management, rehabilitation and upgrading of existing facilities, wherever feasible, before undertaking investments in new projects

Globalization

Globalization presents perils as well as opportunities. If the economy becomes more competitive globally, growth prospects would improve. However, a failure to meet the challenges of globalization, would have adversely effects. The challenges of globalization and WTO would be met through enhanced capacity building, human resource development and diversification of the industrial base. Technological and legal infrastructure will be developed to meet the current demands of agreements with WTO such as Technical Barriers to Trade (TBTs), Sanitary and Phytosanitary (SPS) Measures, Trade-Related Investment Measures (TRIMS) and Trade-Related Intellectual Property Rights (TRIPS).

Sustainable Society

A process of socioeconomic transformation is underway resulting from scientific and technological innovation, income growth, population growth, and urbanization. For sustainable development, a broad portfolio of assets including physical, human, social, and environmental will need to be managed competently. As development challenges become more complex, with more environmental stresses on air, water and land, and more social stresses in the society result from inequalities, there is a need for a long term vision to enhance quality of life. The public sector will need to form partnerships with private businesses, NGOs and individual citizens, with appropriate use of electronic networks, to develop public policies and deliver public services. The people will need to be empowered through improved access to assets, increased democratization, and inclusion and participation. This will also call for strengthening institutions to respond to interests of all citizens, particularly the poor, and for capacity building for analytical work to anticipate and address problems and issues of a strategic nature in a timely manner.

Macroeconomic Framework

Macroeconomic stability is the basic foundation for any development. Sound fiscal and monetary policies have resulted in a manageable inflation rate. Similarly the higher capital inflows in terms of remittances, investment and loans and higher growth rates of exports have lent stability to exchange rate. No doubt long run stability of the exchange rate is possible mainly through higher levels of productivity, which is a critical objective of the MTFD.

The liberalisation of the economy has had beneficial result and contributed towards a more dynamic growth. The policy of liberalisation would be continued but without imposing excessive structural adjustment costs. It would be ensured that infant industries are provided protection for a limited time to allow them to become sturdy, strong and competitive. The second generation reform will help in strengthening and creating the institutions that promote growth.

GDP Growth

The focus of the MTFD 2005-10 is to sustain high rate of economic growth with macro-economic stability. The strategy includes (i) in agriculture, besides crops, development of livestock and fisheries; (ii) in manufacturing, enhancement of the production base; (iii) expansion of social and physical infrastructure; and (iv) providing an enabling environment to foster local and foreign investment and enhance both public and private savings. With an average growth rate of 7.6 percent of real GDP for the five-year period of MTFD, it is projected that the growth rate of GDP would rise from 7.0 percent in

2004-05 to 8.2 percent in the terminal year 2009-10. To ensure the potential growth in manufacturing sector, establishing new industrial state is a pre-requisite. This would include average annual growth rates for agriculture sector at 5.2 percent, manufacturing sector at 11.6 percent, and services at 7.3 percent. Details are in Table 1.

In 2004-05 the impressive growth rates of GDP, agriculture, manufacturing and services spearheaded by a growth of 17.3 percent in major crops, 15.4 percent in large scale manufacturing, 12.0 percent in wholesale and retail trade and 21.8 percent in banking and insurance are exceptional and way above the underlying trend of the past four years. There are physical limits to achieving the volumes involved in repeating the growth of crop agriculture and technological limits to repeat the high growth of large scale manufacturing. In general, the service growth is derived from the growth of agriculture and manufacturing. Just as the period 2001-05 was a period of successful macroeconomic consolidation, the period of the MTDF 2005-10 has to be a period of growth consolidation. Growth cannot be sustained by the agriculture sector, no matter how modern, by the textile-dominated manufacturing sector or a low productivity services sector. It will require major investment in the production, dissemination and absorption of knowledge.

In view of this growth consolidation strategy, the average annual growth rates for GDP and its components have been fixed at a level higher than the average for 2001-05, but lower than the levels achieved in 2004-05. Table 2 gives a summary picture.

Table 2

GDP and Sectoral Growth Rates					
	2001-05 Average	2004-05	2005-06	2009-10	2005-10 Average
GDP	5.7	8.4	7.0	8.2	7.6
Agriculture	3.5	7.5	4.8	5.6	5.2
Major Crops	5.9	17.3	6.6	7.4	7.0
Livestock	2.8	2.3	3.5	3.9	3.7
Manufacturing	9.5	12.5	11.0	12.2	11.6
Large-Scale	11.1	15.4	13.0	13.8	13.4
Services	6.0	7.9	6.8	7.9	7.3

Some concerns have emerged recently that have implications on growth rates incorporated in MTDF 2005-10. First, the effects of the recent crisis in Karachi Stock Exchange are still unfolding. Second, the recent rise in inflation is disturbing. Third, the trade gap continues to increase, with remittances having reached a plateau. Fourth, oil prices have been rising, with some forecasts for further increases ahead. These concerns are being addressed. With financial discipline, macro stability will be maintained. However, the

international economic environment and its impacts on the national economy will be kept under close scrutiny to make adjustments, as the need arises.

Investment and Financing

Raising the national savings and investment rates is a prerequisite for sustainable economic development. In recent years the country has been able to break out of the syndrome of 13 percent savings rate which had persisted for many years in the past. This increase in the saving rate has primarily come from the net factor incomes from abroad especially in the form of remittances. Nevertheless through stability in the economy, higher corporate rate and turning dissaving to positive savings of the government sector, it is believed that the savings rate would continue to rise. Table 3 and 4 give investment and saving projections of the MTFD.

Table 3

The MTFD Size				
	Rs. Billion			
	2004-05	2005-06	2009-10	2005-10
Total Investment	1102.6	1257.4	1967.5	7951.9
Fixed Investment	999.3	1145.6	1815.7	7298.5
Public	286.2	356.2	712.1	2536.7
(PSDP)	(202)	(272)	(597)	(2042)
Private	713.1	789.5	1103.6	4761.8

The growth and the other physical targets of the MTFD would require a total investment of Rs. 8 trillion, rising from 16.8 percent of GDP in 2004-05 to 20.7 percent in 2009-10. Out of the fixed investment of Rs. 7.3 trillion, 65 percent will have to come from the private sector and 35 percent from the public sector. This is the aggregate of fixed investment by federal, provincial and local governments, and the corporate and autonomous bodies. The bulk of the public investment takes place through the budgetary mechanism of the PSDP, which is pitched at above Rs 2 trillion for the next five years.

It will be seen from Table 4 that total investment will be financed by National Saving to the tune of 88.3 percent. The balance will have to be arranged from external sources. Within National Saving, the largest source of financing is the Household Saving, financing 62.6 percent of total investment. It constitutes 71 percent of National Saving. The MTFD will focus on improving the avenues of Household Saving. As the climate for private investment improves, corporate saving is also likely to increase. Public saving will require efficient

management of public sector enterprises, effective utilization of Government expenditure and a greater revenue mobilization efforts.

Table 4

Financing Pattern		
	(Rs. Billion)	% share
Total Investment	7951.9	100
Financed by:		
I. Private Saving (a+b)	5643.1	71.0
(a) Household Saving	(4977.4)	(62.6)
(b) Corporate Saving	(665.7)	(8.4)
II. Public Saving	937.6	11.8
III. Domestic Saving (I+II)	6580.7	82.8
IV. Net Factor Income from Abroad	437.7	5.5
V. National Saving (III+IV)	7018.4	88.3
Gap between National Saving and Total Investment	933.5	11.7
Required External Financing	933.5	11.7

Fiscal and Monetary Development

For achieving the envisaged high growth rates, more funds are required to be generated domestically. This entails adoption of an appropriate mix of policy measures in the area of revenue collection and reform in the taxation system. The strategy will include, inter alia, broadening the tax base, creating uniformity in the tax laws, enlarging application of GST, containing current expenditures and implementing an efficient system of user charges for public services. The Government revenues are expected to increase from 13 percent of GDP in 2005-05 to 14.8 percent in 2009-10. Tax reforms to expand the tax net, plug tax loopholes and improve tax administration will be implemented by the CBR as part of the second generation reforms during the MTDF. As a result, the CBR is expected to add to its normal collection a revenue of 0.3 percent of GDP per annum for the next 5 years. Fiscal deficit will be kept under 4 percent of GDP. Together with a prudent monetary policy, inflation will be kept under check. While monetary policy would ensure stability of the economy, it would also keep the rate of interest at a reasonable level by providing adequate resources for the investment and working capital requirements of the private sector.

Balance of Payments

The balance of payments projections for the MTDF have been made keeping in view the long-term objectives of reducing the external dependence by increasing those sources of external financing that are stable, sustainable and have positive effects on growth. The main elements of the strategy are diversification of exports, stable exchange rate and consistency in economic policies, export competitiveness and trade liberalization. Imports and exports

are forecast to grow by 13.6 percent per annum and 14.9 percent per annum respectively in nominal dollar terms during the MTDf. As a result, the trade account is projected to be in deficit by \$ 5.2 billion in 2009-10 against a deficit of \$ 3.5 billion in 2004-05. The current account deficit in 2009-10 is estimated at 2.4 percent of GDP against 1.7 in 2004-05. The foreign capital requirements are expected to increase from \$ 3985 million in 2004-05 to \$ 6691 million in 2009-10. The financing of these requirements would be made through normal disbursements of medium and long term loans, capital and foreign investment and exceptional financing.

Public Sector Development Programme

The MTDf envisages an investment of Rs. 2042 billion under the Public Sector Development Programme (PSDP). The PSDP size will roughly triple from Rs. 202 billion in 2004-05 to Rs. 597 billion in 2009-10, i.e. from 3.1 percent GDP in 2004-05 to 6.3 percent in 2009-10.

Table 5

Overall PSDP by Executing Agencies		
(Rs. Billion)		
Agency	MTDF Allocation	% share
Federal	1493.0	73.1
Federal Ministries/Divisions	1384.5	67.7
Special Areas	108.5	5.4
Provinces	549.0	26.9
Total	2042.0	100.0

The federal government would make available 73.1 percent of the PSDP, including transfer of funds to the provinces. The sectoral programme at the national level indicates that infrastructure sector would get the highest share of PSDP (48.6 percent), followed by Millennium Development Goals (35.0 percent), balanced development (13.2 percent) and accelerating output growth (3.2 percent). The major components of infrastructure outlays will be energy, transport and communications, and water resources. Within the Millennium Development Goals, education and vocational training would receive the highest priority, followed by health and nutrition and physical planning and housing. Details of the overall programme by objectives are given Table 6 below: -

Table 6

Overall PSDP by Objectives

Objective	MTDF Allocation	% share
Upgrading physical infrastructure	993.2	48.6
Achieving Millennium Development Goals	712.4	35.0
Balanced development	270.1	13.2
Accelerating output growth	66.3	3.2
Total:	2042.0	100.0

In the federal programme, the share of physical infrastructure is relatively high (55.9 percent) due to large investments in energy, transport and water resources sectors. The sector-wise programme of provinces indicates highest priority for social sectors (67.8 percent) since achieving Millennium Development Goals is mainly the responsibility of the provincial governments.

Achieving Millennium Development Goals

One of the main objectives of MTDF 2005-10 is establishing a just and sustainable economic system for achieving MDGs, which also include reduction in poverty. MDGs provide the long-term perspective (2005-15) within which the strategies to achieve the social and human development objectives of the MTDF have been formulated. Highest priority is being given to achieving MDGs targets covering eradication of extreme poverty and hunger, achieving universal primary education, promoting gender equality and women improvement, reducing child mortality, improving maternal health, combating HIV/AIDS, malaria and other diseases, ensuring environmental sustainability and developing a Global Partnership for Development. Targets have been established for the terminal year of MTDF (2009-10), and indicator status will be closely monitored, for which institutional structures have been established. The PRSP targets, strategies, policies and programmes are subsumed in the MTDF and aligned with the MDGs.

Poverty Reduction

Poverty is a complex and multidimensional phenomenon that extends beyond the notion of income and encompasses social, economic and political exclusion. Tackling poverty requires an integrated approach that promotes accelerated and broad-based economic growth, while maintaining macroeconomic stability, improving governance,

consolidating devolution to the grassroots level and protecting vulnerable segments of the society. Poverty reduction is an encompassing objective of MTDF. The aim is to promote policies and programmes to reduce poverty by satisfying unmet basic needs of the poor, such as shelter, health and education through a participatory process that empowers the poor.

At present, one-third of the country's population continues to live below the poverty line. The MTDF target of poverty reduction of 21 percent by 2010 has been established within the framework of MDG target of 13 percent by 2015. The poverty reduction strategy of MTDF consists of four basic themes: high pro-poor growth, social development, good governance, and protection of vulnerable groups. The strategy includes (i) achieving employment oriented pro-poor economic growth; (ii) accelerating economic growth and expansion of employment opportunities in agriculture, SMEs and housing and construction that provide employment to the poor segments of the society; (iii) policy interventions for income generation programs including Khushal Pakistan, Tameer-e-Pakistan, and Drought Relief, (iv) micro-credit for agriculture and SMEs; (v) disaster management; (vi) social protection; (vii) human resource development, including education, health and nutrition; and (viii) other interventions, including distribution of state land among the rural landless. With the commitment of the government for a sizeable increase in public expenditures on anti-poverty programmes, and an emphasis on mobilizing financial and human resources of the private sector, civil society and development partners, there is confidence that MTDF targets, consistent with MDGs will be achieved.

By aligning its medium term 2009-10 targets with longer term MDGs, the MTDF reinforces its objective and vision for improvement in the human development indicators and sustainable development of the country. Secondly by allocating more than 46.6 percent of the PSDP to the social sectors and balanced development during 2005-10, MTDF provides a credible basis to the intentions of the Government to be on a fast track in achieving many of the seven goals, 11 targets and 33 indicators. Poverty reduction will not only be the net outcome and objective of macro policy framework and public spending contemplated in the MTDF but also depends on the effectiveness of meso policies targeted at the most vulnerable and marginalized segments of the society. The policies and strategic interventions of the MTDF will be designed to achieve the first MDG goal of halving poverty by 2015. The MTDF's strategic thrust of balanced growth that combines pro-poor growth to progressively rise to 8.2 percent by 2009-10 with 46.6 percent of planned PSDP to the social sector will reduce poverty significantly. An average annual growth of 5.7 percent in real per capita income during the period should reduce absolute poverty by an eight - percentage point from 32.1 percent base of 2000-01. The MTDF target between 20-21 percent poverty ratio by 2010 is within reach if a slight reduction during 2001-05 is accounted for, together with the expectation that nearly seventy percent of the increase in the job opportunities during the 2005-10 period will be in the informal sector.

Basic and College Education

Pakistan faces major challenges in providing education for its growing population and diversifying needs. It is planned to achieve the targets set under MDGs for universal primary education, and promotion of gender equality and empowerment. The MTDF initiatives include free education upto secondary school level, introduction of technology education as a core course at elementary level, upgradation of curricula, decentralization of teacher training institutes upto the district level and promoting public-private partnerships. The strategy also includes introduction of double shift system in all existing institutions

together with improvement and rehabilitation of the physical facilities, an emphasis on technical and vocational education, capacity building of training and teaching institutions, and greater use of information technology in learning activities.

In achieving the universal primary education (MDG Goal 2), the biggest challenge is to ensure completion/survival rate to grade 5, i.e. to reduce the dropout rate. Fast track institutional and administrative reforms supplemented by communities involvement is expected to attain this target. As a corollary net enrolment rate will rise automatically. MTDF's planned interventions in terms of spreading a net of adult literacy centres across the country raises the prospects of achieving the adult literacy specifically in case of males.

Health

The aim in the health sector is to provide better care to reduce infant, child and maternal mortality and to improve the nutrition status of children less than five years. The strategy is to continue and strengthen the shift from curative services to preventive, promotive and primary health care. Reduction in child mortality, maternal mortality and combating HIV/AIDs, malaria and other diseases, being important commitments under the MDGs, are a focus of MTDF. Issues of health care financing, health insurance and employees social security, and public-private partnerships in the health sector have also been addressed.

A simple extrapolation of past trends of indicators under the Goal 4 of Reducing Child Mortality, specifically in a) under five mortality, b) infant mortality, c) under five-year children receiving ORT under diarrhea may indicate poor chances of achieving the goal, or even the targets of MTDF, but policy and programmes interventions outlined in the MTDF reflect the urgency and commitment that the government attaches to achieving this goal in a comprehensive manner. The Goal 5 related to improving Maternal Health will remain a challenge. Out of the five indicators the targets on a) maternal mortality, b) proportion of births attended by skilled birth attendants and c) total fertility rate will lag behind the 2015 targets. If the phenomena of increased participation of younger female as observed in the last 3 years continues, combined with higher number of Lady Health Workers, the demand for contraceptive use will improve further so as to attain the 2010 MTDF and 2015 MDG target. Combating HIV/AIDS, Malaria and other Diseases (Goal 6) is hindered by the capacity of the Government to monitor and report the progress on its various indicators. The planned institutional reforms and data collecting endeavours in the health sector will contribute to better monitoring of the Goal as well as improving the effectiveness of existing and proposed interventional policies and programme to cover a greater distance towards the 2015 targets.

Nutrition

Malnutrition is an established impediment to human development. The nutrition policy is based on food security and nutritional adequacy at household level through food self-sufficiency and appropriate nutrition intervention. Maternal malnutrition, protein energy malnutrition among infants and children and micronutrient malnutrition would be the areas of priority attention during the MTDF. Recognizing that nutrition programmes are multi-sectoral and actions cut across sectors, a multi-stakeholder approach would be adopted, capacity of involved agencies strengthened, and strong coordinating mechanisms evolved.

Population Welfare

The total population of the country is projected to increase from 153.45 million in 2005 to 167 million in 2010. The critical issues include high population growth rates, low coverage of population and high unmet needs of family planning. During MTDF, a comprehensive and holistic multi-sectoral reproductive health approach will be adopted, with built-in-linkages and functional integration between the community based workers of health and population departments. The objective would be to decrease the population growth rate from 1.87 percent in 2005 to 1.63 percent in 2010 by substantially increasing coverage and contraceptive prevalence rate. A greater coordination is envisaged between the public and private sectors and the civil society. Public-private partnerships will be strengthened and the programmes of community-based workers, family welfare centres, reproductive health service centres, and mobile service units expanded.

Water and Sanitation

Provision of safe water supply and sanitation is necessary to ensure a healthy population. The majority of the population in the country is exposed to the hazards of drinking unsafe and polluted water. Insufficient attention to wastewater treatment and disposal in urban areas is causing severe environmental problems. A strategic national water supply and sanitation plan would be formulated to improve the performance and utilization of the water supply and sanitation systems, enhance community and private sector participation, and ensure integrated delivery of water and sanitation services. During MTDF, a major initiative would be the provision of clean drinking water to all through water purification plants to be set up throughout the country. The water supply systems coverage will be increased from 65 percent in 2005 to 76 percent in 2010, and sanitation coverage increased from 42 percent in 2005 to 50 percent in 2010. A particular emphasis would be rural water supply and sanitation, with full coverage of all villages having population in excess of 100 households during the MTDF.

Environment

While undertaking developmental activities we must ensure that valuable natural resources are not wasted. The land must remain productive and fertile, atmosphere clear and clean, water unpolluted, forest resources capable of regeneration, able to yield the needs of our national development. Goal 7 of ensuring environmental sustainability spans green and brown environment. Given a sizeable planned allocation to the Clean Water for All Initiative, the target of access to safe drinking water is likely to be achieved. However, the targets of access to sanitation and regularization of Katchi Abadis will lag behind. The prevailing pricing structure of CNG, diesel, and petrol has already created incentives in the private transport sector to switch to the use of CNG. This target is likely to be achieved ahead of schedule. Although the institutional capacity and sub-national agency linkages to monitor and report progress remain weak, the MTDF will strengthen them and thereby ensure a steady progress towards achieving the target of a) forest cover and b) land area for the conservation of wildlife.

The MTDF strategy for environment conservation, management and use is based on a three-pronged approach: equitable sharing of benefits of environmental management, increasing community management of national resources, and integrating environmental issues into socio-economic development planning to achieve sustainable development. Accordingly, an Action Plan covering the brown environment (water, air pollution, solid

wastes, hazardous wastes and noise pollution) and the green environment (forestry and watershed management, biodiversity, range management, desertification and marine pollution) will be implemented during the MTDF. For sustainable development, environmental assessments and accounting and information management tools would be incorporated in the decision-making processes. Public sector will lead the way in application of environmental criteria. A particular focus would be energy conservation and increasing energy generation through renewable forms of energy. Emphasis would also be placed on human resource development for incorporating environmental dimensions in development planning, environmental education and awareness and environmental research.

Women Empowerment

The vision for women development is enhancement of status of women, promotion of women's rights, and ensuring women's full participation at all levels on the basis of equity with men and to serve as change agents in the society. Reducing gender inequality and mainstreaming of women in all sectors is essential to achieve empowerment of women. A National Plan of Action has been prepared through a consultative process, with focus on literacy/education, reproductive health, family planning, economic empowerment and violence against women. A Gender Reforms Action Programme will be implemented during MTDF, with a coherent agenda to align policies, structures and procedures for enabling the government to implement its national and international commitments on empowerment of women. Mainstreaming gender issues into policies, development plans and programmes would be the key development strategy to promote gender equity in Pakistan.

One dimension of women empowerment (Goal 3) i.e. representation of women in the National and Provincial assemblies and Senate has been achieved ahead of 2015 target. Moreover the recent trends from the Labour Force Survey 2003-04 offer encouraging evidence that the target related to female participation in wage employment will also be attained in 2015. Attaining Gender Parity index and Youth Literacy GPI will remain a challenge due to large regional variation and low female enrolment in the rural areas.

Balanced Development

Housing for All

Shelter is one of the basic necessities of life. Currently about 300,000 units are being built annually against the incremental demand estimated at 570,000 units annually. Accordingly, the housing backlog has increased from 4.3 million units in 1998 to 6.0 million units in 2005. About half the urban population is living in Katchi Abadis. Other issues include inadequate supply of developed land; poor land administration, with inadequate legal and regulatory systems; high cost of property transactions; low public confidence in housing development industry; and limited supply of housing finance with weak mortgage collateral. In addition to the backlog of 6 million housing units, the incremental housing need during the MTDF will be 3 million housing units. Increasing housing from 300,000 units in 2005 to 800,000 units by 2010 only cater to the incremental demand during MTDF. A higher mass housing construction will be required if the housing backlog is to be reduced during MTDF.

The strategy will be to undertake mass housing programme with enhanced supply of institutional finance and long term fixed rate financing options; increase availability of developed land; enhance proportion of small-size plots for low-income groups; undertake high rise condominium development, where appropriate, to utilize land more effectively; build capacity for land administration; discourage speculation in land; improve housing construction technology, including standardization of components for mass production; regularize notified Katchi Abadis complemented by policies to restrain the emergence of new Katchi Abadis; increase community participation in housing and services delivery; provide sufficient and affordable credit for rural housing for meeting the needs of landless poor; invest in human capital to improve the quality of construction; and put in place appropriate legal and regulatory framework to facilitate sector development.

Employment and Income Distribution

The labour force is projected to increase from 46.66 million in 2004-05 to 52.21 million by 2009-10, representing a net addition of 5.55 million. Based on the envisaged GDP growth and improvement in labour absorption through structural changes, the additional job creation during the MTDF is estimated at 6.97 million. As a result, the unemployment rate in 2009-10 will come down from the current 7.5 percent to 4.0 percent. The strategy of employment intensive economic growth particularly focuses on agriculture, livestock, SMEs, telecommunications and information technology services, housing and construction and natural resources. Keeping in view the growing international market for manpower export, an integrated approach will be adopted that meets the skill needs of the country and overseas.

Rural and Urban Development

Rural and urban development are complementary. Strengthening linkages between urban centres and rural areas is necessary to ensure that the two remain mutually reinforcing. Towns and cities provide markets for rural products and jobs to absorb surplus rural labour. If marketing systems are improved for both agricultural products and inputs, production, employment and the scope for private enterprise in rural areas and cities can be increased. Efficient infrastructure and services can facilitate complementary rural-urban development with diversification and commercialization of rural economies. If properly strengthened, the rural-urban dynamics can help ensure that investments in services, facilities, infrastructure and productive activities are located strategically in towns to serve a wide area.

With the implementation of the devolution plan, the district and tehsil administrations are responsible for the development and management of both the urban and rural areas in their jurisdiction. While this would provide a good basis for enhancing rural-urban linkages, a challenge would be to build capacities of the local administrations and to enhance the institutional interfaces, coordination and cooperation for integrated physical development activities, particularly in metropolitan areas and mega cities, where there is extensive involvement of federal and provincial government agencies.

A holistic and comprehensive approach will be adopted to the development of rural and urban areas, including (i) enhancing rural-urban complementarities and linkages to improve the respective functional efficiencies for productivity, growth and sustainable development; (ii) ensuring equitable and balanced development through provision of infrastructure and services, with strengthened local governments under the devolved

system in the lead role, and (iii) developing public-private partnerships. With modernization and structural transformation of the economy in favour of the secondary and tertiary sectors, the share of the primary sector will continue to reduce. Accordingly, the share of urban based economic growth in the MTFD period will increase. Fewer farms will be providing more and more food thus releasing resources for an industrial society. While it will be essential for cities to become more efficient in a competitive global environment, the key to faster rural development will be the emergence of a strong non-farm sector. This will be achieved by focusing on the interlink-ages between the farm and non-farm sectors in the form of agro-processing, provision of agricultural inputs, supply of basic consumer goods and services, and rural industrialization.

The strategy for rural development will include enhancing the asset ownership of the poor by improving access to land, water and livestock; enhancing activities in the non-farm sector, including agro-processing, provision of agricultural inputs and supply of basic consumer goods and services; identifying new sources of growth that will increase incomes of rural population; facilitating private sector participation and involvement in value addition of agricultural products; promoting rural industrialization, including "One Village, One Product" movement; deepening and intensifying market development, including input, output and rural financial markets; household food security; provision of rural infrastructure including rural roads, clean drinking water supply and sanitation, education and health facilities and village electrification; human capital development; wider participation of rural population in the development of their communities through their own associations/organizations together with local government; and capacity building of rural development institutions.

The urban centres are characterized by haphazard growth, congestion, pollution and unplanned expansion. The inefficiencies in urban services and urban management have resulted in a higher cost for businesses, slowed urban based economic growth, and led to increased crime, violence and social unrest. The strategy will be to adopt an integrated urban development approach for urban infrastructure development, enhance urban planning and management capacity, and strengthen public-private partnerships. Particular attention would be given to metropolitan and mega cities economic development strategy to improve land supply and services, transport and communication links, information systems, and labour markets. Setting up of the industrial estates will be linked up with medium and small town development and establishment of new towns. These towns with growth potential would be identified through comprehensive spatial planning at the national and provincial level and provided with necessary infrastructure and self-contained utilities and ancillary facilities, including common technology support centres. Industrial corridors and specialized industrial and other estates will be set up along the motorways, expressways and railways.

Accelerated Development of Less Developed Areas

The strategy for the development of Special Areas, including FATA, Northern Areas and Azad Kashmir, is to eventually bring them at par with rest of the country, and focuses on physical and social infrastructure development including transport and communications, drinking water supply, electrification, education and health, exploitation of mineral resources, and reforestation. A special programme for less developed districts in the provinces is also been started.

Good Governance

The second generation reforms to be implemented during MTRF period mainly focus on improving governance. Economic governance, or sound development management, is at the core of sustainable development. The four key components of governance are accountability, transparency, predictability, and participation; these are universally applicable regardless of the economic orientation, strategic priorities, or policy choices of the government. Issues of public sector efficiency, effectiveness, and accountability are important for long-term growth. Public sector management requires action to make markets competitive. Similarly issues of restricting the reach of state intervention and improving the delivery of basic services are high on the country's development agenda. A policy, legal and regulatory environment, which secures property rights and enforces contracts, is supportive of economic growth and poverty reduction. People being at the heart of development need to have access to the institutions that promote it. Systemic corruption extracts a heavy price by reducing investment and increasing capital costs.

During the MTRF, governance activities will be mainstreamed in the development process. First, the process of decentralization and devolution will be strengthened to enhance the delivery of critical municipal services. Second, participatory approaches and governance considerations will be strengthened in the design and implementation of policies, programmes and projects, with capacity building of agencies involved. Third, the systemic problems that undermine the efficiency of legal, judicial and law enforcement institutions will be addressed. Fourth, corporate governance and public-private interface issues will be addressed to protect identified public interests while minimizing private transaction costs. Fifth, several areas of public sector management will be addressed, including (a) streamlining revenue administration; (b) strengthening public financial administration; (c) streamlining E-Governance; (d) public sector capacity building and civil service reforms, covering professionalization of civil services and qualitative improvements through continuous training and skill up-gradation, and (e) enhancing the quality and coverage of data and statistics. Finally, implementation effectiveness of MTRF, covering both the public and private sectors, will be given priority attention at the thematic, sectoral, policy coordination and programme level, for key development outcomes with a particular focus on monitoring and evaluation of targets and outcomes of PSDP.

If knowledge is the defining characteristic of the MTRF 2005-10, implementation is its litmus test. A distinguishing feature of MTRF 2005-10 is the emphasis on effective implementation of PSDP. The strategy includes capacity building and institutional development of agencies involved including development of performance indicators; establishment of planning and monitoring cells in ministries/departments; strengthening of impact analysis and monitoring and evaluation activities in planning and development agencies, with linkages to the District Monitoring Development Committees under the devolution plan; periodic monitoring exercises, with reports to ECNEC/NEC, and training of project directors and other staff in project management, monitoring and evaluation. A major focus will also be building capacity for undertaking public-private partnerships (PPP), monitoring the pace at which PPPs are actually realized, lessons learned and disseminating the implementation experience to catalyze actual realization of PPPs to enhance infrastructure development. Performance, outcomes and result-orientation will be the guiding criteria not only for projects and programmes, but also for policies, action plans and rules and regulations governing development as a whole.

In the past, the emphasis has only been on monitoring of activities related to PSDP. During the MTDF 2005-10, the development effectiveness of the framework as a whole will also be a focus of attention, covering both the public and private sectors. Progress on the strategic thrust of the framework will be monitored including policy coordination and effectiveness of key strategies and programmes. At the project, programme and sector level, greater attention will be devoted to evaluation studies with a focus on impacts and outcomes, and on lessons learned for incorporation in subsequent phases.

The Government is undertaking civil service reforms to enhance the capacity of the public sector, among others, for proactive public policy, strategic vision in specialized fields and effective decision making. This will require restructuring, capacity building and professional development, with compensation linked to responsibility and performance. During the MTDF 2005-10, there will also be need to supplement these efforts by engaging experts on a contractual basis in specialized fields and key result areas with market-based compensation packages.

The MTDF 2005-10 is intended to provide flexibility for mid-course corrections during implementation. Recognizing that close monitoring of the overall performance of MTDF 2005-10 in terms of planned outcomes will be essential, the monitoring system in the planning agencies, line ministries and departments and other sectoral agencies will be supplemented by constituting high level standing committees in each of the thematic areas, with membership drawn from both the public and private sectors. These committees will have a strategic role in reviewing MTDF implementation relating to overall policies, strategies and programmes, and key result areas, assessing recent developments, both macroeconomic and sectoral, and making recommendations for action.

An effective monitoring and evaluation (M&E) system is essential to managing for development outcomes. Planning Commission will put in place a comprehensive programme to strengthen portfolio M&E ensuring that all large ongoing PSDP projects contain specific and measurable indicators; contain outcome baseline data; use and report M&E information and data on a regular basis; and have adequate resources allocated in projects for M&E. The line ministries at the federal level and line departments at the provincial level will be empowered for individual project monitoring. Weaknesses in project and programme design and implementation will be overcome by strengthening PC-I to PC-V documents, making these more outcomes focused. The capacity of Planning Commission (Projects Wing), Provincial P&DDs, and M&E Cells of line ministries on M&E will be strengthened including expanding use of monitoring software, training staff involved in M&E at the federal, provincial and local level; and standardizing project documents.

Accelerating Output Growth

Agriculture

Agriculture plays an important role in Pakistan's economy. The main objectives of agricultural development will be to achieve self-reliance in agricultural commodities, ensure food security and improve productivity of crops. The strategy will include (i) enhancing productivity of crops through development of new technologies, high yielding disease resistant varieties, scientific methods of farming and improved management practices; (ii) efficient use of water through precision land leveling and high efficiency irrigation system; (iii) promoting production and export of high value crops ; (iv) ensuring availability of

agricultural credit; (v) reducing post-harvest losses and promoting value addition; (vi) improving marketing infrastructure; (vii) improving efficiency of agricultural inputs and ensuring their timely availability to farmers; and (viii) strengthening agricultural research institutions for research and extension and improving their linkages and coordination.

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.

Farm to market roads will be improved to provide easy access to the farmers to market their produce. Programmes to control waterlogging and salinity through preventive and curative measures will be continued. The use of gypsum will be promoted for amelioration of sodic salts.

The growth in agricultural products can be better utilized for export purposes after necessary value addition. The production targets for the MTF are outlined in Table 7 below have been fixed based on crop production inputs and keeping in view the domestic demand, population growth and national requirement. Several measures will be undertaken to improve productivity, including application of fertilizers, maximum use of quality seeds and effective control of insects, pests and diseases. This will require a high level of investment for which agricultural credit will be expanded at over 24 percent per annum from Rs. 85 billion in 2004-05 to Rs. 250 billion in 2009-10. This is a tentative estimate and will be revised during the period of MTF to arrive at a realistic figure.

Table 7

Major Agriculture Targets				
(Million Tonnes)				
Crops	2004-05	2009-10 Target	2009-10 Requirement	Surplus/ Deficit
Wheat	21.1	25.4	22.7	2.7
Rice	5.0	6.3	3.7	2.6
Cotton (Million Bales)	14.6	17.0	17.0	-
Sugarcane	45.3	56.7	-	-
Pulses	1.0	1.5	1.5	-
Oilseeds	5.8	7.5	-	-

Livestock

Livestock, mostly being reared on conventional basis, has great potential. Its production can be increased through increasing livestock's commercial potential through breed improvements, proper feeding, increasing the milk yield per animal and further value addition, disease control, improved market infrastructure, higher access to credit and insurance arrangements.

Livestock development is aimed at achieving self-reliance in products and improving productivity of milk and meat. An overall annual growth of 3.7 percent is projected, with milk production increasing at 8 percent per annum. The strategy will be to increase productivity of livestock. The private sector will take the lead role. The public sector will provide the enabling environment, including capacity building and research, better farmer education and animal health coverage, improving livestock markets, and assistance in export marketing.

Fisheries

The share of fisheries is quite small but it contributes substantially in exports earnings. Development of fisheries is envisaged through (i) improvements in post-harvest handling (chilling, refrigeration, preservation and hygienic conditions), (ii) establishing new hatcheries, (iii) soft loans for fish farms, (iv) development of sea-food processing industry, and (v) strengthening of extension services, introduction of new fishing methodologies, and development of value added products. Projects will also be undertaken for controlling poaching and management of deep sea fishing vessels, and improvement in quality control system in the country. The untapped marine fisheries resources will be exploited, comprehensive aquaculture research undertaken, and model fish farms established.

Forestry

Forests play a significant role in land conservation, regulation of flow of water, reduction of sedimentation in water channels and reservoirs and maintenance of ecological balance. Forests also supplement the fuel needs and fulfill the timber requirements. Only 4.8 percent of total land of Pakistan is under forests, whereas the recommended level for forests is 20-25 percent of land area. In order to enhance tree cover in the country, the government is undertaking various projects like Rachna Doab Afforestation Project, Watershed Management in Tarbela Reservoir Catchments, and Mangla Watershed Management Project. This is being complemented by tree-planting campaigns each year during spring and monsoon seasons. With intensive efforts for encouraging the forestry sector, incorporating a long term policy for the felling of trees so that the farmers are willing to grow the trees and by providing alternative fuels to rural and remote areas, the forest cover is planned to be increased to 5.2 percent of the total land by 2009-10.

Manufacturing

In the years ahead, there will be an Accelerated Industrialization Drive, a drive that is not based on a fascination with industry but on the simple truth that if we want to develop rapidly – this is the only way to go. If we are to industrialize rapidly, we will need to capitalize on our national strengths and forcefully tackle our weaknesses.

Enhancing the Total Factor Productivity (TFP) is the explicit objective of the development strategy. Unless productively levels rise, the monolithic approach of factor accumulation may not deliver. Through training the manpower employed in critical sectors and by means of undertaking benchmarking in the important industrial sector, efforts will be made to increase output per unit of labour and capital both in the agricultural and the industrial sectors.

Despite some improvements in recent years, costs of doing business in Pakistan needs to be reduced further. This shall be done through streamlining of procedures for starting a business, reducing cost of registering property, legislating workers rights and responsibilities, enforcing contracts, and improving recovery rate of insolvency. During the MTFDF 2005-10, the recent initiatives for reduction in the cost of business will be further strengthened through reduction in procedures and red-tape, and provision of infrastructure and energy at lower rates.

Pakistan has to make important strategic choices to ensure sustainable growth in the manufacturing sector in a rapidly changing and challenging international competitive environment. This requires massive structural changes, with a shift in the production paradigm to technology and knowledge based industrialization, with a focus on the quantitative and qualitative growth of an integrated and competitive industry in the private sector.

Over the MTFDF period, an average annual growth rate of 11.6 percent is envisaged in the manufacturing sector. A focused policy thrust would be adopted for raising the threshold levels of technology base, industrial diversification, value addition, productivity and product quality, physical and social infrastructure, and standardization and certification to match the growth requirements. In this era of WTO globalization, Pakistan's incentive structure will be so designed that it helps achieve the overriding objectives of developing a competitive, dynamic, and export-driven industrial sector that is capable of providing

employment to the growing labour force. The key elements of the strategy will include establishing an industrial structure that accords with the country's dynamic comparative advantage; maximizing employment through promotion of labour intensive industries and technologies in Small and Medium Enterprises (SMEs); encouraging value addition; enhancing worker skills; and facilitating technological upgradation. The new industrial framework will be integrated with development of requisite infrastructure, including physical, technological, financial, legal and intellectual dimensions. The share of the manufacturing sector is expected to rise from 18.3 percent in 2004-05 to 21.9 percent in 2009-10.

A National Plan of Action for rapid industrial growth through Industrial Technology Development will be prepared and launched during MTFD. Diversification of industries besides textiles and leather will cover areas in which the country has comparative advantage including food processing, petro-chemical and inorganic industries, engineering industries, automobiles, non-metallic mineral products, and electronics.

The present urban and industrial centres cannot accommodate the envisaged large growth of the industrial sector. A number of industrial estates would be set up in every province with the necessary infrastructure, and self-contained utilities and ancillary facilities, including common technology support centres. The industrial corridors and specialized industrial estates to be set up by the Provincial Governments along the motorways, expressways, and railways will have full support of Federal Government. Infant and pioneering industries will be protected and private sector encouraged and supported to become internationally competitive. The Government would continue to encourage the inflow of foreign flow for accelerated industrialization.

Small and medium industries have an important role in strengthening industrial linkages, in penetrating markets, in generating export earnings, and in the birth of tomorrow's entrepreneurs. Through appropriate assistance schemes and raising the level of management expertise, technological know-how and skills of the employees, SMEs shall be promoted. The obstacles in the way of small enterprise to graduate to medium and large enterprises which include capital needs, technological and training assistance, and infrastructural support shall be provided. It would help in enhancing their productivity, capacity for innovation, and competitiveness. A comprehensive set of policies and strategies is proposed covering technology upgradation and enhancement of business skills, improving market access and product information in the global context, enhancing export orientation, restructuring and strengthening of the legal, taxation and institutional framework, improving access to financing resources and services and developing delivery mechanisms for business development and upgradation.

Minerals

The share of minerals in GDP at 1.4 percent is not representative of the actual potential of the sector. Minerals play a vital role in economic development by providing raw materials and intermediate products for the industrial sector. Various geological surveys conducted in the recent past have proved potential reserves of various metallic minerals such as copper, gold, silver, chromite, iron, lead, and zinc. There is also a vast potential of industrial minerals such as granite, marble and other stones of high quality for export purposes. Presently over 50 minerals are under exploration which include coal, rock salt, and other industrial and construction minerals. In order to accelerate the development of mineral resources in the country appropriate fiscal incentives and conducive regulatory

framework would be provided, and, if required, further improvements will be brought about in the National Mineral Policy. Beneficiation of minerals would play an important role in the growth and diversification of industries. The capacity of provinces to accelerate exploration, prospecting, and exploitation will be significantly enhanced.

It is proposed to double the share of minerals in GDP from the current 1.5 percent to 3.0 percent by 2009-10. The strategy includes increase in geological and geophysical surveying and mapping, increasing the use of coal in the energy mix and enhancing exploitation of important minerals such as copper and gold, marble and granite, iron, lead-zinc and chromite, gypsum, and gemstones.

Export Development

We must diversify the products and markets for export. Our exporters must look at the non-traditional markets. This will require new knowledge, networks, contacts and approaches towards dealing with unfamiliar laws, rules and regulations. The Government will help but the private sector has to take a lead. In addition to developing national technological capabilities, major reliance on export-led growth is still one of the key factors to rapid growth. In international relations, an increasing emphasis should be placed on economic imperatives and striving to influence the course of international trade.

A two-pronged export promotion strategy is envisaged for MTFDF 2005-10, including creation of an enabling environment, and achieving higher volumes and values. The enabling environment is planned to be provided by maintaining consistency in economic policies, enhancing competitiveness through pricing and quality, developing human resources in export marketing, quality control and through skill development, educating exporters and providing assistance to enable the exporters to meet international standards and building and marketing a good national image. This will be supplemented by a variety of other measures including increasing labour productivity, improving physical and financial infrastructure, and enhancing the contribution of SMEs in the production network. The strategy for achieving higher volumes and sales includes firstly enhancing share in major markets and increasing customer base. Textile has been the largest contributor to Pakistan's exports. With the move from the Multi Fiber Agreement (MFA) to quota-free regime governed by WTO becoming effective from January 2005, there are major opportunities for Pakistan textile manufacturers and exports if they exploit their comparative advantage and enhance international competitiveness by forming joint ventures and investing in the development of the textile sector. Second, product diversification in areas where the world demand is relatively large and where Pakistan has or can create a competitive edge such as engineering goods, marble and granite, precious and semi-precious stones and jewelry, fisheries, milk products, construction, information technology, finance and accounting services, and pharmaceuticals. Third, geographic diversification to areas such as Central Asian Republics, Russia, Africa and Eastern Europe. Fourth, value addition through enhancement of capability and capacity of exporters. Fifth, branding and brand development. Sixth, supply chain management and cluster development. Finally, a series of complementary activities will be undertaken including development of Export Processing Zones, enhancing market access through alliances, leveraging relationships in Islamic and other selected countries, developing women entrepreneurship, enhancing commercial support abroad and strengthening the role of the Export Promotion Bureau. With integrated and sustained efforts, exports are projected to increase at 14.9 percent per annum to more than double from \$ 14,050 million in 2004-05 to \$ 28.125 million by 2009-10.

Services Sector Development

The services sector plays a vital role in sustaining the growth of Pakistan's economy, with a share of over 50 percent in GDP and 44 percent in employed labour force. The services sector has strong linkages with the major sectors of the economy, and is strongly embedded in the sale and purchase of commodities and manufactured goods.

The MTDF broadly aims at achieving an average growth rate of 6.5 percent per annum in the combined output of services. The principal objectives include diversifying the existing structure of services in favour of business, finance, information technology and foreign trade related services; and improving the level of skills and vocational training and to encourage the private sector to (a) capitalize on the growing communications and broadband infrastructure, and (b) participate through public-private partnerships in the provision of infrastructure and services. The key requisites for an economically vibrant service sector will be good infrastructure, including ICT and roads, entrepreneurial capacity, communications skills, and a clear understanding of how these tools can be harnessed. New opportunities will be exploited in electronic designing, call centres and tourism services. Logistics for the manufacturing sector, including transport and shipping, warehousing and customs handling, will be improved, and other activities undertaken to facilitate growth in the private sector to support manufacturing related services. Promotion of local and foreign tourism will adopt a broad strategy covering basic infrastructure, tourist accommodation and improvement in tourist operating services. Major investments will be made to raise the skills and education of the workforce to match the demand as part of a wider investment in the knowledge economy. During MTDF, a major expansion of services is envisaged in transport and communications, banking and insurance, health and education, and in other services such as real estate.

Information and Communication Technology

With revenues growing up by 30-40 percent annually, the IT industry is one of the most dynamic sectors in the country today, and has been mainstreamed into every aspect of industrial and economic activity. In spite of recent growth, gaps still exist within the country and with respect to the outside world, in terms of fixed line telephone density, mobile penetration, and internet broadband usage. During MTDF, it is planned to reduce the digital divide by expanding the ICT infrastructure. This will be done in conjunction with literacy and education programmes, including the poor and rural population. An extensive investment in IT education as well as provision of large, broadband, low cost infrastructure is planned to promote e-Government and e-Commerce, and socially oriented ICT applications such as e-learning and e-Health. In addition, exports of software, design services and backroom operations will be fostered and efforts made to enable establishment of local hardware and software vendor industry to meet the potential growth in communications.

The strategy would include (i) establishment of IT cities and software technology parks in metropolitan areas at international standards; (ii) education and training in the field of IT based on studies and demand analysis; (iii) adapting best practices from other countries to suit ground realities in Pakistan as well as the rapidly changing dynamics of the IT industry globally.

In the telecommunications sector, major initiatives have been taken by the government to deregulate the sector. The liberalization is encouraging fair competition amongst service providers, leading to competitive and affordable services to customers. The policies include (i) promotion of infrastructure development for increased tele-density and the spread of telecommunications services in all market segments (voice, data, and cellular), and (ii) increased private investment in the ICT sector, with encouragement of local manufacturing/service industry.

The MTDF strategy for the telecom sector includes (i) provision of affordable and effective communications to citizens;(ii) development of a modern telecommunications infrastructure; (iii) ensuring availability of services on demand; (iv) telecoms coverage of rural areas; and (v) increase in tele-density .

Government has already approved policies for fixed line, cellular mobiles and broadband. Several other elements of the strategy have also been outlined for implementation during MTDF including enhancing the role of the private sector, rationalizing tariff structuring, improving the quality of services, and effectiveness of R&D in the telecom sector.

During the MTDF, it is planned to increase fixed line connectivity from 7.634 million in 2005 to 21.806 million and that for cellular lines from 10.54 million in 2004-05 to 55.0 million in 2009-10. A substantial increase in the length of optical fiber cable is also envisaged that will include international connections.

Upgrading Physical Infrastructure

Water Resources

Pakistan has low storage capacity in comparison with other major river basins and world averages. The storage capacity in Pakistan is only 9 percent of the average annual flow compared with 40 percent world average, 33 percent in India, 347 percent of Nile river basin and 497 percent of Colorado river basin. The water availability in the country per person has been going down and would reduce further from 1200 cubic meters per person to 1000 cubic meters per person by 2010. The development of water resources has been constrained due to absence of a holistic, integrated and sustained approach, sub-optimal use and low productivity of water, extensive seepage losses in the irrigation system, inadequate maintenance and poor cost recovery, excessive groundwater pumping, deteriorating institutional capacities, and poor linkage among water, agriculture and rural development and related research.

A draft national water policy has been prepared by the Pakistan Engineering Council with inputs from highly professional experts in water resources from all over the country. The strategy for MTDF, based on this policy, will include planning and development of water resources in a holistic, integrated and sustained manner; augmentation and conservation measures, including development of large storage projects and efficiency improvements; "More Crop per Drop" through improved irrigation methods and practices, and developing crops with high yields, lower water consumption and water saving techniques; protection of groundwater from pollution and unsustainable abstraction; reduction in effluent generation at source and disposal in an environmentally safe manner; and development of institutional capacities, inter-sectoral linkages and research.

An extensive programme for the development of water resources will be undertaken including irrigation, drainage and reclamation, on-farm water management, flood control, and research. By 2009-10, water availability will be increased by 14.67 MAF through conservation and augmentation means and 3.2 MA areas will be brought under irrigation. Pilot projects will be started to re-use drainage effluent after treatment and 3.0 MA of disaster areas will be reclaimed under drainage and reclamation programme. Under the National On-farm Water Management Programme, 68,500 work courses will be improved and 0.21 MA land will be precisely leveled. In addition 453 km of embankments, 150 spurs, 40 hill torrents and 3 weather radars will also be completed under the flood programme.

Energy Security

Energy is the lifeline of economic development. The country historically has been subjected to energy demand suppression due to limited supplies and lack of infrastructure development for provision of energy to the industrial sector. The nonavailability of sustained and affordable energy to industry has suppressed economic growth and created declining tendency for industrial investment in the country. The per capita energy consumption, which is one of the key development indicators as well as a measure of quality of life of a country, is low with only 14 million BTUs, as compared to 92 million BTUs for Malaysia and 34 million BTUs for China. The input dependence of the country for energy at 24 percent is also high. It is now more important than ever that an adequate supply be made available to industry to drive economic growth, and create employment opportunities. Energy has also to be made available to the domestic sector and the life-line segments of society to provide economic support and the convenience of clean fuel for cooking and heating and prevent the continuing environmental degradation and deforestation by massive use of wood for domestic fuel. The commercial availability to various sectors of the economy will help in increasing job opportunities, enhancing agricultural productivity, improving standard of living and preserving environment through reducing deforestation

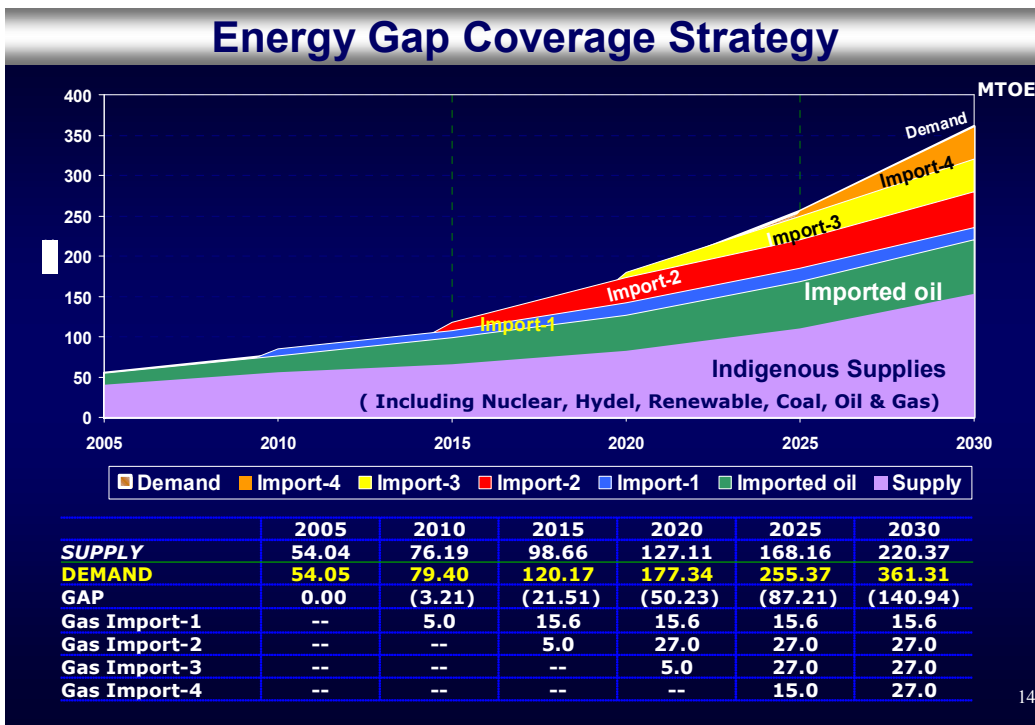
A long term integrated National Energy Security Plan, covering the period up to 2030 has recently been approved by the Government. The energy sector development is aimed at (i) enhancement in the exploitation of hydropower, and exploration and production activities of oil, gas and coal resources, and to increase the share of coal and alternative energy in the overall energy mix, (ii) optimum utilization of the country's resource base to reduce dependence on imported oil through an institutionalized strategy, (iii) creating an environment conducive to the participation of the private sector, and (iv) developing the local energy scenario in the context of regional perspective. The current energy mix includes 30 percent oil, 50 percent natural gas, 6.5 percent coal, 12.7 percent hydro and 0.8 percent nuclear. By 2010, the share of oil and gas is targeted to be reduced to 26 percent and 49 percent respectively with corresponding increases in the share of coal to 9 percent, hydro to 13.9 percent, renewable to 1 percent and nuclear to 0.9 percent. Over the long term, the share of coal, renewable and nuclear components in the energy mix will continue to increase, with substantial reduction in the share of oil. The medium and long term energy mix projections, energy gap coverage strategy and power generation plan are in Tables 8 and 9 and the graph below.

Table 8

Energy Mix Plan Projections

	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%

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Fig 3

Note: Greater explorations should result in increased indigenous supplies and narrow the demand supply gap. The dependence on imported energy would accordingly go down and timely adjustments for import of fuel taken to reduce outflow of foreign exchange.

Table 9

Power Generation Plan								M.W
	Nuclear	Hydel	Coal	Renewable	Oil	Gas	Total	Cumulative
Existing (2005)	400	6460	160	180	6400	5940	19540	
Addition								
2010	-	1260	900	700	160	4860	7880	27420
2015	900	7570	3000	800	300	7550	20120	47540
2020	1500	4700	4200	1470	300	12560	24730	72270
2025	2000	5600	5400	2700	300	22490	38490	110760
2030	4000	7070	6250	3850	300	30360	51830	162590
Total:	8800	32660	19910	9700	7760	83760	162590	

Note: KANNUP to be retired in 2019

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The energy demand over the next five years is expected to grow at 7.4 percent per annum. To meet future requirements with indigenous sources, domestic exploration, if feasible, would be intensified. Simultaneously, the energy supply options would be diversified, with import of gas and LNG. In the Power Sector, an additional generation capacity of 7100 MW would be developed by 2010 with extensive private sector participation, system losses would be reduced and regulatory framework strengthened. In the oil and gas sector, the number of oil and gas wells to be drilled will be more than doubled from 228 during 2001-2005 to 500 during 2005-10. Significant improvements will also be made in oil transportation, storages and refining operations. Gas operations will be enhanced and about 0.2 million consumers per annum added to the current 4.2 million customers in the country. There will also be a significant expansion in the use of CNG and LNG. The programme for utilization of indigenous coal includes its use in generating 900 MW additional power, and conversion of 23 cement plants to coal. The other areas of focus during the MTDf will be energy conservation, privatization, research and human resource development, and regional cooperation and energy trade.

Transport

Over the years, there has been a modal shift in favour of road transport, which provides 90 percent of passenger traffic and 96 percent of freight. Overall, the performance of the transport system is poor, with high economic losses estimated at Rs. 220 billion annually. While the telecom sector has grown rapidly in recent years, it still lags behind comparable economies in terms of fixed line density and mobile penetration and internet use, and low coverage in rural areas.

An efficient transport and communication system contributes to economic growth by lowering domestic production costs, enhancing economies of scale in the production process, and creating economic opportunities. During MTDF 2005-10, a comprehensive and integrated transport policy will be developed. The focus will be on developing a multi-modal transport system with a strategic thrust on optimal utilization of the existing capacity, emphasis on asset management with consolidation, upgrading, rehabilitation, and maintenance of the existing system and coordinated use of various modes of transport. Private sector participation in the sector will be enhanced, with use of public-private partnerships and establishment of Infrastructure Fund and Road Fund. Institutional capacity building and R&D activities will be undertaken with use of modern technology to enhance sector efficiency. 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. Transport targets are in Table 10 below.

Table 10

Transport Targets						
Year	Railways		Roads		Air Transport	
	Passenger (Passenger Km)	Freight (Ton- Km)	Passenger (Passenger Km)	Cargo (Ton- Km)	Passenger (Pass. Km)	Cargo (Ton- KM)
2004-05	23.57	5.28	215.09	138.14	24.5	0.601
2005-06	24.16	5.81	223.06	146.28	25.7	0.627
2006-07	24.77	6.38	232.54	155.06	27.0	0.654
2007-08	24.38	7.03	241.85	164.36	28.03	0.682
2008-09	26.00	7.73	251.52	174.22	29.7	0.711
2009-10	26.70	8.50	261.58	184.68	31.1	0.742
Growth rate	2.5%	10.0	10%	6%	4.9	4.3

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Tourism

With the world's oldest civilization, exotic mountain beauty and splendid seasonal variety, Pakistan has immense tourist potential. However, tourism in Pakistan is still in early stages of development, among others, due to policy and social constraints, lack of infrastructure and inadequate tourist services. During MTDF 2005-10, the emphasis will be on promoting domestic, cultural, religious and regional tourism for generating employment, reducing poverty, and increasing foreign exchange earnings. Tourist arrivals and receipts are expected to grow at 10 percent and 20 percent annually respectively to reach 850,000 arrivals and \$ 500 million receipts by 2009-10.

Supporting the Private Sector

The Role of Government

The Government will continue to reduce its role in the field of economic production and business, while strengthening the enabling environment, including the legal and regulatory framework and social infrastructure for rapid economic and social development. The Government will continue to ensure healthy fiscal and monetary management and the smooth functioning of the economy. It will give due emphasis to the development of the necessary physical and technological infrastructure. The process of decontrol will continue. But there can be no doubt that regulations are an essential part of the governance of society of which the economy is a part and therefore, government would continue to put in place and strengthen appropriate, transparent and predictable regulatory framework.

Enhancing private sector participation will continue to be an important cornerstone of national development strategy. It will be targeted specifically at enhancing competitiveness, efficiency and productivity in the economy, reducing administrative and financial burden on the Government, and expediting the attainment of national distributional goals.

The megacities and metropolitan areas currently having a major share of manufacturing cannot absorb this large increase. It is therefore, essential to set up a large number of industrial estates in every province with full compliment of infrastructure, self-contained utilities and ancillary facilities including common facilities and technology support centres. With a new transport artery throughout the country in the form of motorways and expressways, an industrial corridor consisting of various specialized industrial estates (as well as special purpose estates such as for livestock and horticulture) is, therefore, planned to be executed by provincial governments with full support of federal Government. Wherever possible, industrial-commercial corridors will be planned along the railways as well.

In a world of high technology, Pakistan cannot afford to lag behind. The country may not be in the front line of modern technology but must try to catch up at least in those fields where it has certain advantages. A National Plan of Action for Industrial Technology Development will be formulated and implemented expeditiously, with close cooperation of the public and private sectors.

Skills and Vocational Development

The existing technical and vocational training system is not meeting the requirements of trade and industry. With the focus on industrialization and a move towards high-tech industries, the workforce would need to be highly skilled and adaptable. The key features of the MTFD strategy for skill and vocational development are: need oriented, multi skill and flexible training to meet the changing needs of local industry, overseas employment and self employment; setting minimum standards of training, trade testing and certification; operational and financial autonomy to institutions; and enhancement of public-private partnerships. It is planned to establish Technical Education and Vocational Training Authorities at the national and provincial levels, and large number of new estates. "Skills and Technology" will be introduced as a compulsory subject in classes 8-10 of schools. MTFD envisages imparting training to one million youth to achieve significant gains in productivity and efficiency primarily through efforts of the private sector.

Knowledge Economy

The characteristics of the knowledge economy are so radically altering our economic and social space that new thinking is required by policy makers, private sector executives and knowledge workers alike at all levels to intensify efforts towards innovation and technology-led development to develop a competitive edge at the global level. Accordingly, the service and technology and higher education sectors will have a critically important role in the transition towards a knowledge economy. The strategy includes a major focus on (i) human development, education and skills, with improving access to higher education by increasing enrolment at tertiary level from the present 4 percent to 8 percent by 2010 and enhancing skills and technology at all levels from the school to university; (ii) creation of public institutional arrangements for change management, especially in SMEs; (iii) improvement of ICT to reach tele-densities of 200 per 1000 persons each in landlines and cell phones by 2010; (iv) intensifying S&T and R&D and (v) raising the knowledge-content in agriculture, manufacturing and service sectors.

Human Resource Development

It is not just the advantage of processing natural resources or cheap labour, but the availability of technology, manifested through a competitive, skilled and productive industrial labour force and entrepreneurship which separates success from failure. Apart for institutional excellence, the major sources of competitive advantage for a nation are (i) people, their skills, and capacity for innovation, and (ii) technology, and the knowledge on which it is based. The major source of long term productivity growth is technological advance. No modern economy can sustain growth unless it makes investments in human capital including formal education, training, and on-the-job learning, embodied in the workforce.

In the drive to move vigorously ahead, highest priority will be given to the development of human resources. The country has an average educational system which is not at par with the required international standards. In order to achieve the vision and goal of an industrialized and knowledge economy, the education system must be re-oriented and upgraded to produce required knowledge workers, scientists and engineers of international standards.

The country must aspire to the highest standards with regard to the skills of its people, to their devotion to know-how and knowledge upgrading and self-improvement, to their language competence, to their work attitudes and discipline, to their managerial abilities, to their achievement motivation, to their attitude towards excellence, and to the fostering of the entrepreneurial spirit.

The importance of entrepreneurship and entrepreneurial development, which goes beyond training and education must not be neglected. An optimal mix must be ensured with regard to professionals, sub-professionals, craftsmen and artisans, together with balance with regard to those with competence in science and technology, the arts and social sciences.

The MTFD will reduce the skills and education gap and increase the scale and quality of human resources by policy major emphasis on (i) investment in education, training (especially technical education), together with lifelong learning, and adoption and diffusion of technology, (ii) upgrading the educational system to produce knowledge workers, creative scientists, engineers, and entrepreneurs, (iii) broad-based technical and

vocational education and skill development, including IT and computer literacy; (iv) emphasis on emerging fields in biotechnology, microelectronics, nanotechnology, special alloys and materials, designer molecules in chemistry and pharmaceuticals, and mechatronics, (v) encouragement of research institutions to form strong and mutually beneficial linkages with industry, (vi) embedding higher education and upgrading skills in all regions and groups throughout the country, and (vii) encouraging private sector to bear part of the burden of investing in quality education, skill development, and science and technology.

Legal and Regulatory Framework

A comprehensive legal and regulatory framework, which is equitable and transparent, is essential for stimulating economic development. The future agenda for regulatory reform in Pakistan includes the design of regulatory and other instruments, such as market incentives and goal-based approaches that are flexible, simple and effective. The aim would be to enhance competition and reduce regulatory costs to boost efficiency, reduce prices, stimulate innovation and improve the ability of the economy to adapt to change and remain competitive in global markets.

Public Private Partnerships

Public Private Partnership (PPP) is a viable option with a great potential which by combining skills, expertise and other resources from different entities can help achieve outcomes that are unattainable by independent action. There is a growing realization in government about the significance of such partnerships. There is also greater capacity and willingness in the private sector today to engage in profitable partnerships with the government. There are considerable opportunities in the country for developing PPPs, particularly in the infrastructure sectors, in the context of a growing economy, and government's commitment to decentralization and market solutions. The infrastructure agenda will include support for effective and realistic implementation of PPP schemes that can maximize private resource mobilization per unit of public sector contribution.

The key points that have emerged from international experience for successful implementation of PPPs include (i) high level political and institutional support; (ii) optimal risk allocations and clarity of affordability; (iii) availability of well developed policy and legal framework; (iv) adequate public sector capacity; and (v) early identification of projects and availability of prefeasibility studies for investors.

Enhanced private sector participation through PPP modality is an important focus of MTFD. During MTFD, the work will include establishing a policy framework and a core centre of expertise; establishing legal framework and communications strategy; identifying prospective projects; and identifying funding mechanism. The capacity of the Planning Commission would be augmented to comprehensively appraise and evaluate projects proposed for PPP. Based on international experience, a dedicated PPP Policy and Support Unit will be established in the Planning Commission to deal with policy, programme and project activities. The proposed PPP unit will have technical skills, economics expertise and legal, regulatory, and communications skills. The line ministries will develop skills in finance, procurement and legal aspects.

An infrastructure Fund would be created to act as a financial intermediary that would extend funding in the shape of guarantees to fill project viability gaps during operations. The Fund will be initiated through contribution by the government and supplemented by financing from international development partners. The Fund would be used for prefeasibility studies; equity contributions, if required; guarantees; and grants, in exceptional cases, to fill the gap between income and expenditures.

Privatization and Investment Climate

The government's long-term vision is to free the economy from the burden of publically run businesses and focuses on good governance and creation of an enabling environment for the private sector to invest in providing goods and services efficiently. The pre-requisites for attracting large inflows of investment and technology include macroeconomic stability and continuity, well established public institutions, an educated skilled workforce, protection of Intellectual Property Rights (IPRs) and an efficient mechanism for resolving commercial disputes. While all these aspects are being addressed, highest priority in MTFD would be given to developing public institutions and the enforcement and efficient implementation of the legal system in a transparent manner. The new investment framework focuses on opening up of the economy for private sector investment; privatization of public units in banking and finance, oil and gas, telecommunication, power and industrial sectors; enhanced Public Private Partnerships (PPPs) to meet the increasing demand for physical infrastructure; and development of legal and regulatory framework.

Capital Market Development

The performance of the Corporate Sector is critical to the overall economic growth of the country. Since a leading role is envisaged in MTFD 2005-10 for private sector, financial policies have to be geared towards capital market development, mainly stock and bond markets, besides the institutionalization of an effective regulatory framework.

Since its inception in 1999, the Securities Exchange Commission of Pakistan (SECP) has carried out wide-ranging reforms including the rationalization of trading practices, governance, risk management, transparency, and streamlining of rules and regulations. Work is in process to improve accounting standards and practices and establishing a corporate laws review commission, a code of corporate governance and an institute of corporate governance.

In addition to inviting enhanced inflow of investment in the private sector, the government strategy is to mobilize resources from the international bond market (secondary market) through issuance of its various bond products rather than approaching international institutions and bilateral creditors for loans and credits for implementation of its development projects. This strategy will assist in further deepening the business activity in the capital market. Government has successfully launched the new bonds termed as "Islamic Bonds" in early 2005.

Several areas have been identified for further strengthening during the MTFD. First, the existing lack of correlation between the macroeconomic indicators and stock market trends showing systemic problems is proposed to be corrected through harmonizing policies among the related ministries and state institutions. Second, despite improvements, the capital market in Pakistan still lags behind the level of development of many other regional

countries. The availability of funds, good corporate earnings and market efficiency are the elements of a developed capital market. With a judicious mix of monetary and fiscal policies to increase availability of funds, a dynamic system for flow of information and research-oriented higher education in economics and finance, the capital market will be developed further during the MTDF period. Third, recognizing that a developed bond market is critical for developing the corporate sector, the relevant issues will be addressed. Finally, efforts will be made to enhance the contribution of institutional investors to improve governance, accountability and professionalism, and improve savings in the economy.