Pakistan Poverty Assessment

Concluding remarks at the World Bank Seminar on Pakistan: Poverty Assessment held at Karachi on January 7, 2003.

I would like to divide my remarks this morning in three parts. First, I would like to present the rich empirical evidence based on a cross section of developing countries built across time identifying the factors through which poverty can be reduced. Second, I would dwell on the main pillars of the Poverty Reduction Strategy which this Government has put together through broad stakeholder consultations in the provinces, districts, with academia, civil society, Government representatives, media, businessmen etc. Finally, I would share my own thoughts, as a development economist, about the elements which need to be strengthened in Pakistan to bring about significant changes in poverty profile of this country.

Global Experience

It has now become abundantly clear that accelerated growth per-se is necessary but not sufficient condition for bringing about sustainable poverty reduction. There are other complementary factors which have to accompany higher growth. The most important of these is investment in human development – education, training, literacy, health, drinking water, nutrition, population planning. Countries which have neglected human development may achieve some spurt in growth and poverty reduction for a short period of time but these gains will not last long. Growth together with investment in human development offers a much better chance for alleviating poverty. But even then, some segments of population living in remote, isolated areas and marginalized lands or living without any tangible assets other than their labor may require targeted interventions by the government to create opportunities for them to earn livelihood. It has also become apparent that in every country there would be highly vulnerable groups who would need social protection and social safety nets. Thus if a country is able to put together these four factors – accelerated growth, investment in human development, targeted poverty interventions and social protection – the probability of achieving reduction in the incidence of poverty becomes quite high.

China is one of the success stories which has integrated itself into world trade, opened up its doors to foreign direct investment and thus attained 8 percent annual growth and brought poverty down to less than 10 percent of the population. But China had also reached high levels of literacy and health outcomes, low fertility rates. At the same time the poorer provinces and regions had been specially targeted for direct interventions aimed at enhancing agriculture productivity and rural incomes and providing physical and social infrastructure. Social safety nets in China, inherited from the communist days, though are becoming weak but are still much better compared to other developing countries. Market failures are tackled by a strong government. Thus we can see that this combination of growth, investment in human development, targeted interventions and social safety nets along with a strong government can produce the right results.

Strategy for Pakistan

The Interim Poverty Reduction Strategy Paper (IPRSP) produced in the year 2000 spells out the four pillared strategy for poverty reduction in Pakistan. This paper will soon be finalized after endorsement of the newly elected representatives and will form the basis for policies, institutions and investment for poverty reduction.

The first pillar of this strategy is macroeconomic stabilization and resumption of growth. By 1999, the public debt of Pakistan had become unsustainable, public debt servicing pre-empted more than half of the revenues, and external and domestic debt exceeded the country's GDP. The country had faced a full payments crisis in 1998, investor confidence in the economy was at lowest ebb, links with international financial community were disrupted, and the reserves were so low that the country was at the brink of default. This situation had to be rectified and a credible economic program had to be put in place to get the economy out of the crisis and back on the track. The results of this effort three years later are obvious to every one. Inflation is less than 4 percent, fiscal deficit has been brought down to 5 percent, external debt indicators have improved, public debt servicing has declined, domestic interest rates have reached all time low, exchange rate is stable and appreciating, exports are growing at annual rate of 16 percent, tax revenues have exceeded their targets, and foreign reserves are touching about $ 10 billion or almost a year's imports. This all round and broad based improvement in macroeconomic indicators has led to upgradation of country's credit rating. Macroeconomic stabilization is the foundation upon which resumption of economic growth can take place.

The second pillar of the strategy is improved governance. The key ingredient of the governance agenda is the devolution plan whereby administrative, functional and financial responsibilities for delivery of social services are delegated to the district governments. Demand-driven development projects will be planned and executed by the direct beneficiaries rather than thrust upon them by the government agencies working from the Provincial and Federal headquarters in splendid isolation. The other practices which have been adopted are accountability, transparency, predictability and level playing field for all the players. Discretionary powers have been curtailed and rules and regulations are enforced. Merit-based appointments have become the norm and even Assistant Sub Inspectors of Police are selected through Public Service Commission. No SRO has been issued to favor one single individual or group to the disadvantage of others. Civil Service, Police and Judicial reforms have been initiated but will take a long time to come to fruition.

Structural reforms form the third pillar of the strategy. Broad based reforms in tax administration, trade liberalization, financial sector and privatization form the core. In tax administration, Central Board of Revenue is being restructured, tax net and tax base are being widened and the direct contact between tax collector and tax payer is being eliminated. Trade liberalization has resulted in tariff rationalization, removal of various restrictions from exports and imports and deregulation. Financial sector reforms have already resulted in a sound and healthy banking system, a buoyant stock market, a growing corporate debt market, a streamlined non banking financial institution structure and strengthening of supervision and regulation. Privatization process has been provided a legal framework under which transactions take place in an open and transparent manner. Public Corporations and banks were sold during the last three years and Rs 36 billion realized as the proceeds. Unlike the past, none of the transaction was challenged in the courts of law and the market confidence in the process is quite high. Those who argue that we are selling blue chip public sector companies should realize that these companies have been causing an annual budgetary loss of Rs 100 billion. Is it justifiable to keep 100,000 persons employed in these Corporations while the rest of the population suffers from lack of budgetary resources for basic necessities such as education, health, drinking water etc.? Can you imagine how much good it will do to our social indicators if we had allocated even one half of the losses suffered by these corporations towards human development?

The fourth pillar of the strategy is poverty targeted interventions. The prominent among them are Education Sector Reforms, Health for all, Population planning, Zakat, Khushali program for employment generation and works program, Food Support program and Khushali Bank. While Education, health and population planning cover the entire population the other interventions are targeted at the poor. Zakat program has been revamped to provide financial grants to the beneficiaries to start small enterprise or other income generating activities. Food Support program is aimed at subsidized wheat flour to those below a certain threshold of monthly income. Khushali program is allocated to the local governments to create and improve physical infrastructure and also generate employment. Khushali Bank is a micro finance institution which provides small loans to the poor under supervised group guarantee scheme. All these initiatives have begun to take shape in the last one or two years and it will take some time before they start yielding dividends.

Agenda for the future

The formulation of strategy is the easy part but implementation of the strategy has always been weak in Pakistan. In order to implement this strategy at least five points need to be considered.

(a) Political ambivalence about poverty whereby the rhetoric is all thundering but the actions are missing has to give way to a strong political commitment in words and deeds. The Musharraf Government has explicitly brought poverty reduction to the forefront and made a strong commitment. But poverty cannot be reduced in a span of 1 or 2 or 3 years and its correlation with growth is quite high. Pakistan witnessed significant poverty reduction from almost 40 percent to 18 percent in a period when GDP growth rate was averaging 6 percent. But in the 1990s when the growth rate slowed down to 3 to 4 percent there has been a resurgence of poverty to 34-35 percent. Thus a long term action plan supported by all successive governments and implemented in a continuous and consistent manner will result in its reduction. We cannot expect results overnight and have to work hard and work sincerely for an extended time to reach this goal.

(b) Decentralization and delegation of powers: It has become abundantly clear that local communities are willing to share financial burden of social services if they can see that the benefits will accrue to them directly. But if they find that the user charges, taxes and fees disappear in a black box at Karachi or Islamabad they will be most reluctant to pay. The demand-driven nature of planning and accountability of results improve the cost effectiveness of expenditures. Thus the delivery of services can become efficient and accessible to the poor if they are operated and managed locally.

(c) Limited Institutional capacity: If we assume that there are no leakages or waste Pakistan still faces a serious constraint in form of limited and weak capacity of institutions to plan and deliver services. This capacity should be built at the local level and supplemented by public-private community partnerships. There are excellent examples such as The Citizens Foundation Schools in the backward areas of Lyari where the private businesses and individuals donors have contributed finances to a Non-governmental Organization for educating the kids of the poor families. In Punjab, Government school buildings have been made available to private sector and NGOs for using them for the second shift schools. Such examples abound throughout the country. The recent efforts of Human Development Foundation to build capacity at the district level will go a long way in resolving this constraint.

(d) Lack of access to justice, police and executive agencies – while robust informal social networks and non-profit Civil society organizations can take care of the needs of the poor in the areas of education and health there is no substitute available for justice, police and executive agencies of the government. Access to these agencies and their functionaries is almost non-existent and is a major source of helplessness, and lack of empowerment among the poor. Unless the mind-set and attitude of the Government functionaries is changed radically the poor will remain voiceless, their grievances will remain unaddressed and their vulnerability will not be tackled in any meaningful way.

(e) Gender face – Women in Pakistan are worse off among the poor compared to men. In a country where only 17 percent of female population participates in labor force, where female enrolment ratios are dismally low and where health indicators are worse for the female population poverty and vulnerability will remain a serious issue. Economic literature has amply documented that there is no other investment which fetches higher rate of return than investment in female education. This return does not take into account all the externalities associated with female education in form of better health, nutrition outcomes, lower fertility rate and better citizenship. Bangladesh exemplifies the enormous benefits of female education and labor force participation. Government there has not done what it was supposed to do but it was the non-governmental organizations such as BRAC who were instrumental in spreading their schools throughout the rural areas. The results are simply astounding. Until we pay attention to uplift the status of 50 percent of our population I am not convinced that we will be able to make a significant break through in poverty reduction.

Conclusion

To conclude, Pakistan has built its poverty reduction strategy on the basis of its own historical experience and incorporated the lessons of global experience also. The strategy has the inputs of all stakeholders but it needs strong political commitment, real devolution of powers to grass roots level, a vibrant private-public-community partnerships for delivery of services, change in the bureaucratic values and norms and a focus on gender disparities. If these issues are resolved sooner than later we can embark on a path of sustainable poverty reduction.