

# **POVERTY REDUCTION STRATEGY OF PAKISTAN**

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The biggest development challenge facing Pakistan is how to meet the millennium development goal of bringing down the incidence of poverty from the current level of 33 percent to 18 percent by 2015. It may be recalled that by reaching this goal, we would have only regained the level we had attained in 1988-89. This experience shows that it is quite easy to relapse into higher incidence of poverty but it is quite an uphill battle to recover the lost ground.

Why do we expect that we would be successful in meeting this goal? What is the strategy that we are pursuing to achieve this outcome? What are the underlying policies and institutional changes that will make this happen? Let me dwell on each of these questions:

First, the trajectory of economic growth rates has resumed its path from which it was derailed in the decade of the 1990s.

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For the last four years, Pakistan's growth rate has averaged 6 percent – the threshold rate at which poverty starts declining in the context of Pakistan. The efforts at sustaining this rate of growth are most likely to bear fruits as what happened in the three decades between 1960 and 1990. The empirical evidence from a large cross section of countries also lends support to this hypothesis. China and India are the two recent examples demonstrating the strong correlation between higher growth rate and poverty reduction.

It must, however, be emphasized that growth is a necessary but not sufficient condition for poverty reduction. Growth has to be accompanied by many other complementary measures and policy actions.

The second element of the strategy is to improve the living standards and incomes of the rural population, to which most of the poor belong. The most effective way to do is to enhance agriculture productivity, including livestock. The main instrument that has been used for this purpose is the easing of credit constraint and extending commercial bank loans to small farmers. During the last five years, the bank lending to agriculture particularly small farmers has multiplied three fold. This has enabled these farmers to purchase fertilizers, improved seeds, agrochemical, implements, hire tractors and equipment with the resultant increase in yields per acre and incomes. For example, cotton production last year jumped from 10 million bales to 15 million bales from the same area under cultivation. Similarly, wheat production was also higher by 15

percent while the area remained the same. The coverage of bank lending to agriculture has been extended to only 15 percent of the households so far. You can judge for yourself the potential that will be unleashed when the coverage reaches 50 percent in the next five years. The higher incomes in the rural areas have already induced demand for consumer goods manufactured locally and these incomes are also accruing to those at the bottom of the ownership rung.

For meeting the needs of the landless and those without any tangible assets, the Government has encouraged the formation of microfinance institutions and also funds for micro credit administered by non-governmental organizations. Although Pakistan is a late starter in this field, the results so far are highly encouraging and the recovery rates of microfinance institutions are quite impressive. More and more women borrowers are being brought into the fold of these institutions.

In the urban areas, we have a paradoxical situation where large pools of unemployed educated youth coexist with the huge shortages of skilled labor in almost all categories. To remove this mismatch, the Government has embarked on a program of technical and vocational training whereby these educated youth and others graduating from the schools could be imparted practical training and apprenticeship in the fields for which there is a heavy demand. The increased volume of outsourcing services in Pakistan particularly in software applications and Call Centers is also a potential source of employment for this group of youth.

As these services expand, the possibilities of absorption of the young entrants to the labor force would increase.

The third element of the strategy is to focus on human development, i.e. education, health, water supply, sanitation, nutrition, population and gender. Some of the new initiatives, such as the ongoing Punjab Education Reform project, indicate that under the set of right incentives and institutional changes, the parents are quite willing to send their girls to schools. Even in more conservative areas such as Tribal agencies and Balochistan, it has been found that the enrolment of girls does pick up if exclusive-female-schools are opened with female-only teachers. The MMA Government has taken the lead in establishing a Medical University and a general University exclusively for female students. They are also quite keen in spreading the network of girls-only-schools in the backward rural areas of the NWFP. The removal of gender disparities particularly access to education is one of the most potent forces for eradicating poverty and promoting equitable growth and inclusive development. The successful experiment of the Punjab education project is now being replicated in other provinces. The good news is that the private sector and not-for-profit organizations are aggressively expanding the facilities for education and health care at all levels of service across all geographical boundaries. This trend is highly ominous in our quest for improving the weak social indicators of the country.

Fourth, the Khushal Pakistan Program (KPP) along with drinking water supply and village electrification schemes are providing the basic infrastructure facilities such as farm to market roads, drainage, water tanks, check dams, culverts and bridges, lining of water courses etc. in the rural areas. The farmers may increase their productivity but if they find it difficult to market their produce, this gain will be short lived and dissipated soon and their incentives to produce more will be destroyed. Thus the KPP, which is a bottom-up demand driven program in which the communities identify the projects to be undertaken, and non-governmental organizations, such as the National Rural Support Schemes execute the projects, is a much better approach than the traditional supply-driven government department executed projects dictated by the Provincial headquarters. This does not mean that the local governments which have been empowered under the Devolution program will be stripped of their responsibilities. On the contrary, the work of the local governments will be supported and supplemented by the non-governmental organizations as the magnitude of the infrastructure deficiencies in the rural areas is enormous.

Fifth, there has been gradual erosion in the capacity of well-established institutions such as civil service, judiciary and police over time. These institutions are generally perceived to be no longer competent and efficient nor impartial in the delivery of basic services to the population. The worst sufferers of course are the poor who have very little access to these institutions. The reforms to restructure and reengineer these institutions are extremely critical and unless

they are reoriented to become responsive and efficient, the delivery of the services to the poor will remain problematic. The leakages to the non-poor will remain pervasive and the rich, well-to-do, influentials, and elites will continue to enjoy the benefits of rationing of services by quantity and the subsidies intended for the poor. The political and cultural milieu is also unfortunately tilted against the poor and thus the absence of the countervailing forces makes it difficult to ensure that the services are delivered to the poor. This is a source of growing income and regional disparities and the only sure way to remedy the situation is to overhaul the state institutions. Efforts are underway but the resistance to change is fierce and the progress is slow. Finally, even after all the above policy measures are taken, there would always remain a segment of weak and vulnerable population in any society. This segment has to be supported by social safety nets and transfers such as Zakat, Baitul Mal and private philanthropy. A study on private philanthropy in Pakistan shows that individuals and organizations contribute about \$ 1.5 billion annually for various causes but the Zakat funds and Baitul Mal, if properly administered, can become reliable sources of targeted transfers and safety nets for the vulnerable group. The above analysis shows that Pakistan has developed a credible and comprehensive strategy for poverty reduction. It draws upon its own historical experience, and of other developing countries and is based on best known international practices. The challenge now is to implement this strategy in the face of stiff resistance – implicit and explicit – from those groups who have so far been beneficiaries of public policy i.e. the rich and well-to-do and the elites. The

poor have very little voice. How to reconcile the interests of the voiceless poor while keeping away the rich and the elites from hijacking the fruits of growth is the single most test for the political and economic leaders of Pakistan in the coming decade.

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