

IDA AT WORK

Pakistan: Consolidating Gains in the Face of New Challenges

Pakistan, a country with a population of 165 million, experienced impressive economic growth in the first half of the decade. From the beginning of 2000 to the first half of 2007, the economy grew at an average rate of about 7.3 percent annually, with moderate inflation. This was in stark contrast to the slow progress made during the 1990s, when economic slowdown led to sharp increases in poverty and stagnation in social indicators. This turnaround, in line with robust growth trends in the region, resulted partly from the wide-ranging reform program articulated in Pakistan's Poverty Reduction Strategy Paper.

More recently, however, major external shocks, political turmoil and severe security challenges, have caused slower economic growth, renewed inflation and unsustainable external balances. The International Development Association (IDA), the World Bank's fund for the world's poorest countries, has had to modify its support for Pakistan in these changing circumstances.

Country Indicators	1999	2008/09
GDP per capita (US\$)	438	1,046
GDP growth	4.2	2
Average inflation (%)	5.7	20.8
Total public debt (% of GDP)	98.5	56.7 (2007/08)
Fiscal deficit (% of GDP)	5.1	4.3
FDI net inflows (US\$ million)	472	3,772
Poverty incidence (%)	34.5 (2000/01)	22.3 (2005/06)
Gross primary school enrollment (%)	72 (2000/01)	91 (2006/07)
Under-five child mortality (per 1,000 live births)	111 (1992–96)	90 (2007)
Population (millions)	135	162.4

Sources: World Bank and Government of Pakistan.

Whereas IDA enhanced its support to Pakistan beginning in 2001 to support a reform program launched in late 1999, it now seeks to support Pakistan's efforts to stabilize the economy and restore growth. IDA's technical advice, followed by financial assistance, helped the government formulate and implement an economic reform program and debt reduction strategy. In response to the global economic crisis, IDA is once again extending financial support to address immediate needs stemming from conflict and macroeconomic imbalances while also reinforcing a medium term approach that addresses growth through human development, infrastructure, and institutional improvements.



COUNTRY ACHIEVEMENTS

Political turmoil, a worsening security situation, and the current global financial crisis pose serious challenges to gains made earlier in the decade.

Reforms helped reduce poverty.

In 1999, a new government launched a comprehensive reform program that gradually attracted international support. Reforms were aimed at stabilizing and jumpstarting the economy, and included restructuring of public debt, fiscal adjustment and structural reforms to reduce the cost of doing business in Pakistan such as trade liberalization, banking sector reform and labor market reform. Public debt fell from nearly 100 percent of GDP in 2000 to 55.7 percent in 2006/07. Lower debt service allowed federal and provincial governments to increase real public expenditures on education, health, and more recently public investment.

Reforms began to bear fruit. The economy grew at 7.2 percent on average per year during 2003/2004 through 2006/2007, driven by solid performance in the services and industrial sectors. Foreign investment flows increased

sevenfold, from US\$472 million in 1999 to US\$5.4 billion in 2007/2008. According to the government's Economic Survey, the national poverty rate fell by more than 11 percentage points between 2001/2002 and 2005/2006, lifting more than 17 million people out of poverty. Social indicators, stagnant or falling in the 1990s, began to improve.

Challenges to growth.

However, within the last two years Pakistan has faced new challenges—both external and internal—to growth and stability. With domestic demand outpacing output, the current account deficit reversed from a surplus in 2003/2004 to a deficit of 8.4 percent of GDP in 2007/2008. The fiscal deficit widened as oil and commodity prices increased and the government failed to pass on rising energy costs to consumers. Stagnant revenues and savings further exacerbated macroeconomic imbalances. In the absence of adequate remedial policy measures to address these imbalances, economic growth began to slow. Inflation accelerated from 3.5 percent in 2001/2002 to 20.8 percent in 2008/2009.

Economic instability was accompanied by political turmoil. A state of emergency was declared in November 2007. General Pervez

Musharraf relinquished the post of Army Chief and took oath as a civilian President that same month. The subsequent lifting of the emergency was followed by the assassination of former Prime Minister Benazir Bhutto during the run up to parliamentary elections in which the two main opposition parties won a majority and agreed to form a coalition government in February 2008. However the coalition collapsed after about six months. Asif Zardari, the husband of Benazir Bhutto, assumed the presidency in August.

In addition to political tumult, Pakistan's security situation has deteriorated as spill-over from the war in Afghanistan has widened into a domestic insurgency. Increased militant attacks and a war against Islamist militants and the Taliban in the Federally Administered Tribal Areas (FATA) and portions of the North-west Frontier Province (NWFP) have brought major costs and new challenges for development, including the displacement of more than two million people.

Pakistan must face the immediate challenges related to macroeconomic instability and conflict, but must also strive to create platforms for longer term investments in human development, infrastructure, and service delivery in order to protect and regain the development successes it so recently enjoyed.

IDA CONTRIBUTIONS

One of the first donors to step up support for Pakistan's reforms in 2001, IDA remains the country's largest single source of external concessional finance.

IDA has provided almost US\$7 billion to development initiatives in Pakistan between

2000 and 2009, compared to US\$2.3 billion for all of the 1990s. However, its overall contribution to the budget is small at less than 4 percent of the government's consolidated public expenditures.

The World Bank Group has devoted a large share of IDA's internal budget to analytical work, rated high quality by its own quality assurance group. In 2000 and 2001, when the reform program was being developed, 40 percent of IDA's support for Pakistan was devoted to analytical and advisory work. This work focused on policies to stabilize the economy, reduce debt, sustain rapid economic growth, enhance the poverty-reducing impact of growth, and improve the transparency and efficiency of public expenditures. Between 1999 and 2006, IDA produced 21 formal studies, increasingly in collaboration with other development partners, including the Asian Development Bank (ADB), the UK Department for International Development (DFID), the US and Japan.

IDA's contributions are particularly relevant in the following areas.

Debt reduction and improved macroeconomic management.

In 1999, Pakistan's debt reached 98.5 percent of its GDP, and interest payments consumed more than half of its tax revenues. This was the result of years of high fiscal deficits financed with increasingly costly debt. Following Pakistan's nuclear tests in May 1998, aid and investment flows to Pakistan fell sharply, triggering a severe foreign exchange and debt crisis. Economic growth slowed, poverty increased, and Pakistan found itself unable to service its debt and finance imports.

IDA played a central role working with the government and creditors to devise a strategy to restructure existing debt, mobilize concessional loans, and streamline public expenditures to create fiscal space for education, health, and other poverty-related expenditures. IDA assisted the work of the government's Debt Committee with its Development Policy and Public Expenditure Reviews to help restructure debt, mobilize additional donor resources, and enhance the poverty-impact of public expenditures.

To lock in these gains and reduce Pakistan's vulnerability to future crises a landmark Fiscal Responsibility and Debt Limitation Law was approved in 2005 and supported as part of a Poverty Reduction Support Credit.

This law prescribes sharp increases in public expenditures for social sectors like education and sets a target of reducing debt to no more than 60 percent of GDP by 2013. Pakistan met that target eight years early—steady debt decline brought debt from 98.5 percent of GDP in 1999 to 56.7 percent in 2005. Per capita public expenditures on education and health more than doubled between 1999 and 2005. However, fiscal vulnerabilities remain, as evidenced by rising fiscal and current account deficits following the recent global economic crisis.

IDA's work is aligned with the government's own Poverty Reduction Strategy Paper (PRSP) in prioritizing the need to correct macro-economic imbalances in order to bring the

IDA Support for Economic Recovery: Structural Adjustment Credits, PRESO, and the PRSC program

After 1999 the new government launched an ambitious and comprehensive program of reforms to stabilize the economy and modernize the country's institutions. It demonstrated a commitment to tackle difficult reforms that included fiscal consolidation, liberalizing trade, reforming the banking sector, and strengthening public and corporate governance. IDA responded with analytical support and two Structural Adjustment Credits—SAC I in 1999 and SAC II in 2002—whose objectives were to establish a sustainable macroeconomic framework and jumpstart economic growth.

The design and components of the IDA programs were based on Pakistan's home-grown program of economic and governance reforms that were formalized in an Interim Poverty Reduction Strategy (I-PRSP). Following elections in 2003, the elected government prepared a PRSP entitled *Accelerating Economic Growth and Reducing Poverty: the Road Ahead*, which emphasized policies to sustain rapid growth as the main vehicle for poverty reduction. The reform program and results framework of the PRSP formed the basis for the Poverty Reduction Support Credit program.

SAC and PRSC reforms included telecommunications reform, improvements in public financial management, procurement, and parliamentary oversight, energy sector reforms, increased public expenditures on health and education reforms, and enhancements in the reach and design of the social safety net. Supplemental PRSC support helped the government address immediate needs of the population affected by the earthquake.

In light of severe macroeconomic challenges facing Pakistan, a Poverty Reduction and Economic Support Operation (PRESO) was approved in March 2009. The US\$500 million policy loan aligns with the second PRSP in addressing the immediate tasks of re-stabilizing the economy and narrowing macroeconomic imbalances. IDA is collaborating with both the IMF and DFID on select reforms within PRESO.

economy back to a higher growth path. An IDA-financed Poverty Reduction and Economic Support Operation (PRESO) was approved in March 2009. It supports the structural reforms of the Pakistan's second poverty reduction strategy paper (PRSP-II) through measures to enhance competitiveness while protecting the poor and vulnerable. Reform areas include: revenue mobilization through tax reforms; improved management of development expenditures; adoption of a medium term budgeting framework; and strengthened debt management.

Acceleration of trade and improvements in the financial sector.

IDA supported growth and investment primarily through analytical work and development policy and structural adjustment operations that analyzed key structural weaknesses, identified policy and institutional reforms, and supported their implementation. Reforms focused on trade reform, banking and oil and gas.

Import tariffs have been reduced gradually, from an average of 95 percent in the early 1990s to 15 percent in 2006. Trade flows, both imports and exports, have increased substantially as a result.

The government has recognized, in both the previous and current PRSP, that supportive transport infrastructure remains a prerequisite for high growth. In 2005 the government launched the National Trade Corridor Improvement Program which has essentially become the medium term transport development framework for the country. The program has achieved gains in the road, railway, air,

trucking, and ports sectors as well as in trade logistics.

Pakistan has undertaken major financial sector reforms in recent years that have resulted in a more efficient banking system. The health of the banking sector and the cost of credit have improved significantly and losses in the banking sector have been stemmed. The State Bank of Pakistan has become a modern central bank, focused on monetary policy and regulatory and supervisory functions.

The government's deregulation and privatization program has been a major achievement; nearly 80 percent of banking sector assets are now under private ownership compared to 34 percent in 1999 and just 8 percent in 1990. In September 2007 the Anti Money Laundering Law was approved and a Financial Monitoring Unit was established. Privatization and reforms have attracted investors and know-how to Pakistan in telecommunications, energy, and banking. Foreign direct investment has increased from US\$472 million in 1998/1999 to US\$5,410 million in 2007/2008.

Increased development through provincial reforms.

Pakistan's provinces and local governments play a key role in delivering education, health, irrigation, drinking water and sanitation. IDA has supported improved access to these services with technical advice (through provincial economic reports) and financial assistance (through Structural Adjustment Credits and more recently provincial Development Credits) to North West Frontier Province (NWFP), Sindh and Punjab. Development indicators for health, education and poverty have improved in these provinces.

Rapid and Sustained Earthquake Response

On October 8, 2005, a powerful earthquake measuring 7.6 on the Richter scale hit northern Pakistan. The most badly hit were the western districts of the North West Frontier Province and most of Azad Jammu and Kashmir (AJK),^a where over 73,000 people died and as many were injured. A total of 1 million households were affected in terms of loss of shelter and public amenities. Within weeks of the earthquake, IDA provided US\$200 million in fast disbursing credits to Pakistan, part of an initial package of World Bank support of US\$470 million which helped finance the immediate disaster response.

One month after the earthquake, a team of donors—IDA, ADB, and the Japan Bank for International Cooperation (JBIC)—prepared a preliminary damage and needs assessment, which formed the basis for the government's donor conference held in November 2005. In December, IDA approved a US\$400 million emergency recovery credit, which financed earthquake-related imports, cash grants for families that lost family members and livelihoods, and a housing reconstruction program. As of mid-2007 cash grants for livelihood support had been extended to 260,000 households as well as 25,000 of the most vulnerable households.

a. Azad Jammu and Kashmir is an area over which India and Pakistan have been in dispute since 1947. IDA does not intend to make any judgment as to the legal or other status of any disputed territories or to prejudice the final determination of the parties' claims.

Knowledge partnership.

IDA's contribution to Pakistan's economic turnaround at the beginning of the decade involved sharing best practices and knowledge to revive economic activity in many sectors. For instance, in the oil and gas sector, where significant reforms were undertaken since 2001, IDA has provided technical assistance and policy advice, summarized in the Oil and Gas Sector Review of 2003. A Growth and Competitiveness Report provided in depth analysis and advice on how to enhance the competitiveness of Pakistan's exports. National and provincial reforms which increased budget allocations for education, health and other poverty related expenditures have been informed by Development Policy and Public Expenditure Reviews and provincial economic reports for each of Pakistan's provinces: Punjab, Sindh, and NWFP (an economic report is being finalized for Balochistan). Several of these were prepared with other donors, in particular DFID and ADB.

IDA's partnership with Pakistan has had an impact in many sectors.

Governance. IDA has made a contribution to strengthening governance by supporting reforms to improve transparency and accountability in the mobilization and use of public resources. However, governance challenges still exist and Pakistan has made governance a pillar of its PRSP. The World Bank will partner with Pakistan in promoting capacity and accountability in public administration as well as accountability in public financial management.

In tax administration, a self-assessment system has been adopted to reduce the contact between tax officials and taxpayers. IDA is financing the restructuring and modernization of the tax collection authority. IDA is also supporting financial management reforms at the federal and provincial levels and financing modernization of public financial management, from budget preparation to account-

ing, financial reporting, external audit, and legislative scrutiny. Under the program, over 50 budgeting and accounting sites have been computerized using the latest software and well over 30,000 budget and accounting staff have been trained.

Modernized procurement rules, consistent with international best practice, have also been adopted by the federal government to increase transparency, competition, and value for money.

Banking sector. With IDA support, Pakistan has implemented far-reaching reforms in the banking sector over the last decade. The first phase of reforms initiated in 1997 involved controlling abuse of the public sector banks by vested interests through changes in laws and governance, strengthening the regulatory framework and institutions, and operational restructuring of public sector banks. While these managed to improve the environment, the sector remained government-dominated and vulnerable.

A second phase of reforms, supported by the Banking Sector Restructuring and Privatization Support project in 2001, rationalized branch networks of the public sector banks, paving the way for their subsequent privatization under the 2004 Banking Sector Adjustment credit. With the privatization of all formerly nationalized commercial banks including the sale of Allied Bank Limited, nearly 80 percent of banking sector assets is now in private hands. As a result, there have been significant improvements in banking.

Telecommunications. IDA-supported regulatory reforms and privatization of the government-owned phone company have introduced competition, leading to a dramatic increase in

access to telephone services and a steep fall in consumer tariffs. There are now over half a dozen long-distance international operators and six cellular mobile operators. Several of the wireless local loop licensees have also commenced operations.

Mobile subscribers, nonexistent in 2000, are now very common: 39 out of 100 people had a mobile phone in 2007. Tariffs, driven down by competition, are now among the lowest in the world. To address the digital divide between rural and urban areas, Pakistan has established the legal framework and created a Universal Service Fund to support the rollout of telecommunications to rural areas.

Infrastructure development. The World Bank (through both IDA and IBRD financing) has made important contributions to the reform and expansion of Pakistan's infrastructure platform.

IDA's involvement in the water sector dates back to 1952. In the 1990s, IDA financed projects to provide community level irrigation infrastructure and to finance deferred maintenance of the irrigation system. More importantly, IDA financing and technical assistance helped focus on more efficient water use and improved irrigation service delivery through participatory management. The International Bank for Reconstruction and Development (IBRD) financed the construction of the Ghazi Barotha hydropower project commissioned in 2003, which generates over 1,400 megawatts of electricity at very low cost.

In the oil and gas sector, policy dialogue led to deregulation of the petroleum market, pricing and regulation of natural gas, conversion of power plants from fuel oil to natural gas, and acceleration of exploration activities.

Education. The government is committed to doubling education expenditures by 2013 from 2003 levels as envisaged in the Fiscal Responsibility and Debt Limitation Act.

IDA support has enabled the government to improve education outcomes through increased public expenditures and reforms to improve governance and service delivery. In Pakistan's largest province of Punjab, IDA has financed an education reform program featuring improved teacher recruitment and training, provision of free textbooks for primary school students, free tuition and a stipend program for girls in grades 6-8 who maintain an 80 percent attendance record. Punjab's primary net enrollment rate increased from 45 percent in 2001/02 to 62 percent in 2006/07. Girls' enrollment in grades 6-8 in government elementary schools has increased by 40 percent.

In Sindh and NWFP, development policy credits supported significant increases in budget allocations for education. And at the federal level, IDA's Poverty Reduction Support Credit is supporting a cash transfer program to poor families who agree to keep their children in school. Overall, real public education expenditures increased from 1.3 percent of GDP in 2001 to 1.8 percent of GDP in 2008, although this is still quite low compared to similar countries.

Increased public expenditures, along with higher personal incomes have helped improve net primary enrollment rates—particularly for girls—throughout the country, from 42 percent to 56 percent between 2002 and 2007. But education quality remains a serious challenge.

Progress in Punjab and Sindh

Between 2004 and 2009, IDA has extended over US\$1 billion to support increased investment and reform in the education sector in the two largest provinces in Pakistan: Punjab and Sindh. These efforts, including reforms in teacher recruitment and payment of stipends for girls' attendance, have started to translate into increased enrollment rates. Punjab has seen improvements with overall net primary school enrollment increasing from 45 percent in 2001/2002 to 62 percent in 2006/2007 and female primary enrollment in particular increasing from 43 percent to 59 percent.

Community development. IDA is providing financing to poor communities through the Pakistan Poverty Alleviation Fund (PPAF) and through Community Investment Projects in NWFP and the disputed area of Azad Jammu & Kashmir. Working through non-governmental organizations (NGOs), the fund builds human and social capital through social mobilization and institution building. Microcredit and community infrastructure are also managed by NGOs and community organizations. Between 2001 and 2007, loans to the poor increased ten-fold, reaching 5.7 million people in 108 out of 120 districts.

The First and Second PPAF projects provided 1.9 million micro-credit loans, 16,000 community infrastructure schemes, and skills and enterprise development training for 232,000 people. This has had a positive impact on personal and household incomes, key food item consumption, productive asset acquisition, household repair and utilities expenditure, and social status. Community infrastructure projects have reached over 1.5 million households with efforts ranging from safe water to

irrigation, rural access roads, flood protection and micro hydroelectricity projects.

Social Protection. Recent poverty gains are at risk of being reversed in the wake of the financial crisis and macroeconomic instabilities. Between 2001/2002 and 2005/2006 poverty rates fell by more than 11 percentage points, but estimates show that nearly a quarter of the population remains poor.

In light of the need to strengthen the country's social protection mechanisms, the Government of Pakistan, with support from the World Bank and other donors, started a collaborative process in 2006 to develop an integrated and comprehensive social protection system, covering all of the population, but especially the poorest and most vulnerable groups. During the second half of 2008 the Government of Pakistan launched the Benazir Income Support Programme (BISP) as a flagship government initiative. The World Bank is a key partner in strengthening the program to increase its targeting efficiency and transparency.

PARTNERSHIPS

Donor coordination in Pakistan has been improving, but from a relatively low base. The 1990s were marked by difficult relations with lenders and external partners, due partly to the economic sanctions that followed Pakistan's 1998 nuclear tests and shrinking or suspended donor programs. The government is now keen to lead the coordination of donor program support and has moved to institutionalize this process through formal annual consultation meetings held in-country and follow-ups whenever necessary.

There is, however scope for increased donor coordination. IDA's strategy has been to play a facilitating role in the government led coordination process by supporting the annual consultation process, actively sharing information and facilitating partnerships among other donors and the government, and conducting joint economic analysis whenever possible. External partners have responded to these efforts by aligning their strategies with the government's priorities.

CHALLENGES AHEAD

Despite Pakistan's growth in the first half of the 2000s, incomes are still low and very real needs remain. In addition, the effects of the global financial crisis compounded with the political instability are threatening to reverse some of the developmental gains of the past years.

In Pakistan, almost 1 in 10 children dies before the age of five; nearly 10 million children do not go to school; half the adult population is illiterate (illiteracy affected 64 percent of women and 36 percent of men in 2004/05), and poverty remains high. Hence, ensuring that economic growth is sustained, that the poor benefit increasingly from growth, and that quality health and education services are accessible to all, including the poorest and women, remain top priorities.

Improving the investment climate. While private investment has increased over the past seven years, it started from a low base. FDI dropped slightly in 2008/2009 but is expected to recover in 2009/2010 with the intensification of the privatization process.

Despite the recent successes in reducing state intervention in the economy and improving the regulatory framework for private business, firms continue to face significant policy, institutional, and infrastructure constraints. (Inefficient operations in key sectors like power and transport adversely affect competitiveness.) These constraints are reflected in the World Economic Forum's 2005-06 competitiveness report, which indicates that in 2008 of the 134 countries covered, Pakistan ranked 101th in terms of competitiveness. Increasing investment will be critical to create more and better jobs for Pakistan's rapidly expanding labor force, in which women are starting to participate more actively.

Pakistan must undertake further policy and institutional reforms to address weaknesses in economic governance and enhance market efficiency and investor confidence.

Meeting investment needs in infrastructure. Pakistan has huge unmet investment needs in infrastructure. In transport, there

is a significant maintenance backlog and current government investment in the sector is as much as five times lower (as percent of GDP) than countries in East Asia. The National Transport Corridor, linking the north of Pakistan near the Himalayas to the southern port of Karachi, in particular, is critical to support Pakistan's development

Nearly all of Pakistan's agriculture relies on a massive irrigation infrastructure network that is deteriorating and needs to be rehabilitated.

The power sector is characterized by high losses and unreliable supply which force firms to invest in generators. The sector needs both investments and policy reforms in order to meet growing electricity demand and extend service to underserved areas and poorer segments of the population.

Raising labor productivity and improving living standards. Despite improvements, Pakistan's health and education levels lag significantly

Power and Its Limits

Limited access, low reliability, and financial losses have plagued Pakistan's power sector for years. With World Bank support, the government approved a strategic plan for power sector restructuring and initiated a reform program to increase investment, improve service, and strengthen the sector's financial performance, with particular emphasis on attracting the private sector to help achieve these objectives. The initial reform implementation schedule called for unbundling the main state-owned utility and establishing a wholesale power market by 1996.

However, events followed a different path. Under the pressure of electricity shortages in the early 1990s, priority was given to increasing generation capacity through private investment before undertaking sector restructuring. Efforts to attract private investment in power generation (supported by Bank guarantees) were plagued by lack of competition and transparency leading to high costs and allegations of corruption. Institutional resistance to unbundling further delayed implementation while technical and commercial losses have not declined as planned.

Although unbundled in the technical legal sense, the system continues to operate as a vertically integrated monopoly and continues to represent a major and growing drain on the government budget which continues to subsidize consumers through unbilled consumption, uncollected bills, and below-cost tariffs. The power sector was a major contributor to the recent rapid and unsustainable growth in the fiscal deficit. Investment has not kept pace with load growth, increasing the risk of deteriorating service and supply disruptions.

when compared to other countries at similar per capita income and development levels, especially for women. Pakistan's fertility rate is almost 50 percent higher than that of its South Asian neighbors and remains an impediment to sustained economic development. It will be difficult to achieve the Millennium Development Goals (MDG) for infant mortality, child malnutrition, primary completion and elimination of the gender gap in primary enrollment without additional financial support.

Pakistan's poverty reduction goals also require a growing pool of skilled workers, pointing to the need for increases in the level and quality of primary, secondary, vocational and higher education. Indeed, the poor can benefit from economic growth most when they have the skills to seek higher paying jobs, and to create more productive enterprises. Continued concerted efforts to address this issue will improve equity while helping achieve growth objectives.

Public spending on health and education, while increasing, remains low even when compared to countries at a similar level of income. Continued increases will be needed to improve Pakistan's lagging human development outcomes. Reforms and investments need to address the systemic weaknesses in public service delivery, especially over-centralization and weak public sector management and accountability. Social protection programs that provide minimum income levels to the most vulnerable segments of society, including handicapped and orphans, are under-funded and in need of reform.

Accelerating governance reforms. The quality and reach of government services has been hampered by inadequate and poorly targeted spending and investments, as well as by weak capacity and inadequate accountability of service providers.

Reforms in public expenditure and financial management, public procurement, and tax administration have been launched, but will need to be sustained. Capacity-building support for recently created local governments and in key functions like land administration is a high priority. So is support for citizens' participation through social mobilization, community-driven approaches and other mechanisms. These can strengthen links between local governments and communities and add to their responsiveness and accountability.

Meeting the challenges listed above requires increased financing. Pakistan's own resources are insufficient to sustain the higher levels of public spending needed to meet its growth and poverty reduction goals.

Addressing the causes and consequences of conflict. The military offensive has caused large-scale displacement of people and significant damage to infrastructure. In the post-conflict period, Pakistan will need to address immediate needs of the population by providing relief and rebuilding infrastructure. At the same time it will need to address the underlying causes of conflict by improving access to public services and enhancing livelihood opportunities in conflict-affected areas.

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