

PAKISTAN DEVELOPMENT FORUM (PDF)

25-27 April 2007

*The Demographic Dividend –
Unleashing the Human Capital*

DELEGATE HANDBOOK

Government of Pakistan

**Economic Affairs Division (EAD)
Ministry of Economic Affairs and Statistics
www.pakistan.gov.pk/PDF/index.jsp**

CONTENTS

Introduction

PDF 2007: An Overview

Agenda

Session Briefs

- I. PRSP and the Demographic Dividend
- II. Domestic Commerce – Key to Propelling Growth and Job Creation
- III(a). Rural Economy: Driver of Growth
- III(b). Cities and Growth
- IV. Financial Deepening and Development
- V. Industrial Growth: Moving up the Competitiveness Curve
- VI. National Trade Corridor
- VII. Water, Power and Prosperity
FATA Development Forum
- VIII. Evaluating Aid Effectiveness in Pakistan

Historical Mapping: Six Years of PDFs

Introduction

This Handbook has been prepared to facilitate delegates at the 2007 Pakistan Development Forum, titled *The Demographic Dividend – Unleashing the Human Capital*.

The Handbook contains an overview of the 2007 PDF, the conference agenda and summaries of the Sessions. These explain the main issues to be discussed in each Session and introduce the chairs and speakers/panelists.

In addition to these short introductions, more detailed Background Briefs will be distributed at each Session on the occasion of the PDF. These explain the main issues being discussed in the Session, Government initiatives and donor interventions as well as highlight key questions to be examined in the PDF.

The aim of this Delegate Handbook and the more detailed Background Briefs is to give participants an understanding of the Session themes and enable them to gain the most from attending the PDF. The Background Briefs will also be useful for those unable to attend the PDF.

The last section of this Delegate Handbook ‘Six Years of PDF: A Historical Mapping’ gives a year-by-year summary of the PDFs from 2001-6 including: overview of the respective PDF; country context; major Government initiatives and achievements shared with development partners; and their responses. As well as setting the context for this year’s PDF, the historical mapping enables delegates to see how the focus of the PDF has shifted from year to year, and how it reflects the Government’s priorities and policies.

Full information about the 2007 PDF is available from the conference website:
www.pakistan.gov.pk/PDF/index.jsp.

Pakistan Development Forum 2007: An Overview

The Pakistan Development Forum (PDF) provides an opportunity for the Government of Pakistan to share its development strategy – achievements, initiatives, priorities, challenges, future plans – in a holistic manner with the country’s development partners. The understanding gained by donors at the PDF can help them more effectively plan their country assistance strategies. The PDF also allows donors to express their concerns and priorities to the Government. First held in 2001, the PDF is the successor to the Aid-to-Pakistan Consortium.

Six national level PDFs have been held between 2001 and 2006, steered by the Government of Pakistan. The 2001 PDF took place soon after a new government took office in Pakistan, and after the country signed up to the Millennium Development Goals. It also coincided with a massive reform drive in Pakistan geared towards promoting growth, development and reducing poverty. The Government used the 2001 PDF to explain its plans for the country to donors, and to ally their concerns about the transition of 1999. Subsequent PDFs have focused on the reform program, as well as on key national planning documents like the 2003 Poverty Reduction Strategy Paper (PRSP) and the 2005 Medium-Term Development Framework (MTDF). The last PDF in 2006 focused on measures being taken to promote the private sector as a driver of economic growth.

The theme of the 2007 PDF, being held from 25-27 April is **‘The Demographic Dividend – Unleashing the Human Capital’**. The concept of ‘demographic dividend’ is increasingly being used in development circles. It refers to the potential for growth and poverty reduction offered by changing age distribution in a population: specifically, as countries shift from high to low birth rates, the proportion of working age people increases and that of young dependents decreases. This creates scope for economic growth by improving labour supply, increasing savings, and allowing development of human capital. Pakistan is going through such a demographic change at the moment, creating considerable potential for a ‘demographic dividend’. However this does not come automatically: to realize it requires planning and suitable policies.

The 2007 PDF will discuss how Pakistan can take advantage of its reduced population growth rate to unleash its human capital and increase growth. The Government will share its plans for this with development partners, and seek their input on how to maximize the demographic dividend.

The **Inaugural Session** of the PDF will be held on the evening of 25 April. It will feature addresses by leading representatives of Pakistan’s major development partners: the Asian Development Bank, World Bank and Islamic Development Bank. The session will also be addressed by Dr Salman Shah, Advisor to the Prime Minister on Finance, Economic Affairs, Revenue and Statistics.

The substantive sessions of the 2007 PDF will be held over two days, 26-27 April. **Session I ‘PRSP and the Demographic Dividend’** will be used by the Government to share the outline of the Poverty Reduction Strategy Paper II with development partners. This lays out

plans, focus and policies for poverty reduction over the next three years, including strategies for realizing the demographic dividend.

Session II ‘Domestic Commerce – Key to Propelling Growth and Job Creation’ will examine Government policies and initiatives to promote commercial activity within Pakistan – something that can make a significant contribution to the demographic dividend. It will be chaired by the Federal Minister for Commerce Mr Humayun Akhtar, and panelists include Dr Nadeem-ul-Haque, Director PIDE. This will be followed by parallel sessions looking at two crucial aspects of economic growth: **Session III (a) ‘Rural Economy – Driver of Growth’** and **Session III (b) ‘Cities and Growth’**. Two-thirds of Pakistan’s population live in rural areas; 45% of the labour force is employed in agriculture and this accounts for 22% of GDP – all factors that make promoting the rural economy extremely important. At the same time Pakistan’s cities are expanding rapidly; 50% of the population are expected to be living in urban areas by 2030. Coping with this massive urbanization (meeting demands for jobs, infrastructure, housing, services, etc) and ensuring sustained growth is a major challenge.

The afternoon sessions continue the economic growth theme, focusing first on **Session IV ‘Financial Deepening and Development’**. A wide-ranging reform program initiated by the Government in 2000 has led to considerable strengthening of the financial sector, seen for example in increased FDI. The on-going challenge is financial deepening, i.e. financial development that includes not only expansion in the financial sector but also an improvement in institutions so that the financial system can allocate capital for more productive uses more efficiently. The PDF Session will examine ways to carry this out and thereby continue the progress in reforms and growth made to date.

Session V is titled **‘Industrial Growth: Moving up the Competitiveness Curve’**. Enhancing competitiveness and developing infrastructure are some of the measures needed to ensure industrial growth. The Government is implementing several initiatives in this regard. The PDF Session will examine implementation of the Government’s industrial strategy, and specific measures such as the establishment of Special Economic Zones and promotion of public-private partnerships.

This year the PDF features a **FATA Development Forum with Plenary and Roundtable Sessions**, looking at the particular growth and development challenges in the Federally Administered Tribal Areas (FATA) and associated border areas, and strategies to address these. FATA’s unique history and constitutional position have given the area considerable autonomy, but the practical consequences of this have been massive under-development – FATA lags far behind the rest of Pakistan – and security issues: both law and order problems and militancy. The attacks of 9/11 and events since then have catapulted FATA into the international spotlight and contributed to huge momentum for change. The Government’s strategy for FATA focuses on development and democratization, and is articulated in the FATA Sustainable Development Plan.

Sessions **VI (a) National Trade Corridor** and **VI (b) Water, Power and Prosperity** will examine plans to develop Pakistan’s infrastructure, in particular transport links, the water and power sectors. The Government sees these as essential for sustained economic growth

and is implementing a wide-ranging program to construct national highways, large storage dams, trans-national gas pipelines and other necessary infrastructure.

Session VII ‘Evaluating Aid Effectiveness in Pakistan’ will be chaired by the Minister of State for Economic Affairs Ms Hina Rabbani Khar. The session will examine operationalization of the Paris Declaration, and will be an opportunity for Government and development partners to take stock of where they stand on their respective commitments.

Dr Salman Shah, Advisor to the Prime Minister on Financial Affairs, will close the conference with an assessment of ‘Where do we go from here?’

AGENDA

Pakistan Development Forum - 2007
April 25-27, 2007

Jinnah Convention Centre, Islamabad

The Demographic Dividend – Unleashing the Human Capital

April 25, 2007 **Arrival of Delegates and Inaugural**

Day 1: April 25, 2007

Inaugural Session	1800 – 1930
Venue	Main Hall
Session Chair	Pakistani VVIP
1800 – 1805	National Anthem
1805 – 1810	Recitation from the Holy Quran
1810 – 1820	Address by Dr. Salman Shah, Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics
1820 – 1830	Dr. Ahmed Mohammed Ali, President, Islamic Development Bank
1830 – 1840	Address by Mr. Liqun Jin, Vice President, Asian Development Bank
1840 – 1850 World Bank	Address by Mr. Praful C. Patel, Vice President, South Asia, World Bank
1850 – 1910	Address by Chief Guest
Tea	1910 – 1930 (Venue: Foyer Area)
2000 – 2300 hours	Joint Reception / Dinner by EAD & World Bank for PDF Delegates at the World Bank

Day 2: April 26, 2007 (Morning Sessions)

Session 1: (0900-1030) PRSP and the Demographic Dividend

Venue	Committee Room No. I
Session Chair	Dr. Salman Shah , <i>Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics (economic overview)</i> (confirmed)
Keynote Presentation	Mr. Omar Ayub Khan , <i>Minister of State for Finance (presentation on PRSP and employment generation)</i>
Panelists	Mr. Daniyal Aziz , <i>Chairman, NRB (verbally confirmed)</i> Mr. Altaf M. Saleem , <i>Chairman, NAVTEC (confirmed)</i> Dr. Rashid Amjad , <i>Director, Policy Planning and Employment Sector, ILO (employment generation) (confirmed)</i> Dr. Salman Ahmad , <i>Goldman Sachs (confirmed)</i>
Tea Break	1030 - 1045 hours (Venue: Foyer Area)

Session II: (1045-1215) Domestic Commerce – Key to Propelling Growth and Job Creation

Venue	Committee Room No. I
Session Chair	Dr. Salman Shah , <i>Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics (confirmed)</i>
Panelists	Dr. Nadeem-ul-Haque , <i>Director PIDE (critical appreciation of Government's policies) (confirmed)</i> Mr. Asim Baksh , <i>(H. Karim Baksh Ltd.) (verbally confirmed)</i> Mr. Irtiza Zaidi , <i>Ministry of Commerce (confirmed)</i>

Session 111 (a): (1215-1345) Rural Economy: Driver of Growth

Venue	Committee Room No. I
Session Chair	Mr. Sikandar Hayat Khan Bosan , <i>Federal Minister for Food, Agriculture & Livestock (confirmed)</i> Mr. Muhammad Ismail Qureshi , <i>Secretary, MINFAL (presentation on Government's policies and strategies) (verbally confirmed)</i>
Technical Presentation	Mr. Rashid Faruqee , <i>Team Leader/Senior Policy Advisor, MINFAL (confirmed)</i>

Panelists

Mr. Geoffrey James Walker, *Chief Executive, Pakistan Dairy Development Company (confirmed)*
Dr. M. Ehsan Tasneem, *Chairman, PARC (demand driven revolution from Green to Gene Revolution) (confirmed)*
Mr. Sohail J. Malik, *Chairman, Innovative Development (opportunities and challenges in the agriculture sector) (confirmed)*
Mr. Afaq Ahmed Tiwana, *Chairman/CEO, Red Mountain Suria Resort Agripark (confirmed)*

Session 111 (b): (1215-1345) Cities and Growth

Venue Committee Room No. II

Session Chair **Dr. Ishrat Husain**, *Chairman, National Commission for Government Reforms (NCGR) (confirmed)*

Technical Presentation **Dr. Songsu Choi**, *Lead Urban Economist, World Bank (urban development and mega cities; has worked on several cities in China) (confirmed)*

Panelists

Dr. Nadeem-ul-Haque, *Director PIDE (cities as engines of growth; a documentary will be run) (confirmed)*
Syed Mustafa Kamal, *Nazim, City District Government, Karachi (how is Karachi progressing and about future plans) (confirmed)*
Syed Ayub Qutub, *Executive Director, Pakistan Institute for Environment & Development Action Research (PIEDAR), regional-urban areas as geographic centres for regional growth (confirmed)*

Lunch 1345 - 1445

1345 - 1355 Luncheon Address

Keynote Speech: Challenges, Opportunities, Reforms and Priorities by Sardar Attique Ahmed Khan, *Prime Minister of Azad Jammu & Kashmir*

(Venue: Foyer Area)

Day 2: April 26, 2007 (Afternoon Sessions)

Session IV (1445-1615) Financial Deepening and Development

Venue	Committee Room No. I
Session Chair	Dr. Salman Shah , <i>Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics (confirmed)</i>
Panelists (confirmed)	Dr. Shamshad Akhtar , <i>Governor, SBP (reforms and governance)</i> Mr. Razi-ur-Rahman Khan , <i>Chairman, SECP (capital market development) (confirmed)</i> Ms. Naz Chohan , <i>KASB Fund Limited</i> ¹ Mr. Shaukat Tareen , <i>Chairman, Sintbol Capital Advisor to Pakistan (regretted)</i> ² Mr. Mansoor Khan , <i>ZTBL (microfinance - agricultural aspect)</i>
Tea Break	1530 - 1545

Session V: (1615-1745) Industrial Growth: Moving up the Competitiveness Curve

Venue	Committee Room No. I
Session Chair	Mr. Jahangir Khan Tareen , <i>Federal Minister for Industries and Special Initiatives (confirmed)</i>
Panelists	Dr. Ijaz Nabi , <i>Sector Manager, PREM, World Bank (presentation on the industrial strategy of Pakistan) (confirmed)</i> Mr. Omar Ayub Khan , <i>Minister of State for Finance (competitiveness) (confirmed)</i> Mr. Guo Wanda , <i>Vice President, China Development Institute (special economic zones) (confirmed)</i> Mr. Wale Shonibare , <i>Director, Corporate Finance, KPMG, UAE (public-private partnerships) (confirmed)</i>

2000 hours - Dinner by Prime Minister for Heads of Delegation (By Invitation)

¹ Mr. Zubair Sumroo, Citibank to be contacted as an alternative by MoS, EAD

² to be contacted and confirmed

FATA Development Forum
Jinnah Convention Centre, Islamabad
Main Hall

April 27, 2007

(0900-1030)	Plenary Session
0900-0915	Documentary
0915-0940	Speech on “History and Evolution of the Tribal Areas” by Mr. Sahibzada Riaz Noor, <i>Chief Secretary, NWFP</i>
0940-1005	Presentation on Sustainable Development Plan (SDP) by Mr. Javed Iqbal, <i>Additional Chief Secretary, FATA Secretariat</i>
1005-1015	Speech by Mr. Imtiaz Sahibzada, <i>Advisor to Prime Minister on FATA (development effort’s future given present political topography)</i> (confirmed)
1015-1030 <i>NWFP</i>	Speech by Mr. Ali Muhammad Jan Orakzai, <i>Governor,</i>
Tea Break	1030 - 1045 hours (Venue: Foyer Area)
(1045-1230)	Roundtable
Session Chair	Ali Muhammad Jan Orakzai, <i>Governor NWFP</i> Mr. Imtiaz Sahibzada, <i>Advisor to Prime Minister on FATA</i>
Panelists	Sahibzada Riaz Noor, <i>Chief Secretary, NWFP</i> Mr. Javed Iqbal, <i>Additional Chief Secretary, FATA Secretariat</i> Mr. Arbab Shahzad, <i>CEO, FATA Development Authority</i> Presenter - Ministry of Commerce, <i>Reconstruction Opportunities Zones (ROZs)</i>

1230 - 1400 hours – Lunch for PDF Delegates

Day 3: April 27, 2007 (Afternoon Sessions)

Session VI (a): (1400-1530) National Trade Corridor

Venue	Committee Room No. I
Session Chair	Engr. Dr. Akram Sheikh , <i>Deputy Chairman, Planning Commission (confirmed)</i> Mr. Asad Ali Shah , <i>Member Infrastructure, Planning Commission (will talk in the context of MTDF and Vision 2030) (confirmed)</i>
Presenters	Mr. Amer Durrani , <i>Senior Transport Sector Specialist, World Bank (presentation on NTC) (confirmed)</i> Mr. M. Abdullah Yusuf , <i>Chairman, CBR (customs/ commerce, social infrastructure) (confirmed)</i> Mr. Abdur Razzaq Dawood , <i>Chairman, DESCON Engineering Pvt. Ltd. (private sector perspective) (confirmed)</i> Mr. Babar Badat , <i>Chairman, Pakistan International Freight Forwarders Association (PIFFA), (logistics-freight forwarding, trucking, TIR) (confirmed)</i>

Session VI (b): (1400-1530) Water, Power and Prosperity

Venue	Committee Room No. II
Session Chair (confirmed)	Mr. Liaqat Ali Jatoi , <i>Federal Minister for Water and Power</i> Mr. Ashfaq Mahmood , <i>Secretary, Ministry of Water and Power (confirmed)</i>
Technical Presentations	Mr. David Grey , <i>Senior Water Advisor, World Bank (will give presentation on the various strategies of water management in Pakistan) (confirmed)</i>
Presenters	Mr. Tariq Hameed , <i>Chairman, WAPDA (opportunities and challenges in the water sector) (confirmed)</i> Mr. Khalid Mohatadullah , <i>Senior Advisor, Global Water Partnership (confirmed)</i> Mr. Aijaz Ahmad , <i>Chief Executive/ Secretary, Task Force, Infrastructure Project Development Facility (IPDF) (financing aspect of water and power) (confirmed)</i>
Tea Break	1530-1545

Session VII: (1545-1715) Evaluating Aid Effectiveness in Pakistan

Venue	Committee Room No. I
--------------	-----------------------------

Session Chair	Ms. Hina Rabbani Khar , <i>Minister of State for Economic Affairs</i>
Presentation	Mr. Imran Habib Ahmad , <i>Deputy Secretary (World Bank/ Islamic Development Bank), Economic Affairs Division (presentation on Pakistan's efforts towards aid effectiveness)</i>
Panelists	<p>H.E. Mr. Seiji Kojima, <i>Ambassador of Japan to Pakistan (confirmed)</i></p> <p>Ms. Charlotte Seymour-Smith, <i>Director, South Asian Division, DFID (confirmed)</i></p> <p>Mr. Yusupha B. Crookes, <i>Country Director, World Bank (confirmed)</i></p> <p>Peter L. Fedon, <i>Country Director, Asian Development Bank (confirmed)</i></p> <p>Mr. Jonathan S. Addleton, <i>Mission Director, USAID (confirmed)</i></p> <p>Dr. Ralph-Matthias Mohs, <i>Head of Division, in charge of Pakistan, Afghanistan and Bangladesh, Federal Ministry for Economic Cooperation and Development, Germany (confirmed)</i></p>

Session VIII: (1715-1800)	Closing Remarks
----------------------------------	------------------------

Session Chair	Dr. Salman Shah , <i>Adviser to Prime Minister on Finance, Economic Affairs, Revenue & Statistics</i>
Theme	Where do we go from here?
1715-1745	Statements by Development Partners
1745-1800	Wrap-up by Dr. Salman Shah <i>Adviser to Prime Minister on Finance, Economic Affairs, Revenue & Statistics</i>
1800	Press Conference
2000	Gala Dinner by Dr. Salman Shah , <i>Adviser Prime Minister on Finance, Economic Affairs, Revenue & Statistics in honor of PDF Delegates</i>

SESSION BRIEFS

Session I: PRSP and the Demographic Dividend

The first session on Day Two of the 2007 Pakistan Development Forum is titled *PRSP and the Demographic Dividend*. Chaired by Dr Salman Shah, Advisor to the Prime Minister on Finance, Economic Affairs, Revenue and Statistics, the session will unveil the new Poverty Reduction Strategy Paper II and plans to take advantage of the ‘demographic dividend’.

Background: PRSP I

The Poverty Reduction Strategy Paper (PRSP) approach was initiated by the International Monetary Fund (IMF) and World Bank in 1999, and is now well-established. PRSPs outline the macro-economic, structural and social policies and programs that a country will pursue over several years to promote broad-based growth and reduce poverty.

The Government of Pakistan produced an Interim PRSP in 2001, followed by a Draft-PRSP and finally the refined (Full) PRSP, issued in December 2003. Titled ‘Accelerating Economic Growth and Reducing Poverty: The Road Ahead’, the strategy comprised four main pillars:

1. Accelerating high and broad-based economic growth, focusing in particular on the rural economy, while maintaining macro-economic stability;
2. Improving governance and consolidating devolution, both as a means of delivering better development results and ensuring social and economic justice;
3. Investing in human capital with a renewed emphasis on effective delivery of basic social services;
4. Bringing the poor and vulnerable and backward regions into the mainstream of development, and to make marked progress in reducing existing inequalities.

The tenure of the PRSP was until June 2006. Achievements under PRSP-I are significant: broad-based growth of nearly 7% average over the past four years; macroeconomic stability; reduced unemployment – falling from 8.3% in 2001-2 to 6.5% in 2005-6; increased pro-poor expenditure – up from less than 4% GDP in FY2002, to 5.63% in 2005-6; increased spending on health and education leading to improved development indicators – increased net primary enrollment and adult literacy, reduced infant and child mortality; and a substantial reduction in poverty. Between 2001-2 and 2004-5, absolute poverty levels fell from 34.46% to 23.9%.³

PRSP-I thus succeeded in achieving at least some of its objectives, but much remains to be done. While overall poverty levels fell, pillar four targeting the poor and vulnerable and reducing inequality was not achieved. Rural poverty fell but is still almost double urban poverty, and income inequality marginally increased during the PRSP period. Gender, inter-provincial and inter-district gaps persist. Moreover, if current trends continue, Pakistan will not achieve several of its MDG targets by 2015.

³ All figures in this section taken from ‘Poverty Reduction Strategy Paper: Annual Progress Report 2005-6’ (PRSP Secretariat, Ministry of Finance, Government of Pakistan, November 2006).

PRSP II and the Demographic Dividend

Since 2005 the Government has been engaged in preparation of PRSP-II, for the period 2006-9. As well as PRSP-I progress reports, the Government commissioned a number of sectoral analyses to provide input for PRSP-II preparation. Studies were carried out on income distribution, employment generation, gender, the impact of globalization, and environmental sustainability in relation to the PRSP – all came up with useful recommendations.

PRSP II preparation has also been informed by the changing situation in Pakistan. The major changes, as compared to 2001, are that the wide-ranging reform program initiated by the Government is now several years into implementation and the country has been enjoying high economic growth for the past few years. Thus whereas in 2001, and even 2003, the challenge was to design reforms, plan implementation strategies and trigger growth, in 2007 the challenge is modification (in the light of implementation experience to date) and consolidation, deepening of reforms, ensuring sustained growth and reductions in poverty along with inequality.

The falling population growth rate in Pakistan offers potential for a ‘demographic dividend’. This term, increasingly being used in development circles, refers to the opportunities for growth and poverty reduction presented by developing countries going through a transition from high population growth rates to lower ones. As the working age population expands and young dependents decrease, labour supply, savings and human capital can all be increased – leading in turn to growth and poverty reduction. However, realizing this potential is not automatic. It requires foresight, planning and the implementation of suitable policies by government.

In his keynote address at the 2007 Pakistan Development Forum, the Minister of State for Finance Mr Omer Ayub Khan will be unveiling the PRSP II for 2006-9, and the Government’s plans to take advantage of the demographic dividend. Eminent panelists will be focusing on specific aspects of strategies for growth and poverty reduction, in particular employment generation. Their diverse backgrounds and experience will provide a multi-faceted approach to the crucial issue of poverty reduction in Pakistan.

Participants’ Profiles

Salman Shah (Chair) - Dr. Salman Shah is Adviser to the Prime Minister of Pakistan on Finance, Revenue, Economic Affairs and Statistics. He has been a key player in Pakistan's economic reform program, launched by the Government in 1999. He has been a Member of the Commission on Transformation of the Economy and is a former chairman of the Privatization Commission. He has served on the Board of Governors of the State Bank of Pakistan, PIA, Foundation University and the Bank of Punjab. Dr Shah holds a Ph.D. in Finance from Kelley School of Business Administration, Indiana University.

Omar Ayub (Keynote Speaker) - Mr Omar Ayub Khan is a Member of the National Assembly and is currently serving as the Minister of State for Finance. He is also a member of the Young Parliamentarians Forum (YPF), Pakistan. His professional experience includes

serving as Chairman and Chief Executive Officer of software and business companies. Mr Ayub holds BBA and MBA degrees from George Washington University, U.S.A.

Daniyal Aziz (Panelist) - Mr. Daniyal Aziz is an MNA and Chairman of the National Reconstruction Bureau, Pakistan, and ex-officio chairman of the board of directors for the Devolution Trust for Community Empowerment. He has been a consultant to the Government of Pakistan and to various international programs focusing on local government and development. Mr Aziz was elected to the National Assembly in 2002 for the second time. He holds BA and MA degrees from Boston University, USA.

Altaf Saleem (Panelist) - Mr. Altaf Saleem is Chairman of the Earthquake Rehabilitation & Reconstruction Authority (ERRA) and also the Chairman NAVTEC. He has been granted the status of Federal Minister for both positions. He is also Chairman of Pakistan Industrial Credit and Investment Corporation and Sui Gas Pipelines Ltd, and is the Founder-Governor of the National Management Foundation and a trustee of LUMS. Mr Saleem founded a trust which runs a teachers training institute in rural Punjab and is actively involved in Red Crescent. He is also President of the World Wide Fund for Nature-Pakistan.

Rashid Amjad (Panelist) - Dr. Amjad is Director, Policy Planning, Employment Sector at the International Labour Organization, ILO, in Geneva. A graduate from Government College, Lahore, he did his Tripos (B.A. Hons) in Economics and Doctorate from the University of Cambridge in the U.K. He has written extensively on development issues and on the Pakistan Economy.

In the ILO, Dr. Amjad has served on many important assignments including as Director of the ILO's technical operations in South-East Asia and the Pacific and as Director in-charge of the Employment Strategy Department. He was the Chief of the Team and principal author of the ILO's World Employment Report 1998-99 on Employability in the Global Economy: How training Matters and joint author of the World Employment Report 2001, Life at Work in the Information Economy.

Dr. Salman Ahmed (Panelist) – Dr. Ahmed is currently working as Associate Global Markets Economist at Goldman Sachs, London.

Session II: Domestic Commerce – Key to Propelling Growth and Job Creation

Domestic commerce is the basis of all commercial development and economic growth in a society. Importance of domestic commerce is based on three interrelated propositions. First, trade drives all production and innovation. When people lived in small villages, there was little need or incentive for mass production or innovation. It was only when commercial activity increased that people had incentive to produce and innovate and industrial revolution became a reality. Secondly, local economic activity has been precursor of trade with other countries. Finally, companies which have succeeded locally have better chance of succeeding overseas. This has been true for all the major brand names in the world today like Coke, Pepsi, KFC, GE etc.

Domestic commerce is important for all countries but it has an added significance for Pakistan because of the possibility of demographic dividend. Pakistan is the sixth most populous country in the world, with a population of around 160 million. Moreover, this large population is urbanizing at a very fast pace. China, and now India are leveraging their huge populations to attract foreign investment of billions of dollars. Domestic commerce can help Pakistan to similarly leverage its population and break the vicious cycle of poverty, hunger and low development.

However, domestic commerce potential in Pakistan has not been realized because of the following constraints. There is weak contract enforcement because of corruption and a weak judicial system. Although, Pakistan have expanded its road network in the last decade, its length and quality is still not sufficient for an economy which is ready to take-off. Restrictive regulatory environment, non-availability of business/retail space and lack of financing also hinder development of domestic commerce.

To fully realize the potential of domestic commerce, GoP has taken various steps. Ministry of Commerce has decided to focus on the development of domestic commerce. A new State of Commerce annual report will be published regularly which will focus on domestic commerce and help in developing data, making policies and taking informed decisions. Ministry will also start a dialogue with private sector on domestic commerce and try to reduce regulatory restrictions. GoP, with the help of Asian Development Bank, has also started an access to justice programme in 2001 to improve the judicial system in the country which will improve contract enforcement, secure property rights and decrease litigation

Domestic commerce requires markets, offices, commercial spaces, roads, infrastructure to prosper and all these are the responsibilities of city governments. If city governments are not sensitive to the needs of its citizens and domestic commerce, then there is no hope of improvement. Government of Pakistan has, therefore, started devolution to increase public participation and improve city governments. Moreover, federal government has decided to give special attention to the development of big cities in Pakistan. Special packages have been announced by the President and Prime Minister for almost all big cities. Roads, markets, underpasses, sports and cultural facilities, clean drinking water and sanitation schemes, airports, parks etc. are being built with the help of the Federal Government.

Although government of Pakistan has started to move in right direction, there is lot to be done to overcome the impediments. There is an urgent need to treat domestic commerce at par with industries to allow it to operate in a less restrictive environment. There is also a need to revise the zoning laws in big cities to make more office and retail space available for commercial activities. Further reforms are required in tax administration to decrease corrupt practices and to provide an enabling environment. Business incubation services should be provided by the government to assist businesses to become established and profitable during their start up phase. Finally, it is vital that government acknowledge the potential of domestic commerce. Once domestic commerce potential is accepted, other actions will follow and domestic commerce will prosper.

PDF 2007

Dr. Nadeem-ul-Haq, the keynote speaker, will focus his talk on critical appreciation of government of Pakistan policies with respect to domestic commerce. The eminent panelists, one from private sector and other from public sector, will give their own perspectives on promotion of domestic commerce in Pakistan.

Participants' Profiles

Salman Shah (Chair) - Dr. Salman Shah is Adviser to the Prime Minister of Pakistan on Finance, Revenue, Economic Affairs and Statistics. He has been a key player in Pakistan's economic reform program, launched by the Government in 1999. He has been a Member of the Commission on Transformation of the Economy and is a former chairman of the Privatization Commission. He has served on the Board of Governors of the State Bank of Pakistan, PIA, Foundation University and the Bank of Punjab. Dr Shah holds a Ph.D. in Finance from Kelley School of Business Administration, Indiana University.

Dr. Nadeem-ul-Haq (Keynote Speaker) – Dr. Nadeem is currently the Director at Pakistan Institute of Development Economics (PIDE), Islamabad, a premier research organization in Pakistan. He holds Ph. D. and Masters Degrees in Economics from University of Chicago. He is also the President of the Pakistan Society of Development Economists and Visiting Professor Williams College Massachusetts USA. Prior to his appointment as Director, PIDE, Dr. Nadeem served the Government of Pakistan as an Advisor to the Ministry of Commerce. He has published 3 books and over 50 papers in major journals and edited volumes He has undertaken research on a range of issues, such as governance, corruption, international trade, macroeconomic policies, agriculture taxation, environment, poverty, labor and manpower, income distribution, exchange rates, industrial economics, human resource development, privatization, fiscal and monetary policies, child labor, inflation and structural adjustments.

Mr. Asim Baksh: Mr. Baksh will enrich the session with a talk on private sector view of domestic commerce. Mr. Asim belongs to the one of the most prestigious retail business in Punjab. From one small shop, his organization has grown into a big business establishment, employing hundreds of people.

Dr. Sohail J. Malik: Dr. Malik is currently professor of economics at the University of Sargodha and Chairman of innovative development technologies (IDS), a consulting firm. Prior to this, Dr. Malik has worked in FAO, ADB, UNDP, ICUN, Pakistan Institute of Development Economics etc.

Session III(a): Rural Economy – Driver of Growth

The Session titled '*Rural Economy – Driver of Growth*' will be co-chaired by the Federal Minister for Food, Agriculture and Livestock, Mr Sikander Hayat Khan Bosan, and the Secretary MINFAL, Mr Muhammad Ismail Qureshi. The Session will examine ways to increase rural economic growth, generate jobs and promote development for the country's majority rural population.

Rural Economy: Constraints and Potential

The importance of Pakistan's rural economy can be gauged from the following facts:

- Over two-thirds of the country's population live in rural areas;
- 45% of the labour force is employed in the agriculture sector;
- Agriculture accounts for 60% of exports and 22% of GDP;⁴
- Poverty in Pakistan is predominantly a rural phenomenon: there are wide rural-urban differences in poverty levels and human development indicators.

Currently rural economic growth is hampered by several factors: however, the potential for rural growth is considerable. The Government is working to overcome constraints and achieve growth in different aspects of the rural economy.

Agriculture dominates the rural economy in Pakistan: crop production accounts for approximately 59% of the sector, livestock some 37%. The major constraints in crop productivity are: skewed land distribution; numerous small landholdings causing inefficiency and reduced profitability; shortage of water and inefficient water use; poor infrastructure for irrigation, farm-to-market roads, etc; poor market facilities; degradation of natural resources through poor land management; and lack of resources for small farmers to make the most of their land. These various challenges have to be dealt with against a backdrop of rapidly expanding population size and increased pressure on resources.

The Government is committed to increasing agricultural productivity. Its strategy focuses on improving rural infrastructure and water supply and management. It entails measures to maximize yields across the board, as well as specific steps to help small farmers. The strategy takes a holistic approach to agriculture, looking to improve crop production but also post-harvest management and marketing.

The livestock sub-sector provides 25-30% of the income of small farmers and landless livestock producers; it accounts for 9.7% of GDP but has tremendous potential for growth. As compared to buying and farming land, rearing livestock is a relatively easy and cost-effective means for (landless) people to gain employment and generate income. Yields can also be greater: the value of milk, for example, is higher than that of the major crops. Women can particularly benefit.

Traditionally, the livestock sector in Pakistan has been dominated by small, subsistence farmers. Expansion has been constrained by a number of factors: inadequate and poor

⁴ All figures from *Vision 2030: Agriculture Chapter* (Planning Commission, Government of Pakistan).

quality of feed; limited/negligible veterinary services; indiscriminate breeding of genetically inferior livestock; poor marketing facilities and infrastructure. The Government's strategy to promote the livestock sector is focused on overcoming these constraints and targeting women and vulnerable groups. A combination of better livestock breeds, better quality feed, disease control, marketing and processing will enable more rural communities to generate jobs and income from livestock and thereby help alleviate poverty.

Fisheries are another important sub-sector. While its 1% of GDP contribution might not seem a lot, fishing is the most important source of revenue for poor coastline communities in Sindh and Balochistan. As with livestock, the fisheries sector has considerable potential for growth but is hampered by many of the same kinds of factors limiting crop and livestock production. Fishing boats lack modern equipment; storage and processing facilities are poor; access to markets can be difficult and market infrastructure is not well-developed; over-fishing means fish stocks in some areas are declining. The Government is committed to overcoming these constraints and has developed a strategy which both promotes the fisheries sector as a whole and specifically targets and benefits poor fishing communities.

Currently, lack of infrastructure is one of the biggest constraints on growth of the rural economy. As well as initiatives for improved infrastructure specifically geared to meeting the needs of agriculture, livestock and fisheries, e.g. markets, there are also 'generic' infrastructure needs, essential for promoting rural growth and development as a whole. Key among these are roads, electrification and improved services for education, healthcare, water supply and sanitation. The Government is implementing schemes and programs to promote all of these.

PDF 2007

Given the many constraints and challenges to rural growth, some key questions to be examined in the 2007 PDF Session are:

- How to promote agricultural (crop) productivity and also ensure sustainability of natural resources?
- How to promote diversification - job creation and income generation in non-agriculture sectors?
- How to improve service delivery in rural areas and reduce the large gap in rural-urban development indicators?

Mr Rashid Faruqi, Senior Policy Advisor MINFAL, will make a technical presentation assessing the state of the rural economy in Pakistan, the major constraints on growth and options to overcome these. The panelists are drawn from diverse backgrounds: they will discuss specific aspects of the rural economy such as the dairy industry, use of genetic science to increase yields and improve livestock breeds, and promotion of tourism as a source of jobs and revenue.

Participants Profiles

SIkandar Hayat Khan Bosan (Co-Chair) – Mr Bosan is currently Federal Minister for Food, Agriculture and Livestock. He is a law graduate and agriculturalist. He was elected

member of provincial assembly from Multan in 1985, 1988 and 1990. He was elected MNA from Multan in 1997 and 2002.

Muhammad Ismail Qureshi (Co-Chair) – Mr Qureshi is currently working as the Secretary, Ministry of Food, Agriculture, and Livestock. He was nominated as the ICIMOD Board Member in 2004 by the Government of Pakistan. Having served in the government sector for more than 30 years, he possesses a wealth of experience in both the government and development sectors. He has held a number of different positions, including that of Additional Finance Secretary (External Finance and Policy), Ministry of Finance, Government of Pakistan; Director General, Lahore Development Authority, Government of Punjab; Additional Secretary of Finance, Government of Punjab; Secretary, Health and Population, Government of Punjab; as well as serving in other capacities. Apart from these government positions, Mr. Qureshi was also the Alternate Governor, Multilateral Investment Guarantee Agency (MIGA), the World Bank; Permanent Member, National Commission for Human Development (NCHD); and Member, General Body, Pakistan Poverty Alleviation Fund (PPAF). Mr. Qureshi was born in the Punjab and studied for his postgraduate degree at the University of Birmingham, UK.

Rashid Faruqi (Technical Presenter) – Mr Faruqi is currently serving as Policy Advisor with MINFAL. He is a former lead economist with the World Bank.

Geoffrey James Walker (Panelist) – Mr. Walker is the Chief Executive Officer of the Dairy Development Company of Pakistan.

M. Ehsan Tasneem (Panelist) – Dr. M. E. Tusneem, Chairman (PARC) holds Ph.D. in Agronomy from USA and more than 35 years of work experience across some 30 countries in Asia with focus on agricultural research and extension, agricultural policies, planning and development, water resources planning and development, rural development, agri-business and monitoring and evaluation of development effectiveness of projects, programs and policies. He had intensive involvement in the national/international agricultural research system in the Asia and Pacific region including evaluation and funding of research proposals and participation in the organizations, programming and strategic review of the national and international agriculture research centers. He was recently conferred by IRRI the International Year of Rice Award in recognition of his contribution to rice research.

Sohail J. Malik: Dr. Malik is currently professor of economics at the University of Sargodha and Chairman of innovative development technologies (IDS), a consulting firm. Prior to this, Dr. Malik has worked in FAO, ADB, UNDP, ICUN, Pakistan Institute of Development Economics etc.

Afaq Ahmed Tiwana (Panelist) – to be inserted

Session III(b): Cities and Growth

Cities are the engines of growth for an economy. The realization of the dream of a prosperous Pakistan depends on how our cities develop. Pakistan is experiencing explosive population growth and a very high rate of urbanization. If properly managed, these developments can result in demographic dividend and lead us to a high growth trajectory. However, there are several issues which hamper the development of cities in Pakistan. The most important issue in this regard is that there is a lack of integrated and comprehensive urbanization policy. Governments, both at the federal and provincial level, are dealing with the various urban issues separately, although all these are inherently linked.

Slums, growing around all big cities, are another problem. According to experts, more than thirty percent of the population of big cities in Pakistan lives in katchi abadis. Without basic amenities and in constant fear of being uprooted, life in these slums is miserable to say the least. These slums are the breeding grounds of crime and epidemics which not only affect them but also the whole country.

Provision of clean drinking water and sanitation is another issue which needs government's attention. Prevalence of various forms of Hepatitis virus is increasing mainly due to contaminated water. Related to this is the absence of proper system of municipal solid waste management in the urban areas of Pakistan.

Traffic hazards are another consequence of fast growth of urban populations. According to WHO estimates, road traffic accidents cost countries between 1 to 2% of their GDP. Although government is doing all it can, the number of roads has not grown as fast as number of vehicles, leading to traffic congestion and accidents. Almost all of these road traffic accidents are preventable. These accidents not only affect the families concerned but also the whole economies.

Housing problems are worsening in Pakistan due to lack of financing and high land prices. Already, there is more than five million unit shortfall of houses around the country. Unless, government takes swift action, this problem is going to grow further.

Urban problems are varied and numerous, GoP has started taking steps to improve the quality of life in the urban centres of Pakistan. The most important of these initiatives is devolution. The devolution exercise carried out by the GoP in 2001 has brought about a sea of change in the management of cities. Devolution has increased popular participation in local government and has brought a closer focus on each city's problems.

Provincial governments are also working to improve cities in their provinces. Punjab has setup an Urban Sector Policy Management Unit to do research, provide financing and develop policies for the improvement of its five big cities (Multan, Lahore, Rawalpindi, Faisalabad and Gujranwala) of Punjab. Another initiative is the establishment of Punjab Municipal Development Fund Company (PMDFC) in 2005. The primary responsibility of PMDFC is financing of municipal projects but PMDFC is currently also helping cities in capacity building and providing managerial support in GIS, town planning and social mobilization.

GoP has also started some projects with the help of donors to extend basic amenities to urban residents, to decrease environmental degradation and to decrease poverty in urban centres. These projects include, among others, Mega City Sustainable Development Project in Karachi costing 215 million dollars; NWFP Urban Development Sector Project costing around twenty million dollars and Punjab Community Water Supply and Sanitation Sector Project costing around fifty million dollars.

PDF 2007

The keynote speaker in this session will be Dr. Asad Ali Shah, Member (Infrastructure) Planning Commission of Pakistan. He will talk about urban development and mega cities, a subject of increasing relevance for Pakistan. Dr. Nadeem-ul-Haq will discuss Dr. Choi's talk and draw lessons for Pakistan. Syed Mustafa Kemal will elaborate on practical issues concerning megacities like Karachi and also discuss the recent mega projects completed in Karachi. Last speaker, Syed Ayub Qutab, will focus on .

Participants Profiles

Dr. Ishrat Hussain (Session Chair): Dr. Ishrat Husain is currently the Chairman of National Commission for Government Reforms entrusted with the task of re-organizing the Government's structure, processes and human resource management policies. Prior to this , he served as central bank governor for six years. He has also worked in World Bank and became the Bank's Resident Representative to Nigeria in 1983 and led the Bank's team that assisted Nigeria in formulating its first ever structural Adjustment program in 1986. On his return to headquarters, he headed the Bank's Debt and International Finance Division and contributed to the development of Bank's strategy that led to World Bank and IMF's participation in the Brady Initiative for Debt Reduction. As Chief Economist for Africa between 1991-94 and later as Chief Economist for East Asia and Pacific Region he guided and supervised the Bank's analytical work on the countries in these regions. In 1997 he was named the Country Director for Central Asian Republics and managed the World Bank's relations, programs and policies with these countries.

Dr. Husain obtained Master's degree in Development Economics from Williams College and Doctorate in Economics from Boston University in 1978. He is a graduate of Executive Development program jointly sponsored by Harvard, Stanford and INSEAD.

Dr. Asad Ali Shah: Dr. Asad Shah, Member Infrastructure, Planning Commission, has a doctorate in civil engineering from the University of Manitoba, Canada . He has over four decades of experience in broad-based development activities, mainly in infrastructure development. His positions with the Government include Chief in the Planning Commission, and posts in the Planning and Development Department, Government of Punjab. He has also worked extensively for the Asian Development Bank, with over 10 years in management positions such as Director General. Dr Shah has been a key contributor to the Medium Term Development Framework (2005-2010) and the ongoing work on the long-term strategic framework, Vision 2030.

Dr. Nadeem-ul-Haq: Dr. Nadeem is currently the Director at Pakistan Institute of Development Economics (PIDE), Islamabad, a premier research organization in Pakistan. He holds Ph. D. and Masters Degrees in Economics from University of Chicago. He is also the President of the Pakistan Society of Development Economists and Visiting Professor Williams College Massachusetts USA. Prior to his appointment as Director, PIDE, Dr. Nadeem served the Government of Pakistan as an Advisor to the Ministry of Commerce. He has published 3 books and over 50 papers in major journals and edited volumes He has undertaken research on a range of issues, such as governance, corruption, international trade, macroeconomic policies, agriculture taxation, environment, poverty, labor and manpower, income distribution, exchange rates, industrial economics, human resource development, privatization, fiscal and monetary policies, child labor, inflation and structural adjustments.

Syed Mustafa Kamal: Syed Mustafa Kamal is a member of Sindh assembly and the head (Nazim) of the City District Government, Karachi which one of the largest cities in the world. During the last two year, he has started many infrastructure and social sector projects in Karachi.

Syed Ayub Qutub: Syed Ayub Qutab is the Executive Director of Pakistan Institute for Environment & Development Action Research (PIEDAR), a prestigious think tank focusing on urban ,environmental and developmental issues. He has three decades of experience in environmental management and is the principal author of National Conservation Strategy (NCS) of Pakistan.

He has worked as senior consultant with ADB, Swiss Agency for Development Cooperation, UNCHS, UNDP, UNEP and World bank.

Session IV: Financial Deepening and Development

Financial deepening means the development and expansion of financial institutions, such as banks, stock markets, and insurance companies, relative to the size of a country's economy.

The link between financial deepening and economic growth is well established since the early seventies. Financial deepening has the following beneficial effects on economic growth and development. There are usually large fixed costs to enter the formal financial system and marginal costs of subsequent transactions. As financial intermediaries develop, the credit supply process improves and costs come down. Some studies have also shown that financial intermediaries exert a positive influence on factor productivity growth.

Secondly, it is well established that government interference in the working of financial sector leads to distortions and restricts the growth of financial markets. With financial deepening, government interference is phased out, capital moves to sectors where rate of return is high. This, in turn, leads to bigger profits and higher growth. Finally, financial liberalization has a positive effect on savings as more people find the specific mix of risk and reward they want in their saving instrument. This leads to increase in capital accumulation which is a prerequisite for economic growth.

Financial services sector in Pakistan has been revolutionized during the last decade and a half. Some of the important measures are as follows. Not more than a decade ago, around ninety percent of banking assets in Pakistan were in public sector. Now, more than two-third of these assets are in private sector. Foreign banks have a free and flexible entry and face no discrimination. This has resulted in foreign shareholding rising to almost half of the total assets. Divestiture of public sector banks is also accompanied with financial liberalization. Regulations have been decreased to allow banks to make their own decisions as they seem fit. Key measures introduced include permission to open private banks, elimination of bank-by-bank credit ceilings, end to directed credit, removal of caps on lending rates etc.

With all the privatization and liberalization, it was very important to have a strong regulatory and supervisory framework. Government took the right decision and augmented State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP) capacity and powers and made them fully autonomous. Now, SBP regulatory standards are at par with international BIS standards. Pakistan is largely compliant with 28 of the 30 Basel Core Principles.

Similarly, SECP is also complying with the international IOSCO principles and has transformed the capital markets. Major reforms introduced are trading in future contracts; setting up of national clearing company (clearing house) and central depository company; regulations governing Over-the-Counter (OTC) market. National Commodity Exchange Limited (NCEL) has also been established to introduce trading in derivatives.

Reforms have also been introduced in the area of corporate governance and risk management. SBP has issued a handbook for corporate governance for banks while SECP has also introduced code of corporate governance for companies. Key reforms introduced in the area of risk management include introduction of CFS, T+3 settlement system, universal

identification number (UIN) and capital adequacy standards. Non-Banking Financial sector also saw its share of reforms. In 2003, SECP announced NBFC Rules to govern this sector.

These reforms are, however, first generation reforms and although necessary, are not sufficient to guarantee long-term growth. To achieve economic growth, Pakistan will have to move to second generation reforms and further deepening and development of financial sector. Following are some of the actions which GoP, SBP and SECP plan to take during the next five years. New products like mortgage backed securities will be introduced and new initiatives will be taken to develop SME, insurance and microfinance sectors. Use of technology will be promoted and rules for e-commerce and e-banking will be notified. Further reforms will be introduced in capital markets to make them more efficient and more secure for the investors. There is also a proposal to demutualize and/or integrate the three stock exchanges of Pakistan.

PDF 2007

As SBP and SECP are the two main regulatory institutions in the financial sector, heads of these institutions have been invited to talk about how they are implementing the second generation reforms in the financial sector. Additionally, Dr. Shamshad Akhtar (Governor, SBP) and Razi-ur-Rehman Khan (Chairman, SECP) will also touch the issues which link financial deepening and demographic dividend, the theme of this year PDF. Mr. Zubair Soomro from Citigroup Pakistan will give the private sector perspective on the current financial sector reforms.

Participants Profiles

Dr. Salman Shah (Session Chair): Dr. Salman Shah is the Adviser to the Prime Minister of Pakistan on Finance, Revenue, Economic Affairs and Statistics. He has been a key player in Pakistan's economic reform program, launched by the Government in 1999. He has been a Member of the Commission on Transformation of the Economy and is a former chairman of the Privatization Commission. He has served on the Board of Governors of the State Bank of Pakistan, PIA, Foundation University and the Bank of Punjab. Dr Shah holds a Ph.D. in Finance from Kelley School of Business Administration, Indiana University.

Dr. Shamshad Akhtar: Dr. Shamshad Akhtar took over as Governor, State Bank of Pakistan on 2nd January, 2006 for a three-year term. Dr. Akhtar, who is the first woman and the 14th Governor of the State Bank since its inception in July, 1948 brings rich experience, both national and international, to her new assignment. Prior to her appointment as SBP Governor, Dr. Akhtar has been serving the Asian Development Bank (ADB) as its Director General, Southeast Asia Department since January, 2004. Earlier, she was Deputy Director General of the Department. She also held the position of Director, Governance, Finance and Trade Division for East and Central Asia Department of ADB. Before joining the ADB, Dr. Akhtar worked for 10 years as an Economist in the World Bank's Resident Mission in Pakistan. In Pakistan, she also worked briefly with the Planning Offices of both the Federal and Sindh Governments.

Dr. Akhtar has an M.Sc. in Economics from the Quaid-e-Azam University, Islamabad, an M.A. in Development Economics from the University of Sussex in 1977 and a Ph.D. in Economics from the U.K.'s Paisley College of Technology in 1980. She is a post-doctoral fellowship Fulbright Scholar and was a visiting fellow at the Department of Economics, Harvard University in 1987.

Dr. Akhtar has presented numerous papers on economics and finance at international conferences/seminars/symposia. Her research interests are on Monetary and Fiscal Policy, Banking and Capital Market, International Finance Architecture, Regulation and Supervision, and Industrial & Corporate Restructuring.

Razi-ur-Rehman Khan: Razi-ur-Rehman was appointed as Chairman, SECP last year. Prior to that, he has served in various important position in organizations like the National Investment Trust (NIT), Hub Power and ANZ Grind lays Bank.

Zubair Soomro: Mr. Soomro is the head of Citigroup in Pakistan. Prior to that, he has held important position like President, United Bank Limited.



Session V: Industrial Growth – Moving up the Competitiveness Curve

A country's prosperity depends on its competitiveness in the world economy. Despite being endowed with vast natural resources and world's sixth largest population, Pakistan doesn't fare well in terms of competitiveness. Two of the world's most prestigious competitiveness indices rank Pakistan below competitor countries. Pakistan is ranked 66th on the Business Competitiveness Index (BCI) of the World Economic Forum and 91st on the Global Competitiveness Index (GCI) in the 2006 Global Competitiveness Report.

Competitiveness is defined as the degree to which a nation can, under free trade and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining and expanding the real income of its citizens. The link of industrial development and competitiveness is long recognized. Looking at BCI and GCI, one clearly sees that the countries which are on top in these indices are also the most industrially developed. Developing countries, like Pakistan, depend on technology transfers from developed countries and can, therefore, never compete with them in international markets. Pakistan has been among the fastest growing economies in Asia in the last few years. But this thrust can only be sustained, if Pakistan becomes more competitive and for that we need to advancement in industrial sector.

Industrial sector has long been focus of Government of Pakistan (GoP) planning. Pakistan's first five year plan in the fifties called for rapid industrialization and our current Medium Term Development Framework (2005-10) also tries to achieve the same objective. During all these years, we have achieved some landmarks but relative to even countries in our own region, we haven't progressed much. What has been missing is a coherent approach to issues which inhibit industrialization and decrease competitiveness.

Recently, GoP decided to address the industrialization issues in a comprehensive way and have come up with a draft industrial strategy. Some of the important recommendations of this strategy are as follows:

- Regulation of a sector can be restrictive leading to low investment or it can be sensible and easy to comply with, thus helping investors, ensuring a level playing field and improving the functioning of capital, land and labor markets. Pakistan has to decrease its restrictive regulations to promote investment in industries.
- Burden of taxation in Pakistan is disproportionate. Very few people pay taxes, leaving percentage of taxes to GDP very low. This has to change by broadening the tax base so that high tax rates are lowered, without decreasing tax collection. Tax structure should also be streamlined and simplified to decrease opportunities of rent seeking.
- Pakistan needs to remove infrastructure bottlenecks in the areas of communication, transport and energy.
- Upgrading workforce is another area where Pakistan has to do lot of work. Productivity is linked with education and skills training as it help adoption of new technologies and most of the Pakistani workers are illiterate and quality of education imparted is generally low.
- SMEs are a vital part of any economy. They promote innovation and generate employment. Experience of developed countries shows that unless SMEs flourish, economy cannot develop. Government should work more to create an enabling environment for SMEs.

Working on this strategy, GoP has taken several initiatives

- GoP has focused on improving the capabilities of Pakistan's engineering sector. Pakistan Industrial Development Corporation (PIDC) was restructured and its capabilities improved to make it well-versed with the issues of the new century. Currently, PIDC is led by a private sector professional and it has taken several new initiatives. Six new companies were created under PIDC to support developments in gem and jewelry, marble and other sectors. Similarly, Engineering Development Board (EDB) was also restructured and given a broader role.
- Government of Pakistan has also taken several steps to promote the SME sector. These include restructuring and expansion of SMEDA, establishment of SME bank and coming up with the first SME policy last year.
- As recommended in the industrial strategy, a National Industrial Parks development and management company (NIPDMC) has been established under PIDC. It has a Rs 2 billion revolving fund which is being used to develop industrial estates. This company has already worked on setting up of three industrial parks in Karachi and two marble cities in Risalpur and Mohmand Agency.
- Although, different ministries were looking at different aspect of competitiveness, it was felt that unless a body looks at Pakistan's competitiveness as a whole, an integrated and comprehensive effort cannot be made. Therefore, Competitiveness Support Fund (CSF) was established, with the help of USAID, in May last year. Since its inception, CSF has signed MOU with a number of public and private sector agencies to improve competitiveness and published 'The State of Pakistan's Competitiveness Report 2007'.

Pakistan has to move to an advanced level of competitiveness, if it wants to decrease poverty and join the rank of middle income countries but the road to El Dorado is not easy. As stated in 'State of Pakistan's Competitiveness, 2007', Pakistan needs macroeconomic stability, efficient factor markets, effective regulation, skilled workforce endowed with spirit of entrepreneurship, centres/universities doing cutting edge research, reduced banking and country risk, low-cost energy and strong infrastructure. The present government is working on all these fronts. In some areas, like macroeconomic stability, we see lots of progress but in other areas, like efficient factor markets and universities doing advanced level research, future doesn't look bright. What GoP needs to do is to press ahead, with the help of donor community.

PDF 2007

During this session, Dr. Ijaz Nabi, the main author of the draft industrial strategy, will give a presentation on the strategy. This will be followed by a talk by Omer Ayub Khan, Minister of State for Finance and Chairman, Competitiveness Support Fund. Mr. Guo Wanda will give an overview of the special economic zones which have a major contribution in the industrial development of China. In the end, Mr. Wale will give a talk on public private partnerships.

Participants Profiles

Mr. Jahangir Tareen (Session Chair): Mr. Jahangir Tareen is the Minister of Industries, Production and Special Initiatives since 2004. Prior to that, Mr. Tareen has served as Chairman of the Punjab Task Force on Agriculture from 2001 to 2002, Advisor to the Chief Minister, Punjab on Agriculture and New Initiatives.

He has done MBA by University of North Carolina and has been a Lecturer in University of Punjab and a banker (Grindlays Bank Lahore). He is an industrialist himself and has also developed and now manages a 2,500 acre Mango and Cotton farm in Lodhran with the most modern farming methods.

Dr. Ijaz Nabi: Dr. Nabi is currently working as sector manager, South Asia Poverty Reduction Unit (SASPR). He has a long association with World Bank and the South Asian region. He has researched and written extensively on South Asia.

Mr. Guo Wanda: Mr. Guo specializes in macroeconomic and industrial policy studies. He is currently VP, China Development Institute. He is also chairman, Shenzhen association of management consultants and vice chairman, Shenzhen macroeconomic association.

Mr. Guo graduated from Nankai University in 1987, majoring in economics. He received PhD in economics from the same university in 1991. Mr. Guo has vast experience of economic consulting and written extensively on China's development experience..

Mr. Wale Shonibare: Mr. Shonibare is the director, corporate finance, KPMG in the UAE. He has widely consulted on Public Private Partnership (PPP) schemes in Central Europe, and in the UK during the early 1990s when the concept was developed.

FATA Development Forum

Day Three of the 2007 Pakistan Development Forum features a half-day FATA Development Forum. This is a unique event, being held for the first time as part of the PDF. The FDF will comprise a Plenary Session and Roundtable Discussion.

Background: Unique Position of FATA

The Federally Administered Tribal Areas (FATA) form a belt in the North-West of Pakistan. FATA comprises seven political agencies: Bajaur, Khyber, Kurram, Mohmand, North Waziristan, Orakzai and South Waziristan, and six smaller zones referred to as 'frontier regions' (FRs).

The FATA belt has always been of great strategic importance. Under British rule, it formed a buffer between India and Russia. The British made several attempts to 'conquer' the area and run it directly. But fierce resistance from the independent tribal population forced them to exercise authority through appointed political agents, given wide powers under the Frontier Crimes Regulations and substantial funds to buy influence and cooperation from local tribal leaders. The FCR provided for collective punishments in the tribal areas.

Following the end of colonial rule and the creation of Pakistan in 1947, the various tribes in the region pledged allegiance to the new state. Some 30 Instruments of Accession were signed but these retained the autonomy of the local tribes. Except where strategic considerations dictated, the tribal areas were allowed to run affairs according to their tribal customs and norms. The 1973 Constitution stipulates that, unless directed by the President, no Act of Parliament would apply to FATA and neither the Supreme Court nor High Courts will exercise any jurisdiction in relation to FATA.

Challenges: Law and Order, and Development

The autonomy enjoyed by FATA, the region's proximity to Afghanistan, the mountainous terrain and isolation, and the conservative outlook of the population are all factors that have promoted Islamic militancy in the tribal belt, and lead analysts to believe that Al-Qaeda and Taliban leaders and activists are being sheltered there. Following the attacks of 9/11, pressure has increased for military action against the militants and in 2004 the Pakistan Army entered the region for the first time – resulting in clashes with resentful locals. However, in September 2006 the Government and tribal leaders reached an agreement designed to reduce conflict.

As well as the on-going 'war on terror' being waged in FATA, there are underlying problems of law and order. Tribal and clan conflicts are common; criminality is on the rise; smuggling is one of the main sources of revenue in the region. The traditional systems of justice – the *jirgas* – are increasingly proving incapable to dealing with the situation. For ordinary people, in particular, it is extremely hard to get justice.

The extreme isolation and autonomy of FATA has had a very detrimental impact on the region's development. FATA is among the most economically backward areas in Pakistan. Less than 10% of the land is cultivable, meaning agriculture is simply enough for subsistence. There are hardly any industries in the region and few jobs. The main source of revenue is actually smuggling, arms and drug trafficking. Some 60% of the population live below the poverty line. Development indicators lag far behind the rest of Pakistan.

The Way Ahead

There is strong recognition in the Government of Pakistan that the situation and status of FATA has to be reformed. Increased security measures, FCR reform and democratization are important elements of the Government's strategy for FATA, but by far the main component is promoting development in the region. Funding allocations to FATA have increased steadily over the past five years, rising from less than Rs.1 billion in 2001 to Rs.6.2 billion in 2005-6. The Government's future plans for FATA entail investment on a much bigger scale.

The FATA Sustainable Development Plan (SDP) has been prepared by the Government to address the development challenges facing FATA. The SDP takes an integrated approach to combine economic and social development with environmental integrity and poverty alleviation. It is focused on the people of the region. The SDP outlines a number of over-arching issues facing FATA – governance, law and order, society and culture, services and utilities, economy and development, and environment - and lays out over-arching strategies to address these. The strategic objectives form the basis for specific interventions in each sector.

The SDP is expected to be implemented over a nine-year period. The total funding requirement for full implementation is estimated at Rs.124.1 billion, of which approx. Rs.63.6 billion is already committed, Rs.60 billion by the Government and Rs.3.6 billion by foreign donors. Many of Pakistan's development partners are supporting development initiatives in FATA. The FATA SDP provides a coherent, integrated framework to ensure maximum effectiveness of donor funding.

FATA Development Forum

The 2007 Pakistan Development Forum features a FATA Development Forum comprising Plenary and Roundtable Sessions. This is the first time FATA has been given such prominence in the Pakistan Development Forum, and is a reflection of the urgency for reform in the region. The Plenary Session will have an address on the history of the FATA region; Mr Javed Iqbal, Additional Chief Secretary FATA Secretariat, will outline the FATA Development Strategy; while Mr Imtiaz Sahibzada, Advisor to the Prime Minister on FATA, will highlight some of the challenges in promoting development. There will also be a speech by the Governor of NWFP, Mr Ali Mohammed Jan Orakzai. The Discussion Session of the Forum will continue examining strategies to end the violence in FATA and promote growth and development, including specific measures such as Reconstruction Opportunity Zones (ROZs).

Participants' Profiles

To be inserted

Ali Muhammed Jan Orakzai –

Imtiaz Sahibzada –

Javed Iqbal –

Sahibzada Riaz Noor –

Arbab Shahzad -

Session VI(a): National Trade Corridor

The Session on 'National Trade Corridor' will be chaired by Engr. Dr. Akram Sheikh, Deputy Chairman, Planning Commission, who will be assisted by Mr. Asad Ali Shah, Member Infrastructure, Planning Commission.

Background and Context

Pakistan's economy has expanded by over 6.5% per annum during the past four years. To sustain sufficient momentum for this growth in the coming decade, the Government of Pakistan (GOP) is now focusing on reducing the cost-of-doing business and increasing productivity and international competitiveness. A major initiative has therefore been launched by GOP to improve the trade and transport logistics chain along the north-south 'National Trade Corridor' (NTC) linking Pakistan's major ports in the south and south-west with its main industrial centers and neighboring countries in the north, north-west and east. In PDF 2006, a session "Infrastructure, Energy, Water, National Trade Corridor" was devoted to discussing how to work towards upgrading the logistics chain along with physical infrastructure. The 2004 PDF was devoted to 'Spurring Growth for Economic Development through Infrastructure Development'.

PDF 2007 Focus

In order for Pakistan to improve upon its trade competitiveness to ultimately boost its growth rates and hence ensure sustained development, it needs to take advantage of all the opportunities that are offered by the NTCIP sub-sectors. The current PDF will continue the discussion on these lines and will try to answer the following broadly-defined questions: What are the challenges facing the transport, trade and energy sectors? What have been the key Government Initiatives? What needs to be done?

Engr. Dr. Akram Sheikh, Deputy Chairman (Planning Commission) and Mr. Asad Ali Shah, Member Infrastructure (Planning Commission) will highlight the passage to a National Trade Corridor in the overall environment of such programmes and plans as envisaged by PRSP, MTDF, Vision 2030 and NTCIP. The six-year plan, NTCIP, is being undertaken as a major strategic initiative to improve the logistics chain throughout the country to meet domestic transportation requirements and provide transit facilities to Central Asia, western China, Afghanistan and Iran. It covers ports and shipping, trade facilitation, highways and trucking modernization, railways improvement and aviation and air transport modernization, along with energy logistics. The investment plan will be fully implemented in about six years and it is estimated to save 5 to 7.5 billion dollars per annum currently being lost because of the poor performance of railways, highways, ports and airports.

The development of an efficient transport sector has also been hindered due to misplaced priorities and the absence of an approved transport policy. Mr. Amer Durrani, Senior Transport Sector Specialist (World Bank) will give a presentation on NTC and will focus on the following four challenges:

a) *The Efficiency Challenge* – Required reorientation of certain institutions not keeping pace with others and the overall plan;

- b) *Public Resource Envelope Challenge* – In addition to ensuring PSDP allocations, need to find innovative off-budget and PPP (public private partnership) financing mechanisms to fully implement the identified programme within the fiscal responsibility framework;
- c) *Private Sector Challenge* – Huge potential of savings (over USD 7 billion) resulting from efficiency in private sector logistics needs to be fully tapped – streamline areas such as warehousing, shipping, inventory control, and efficient administration;
- d) *NTCIP physical infrastructure implementation challenge*.

Mr. Abdur Razzak Dawood, Chairman (DESCON Engineering Pvt. Ltd.) will highlight challenges and opportunities in such sub-sectors of NTC as oil and gas, infrastructure, power, chemical/petrochemical, cement and fertilizer. Mr. M. Abdullah Yusuf, Chairman (CBR) will dwell on issues facing the social infrastructure sectors, specially focusing on customs and commerce, analyzing the present setup along with discussing future possibilities. Mr. Babar Badat, Chairman (Pakistan International Freight Forwarders Association) will focus on such areas logistics as freight forwarding, trucking and TIR.

Participants' Profiles

Dr. Akram Shaikh (Co-Chair) – Dr. Shiekh is currently serving as Deputy Chairman, Planning Commission. Previously, he has served as Secretary, Ministry of Industries; Executive Director, HEC; Chairman EDB; Secretary, Water and Power; and Secretary, Ministry of Communications.

He has BSc Engg from UET, Lahore, MSc from University of Leeds and PhD from University of Calgary, Canada.

Asad Ali Shah (Co-Chair) - Dr. Asad Shah, Member Infrastructure, Planning Commission, has a doctorate in civil engineering from the University of Manitoba, Canada . He has over four decades of experience in broad-based development activities, mainly in infrastructure development. His positions with the Government include Chief in the Planning Commission, and posts in the Planning and Development Department, Government of Punjab. He has also worked extensively for the Asian Development Bank, with over 10 years in management positions such as Director General. Dr Shah has been a key contributor to the Medium Term Development Framework (2005-2010) and the ongoing work on the long-term strategic framework, Vision 2030.

Abdur Razak Dawood (Panelist) – Mr. Dawood is the chairman of Descon Engineering Ltd which is the largest private engineering firm in Pakistan. He is also serving as member, board of directors, SBP and Rector, LUMS. Previously, he has served as Federal Commerce Minister and Chairman, Engineering Development Board.

M. Abdullah Yusuf (Panelist) – Mr. Yusuf is currently serving as Chairman CBR and Secretary General, Revenue Divison. He is a chartered accountant and has also served as secretary, petroleum and natural resources division and Planning division.

Babar Badat (Panelist) - to be inserted

Session VI(b): Water, Power and Prosperity

Session VII: Evaluating Aid Effectiveness in Pakistan

Ms. Hina Rabbani Khar, Minister of State for Economic Affairs and Statistics will chair the session. The **objective** of the session is twofold:

1. To take stock of measures taken to increase aid effectiveness in Pakistan and to present respective achievements and continuous challenges;
2. To present and discuss options to advance the aid effectiveness agenda in Pakistan.

Background and Context

Foreign assistance is playing an important role in Pakistan's development strategy. Major partners have recently increased their aid commitments to support the Government of Pakistan in its development efforts. In order to ensure that increased aid volumes are leading to lasting results, it is critical to ensure that higher aid quantities go along with improved quality of aid. Too often, large unproductive costs and misalignment of aid have resulted in missed opportunities to improve people's lives by using all resources better. The effective use of aid, the case for more aid, and demonstrable results on the ground are interrelated and intertwined with key roles both, the Government of Pakistan and its development partners, need to play.

At global level, the international development community has made far reaching commitments regarding concrete measures to increase the effectiveness of development assistance, in a series of high-level meeting. At the High-Level Forum on Aid Effectiveness, held in Paris in February 2005, developing countries and their partners agreed on a practical, action-oriented roadmap to improve the quality of aid and its impact on development. The signatories to the Declaration, among them Pakistan, made 56 commitments, which are organized around five key principles, namely national ownership, alignment, harmonization, managing for results and mutual accountability.

In particular since the Pakistan Development Forum in 2006, the Government of Pakistan, in close collaboration with its development partners, has intensified its efforts to increase aid effectiveness and to foster the implementation of the Paris Declaration in Pakistan. Among the concrete initiatives to increase aid effectiveness at the country level are the establishment of a joint GoP-Partner Aid Effectiveness Steering Committee, the set-up of an aid information management system, the implementation of the Paris Declaration Baseline Survey, as well as the set-up of three joint working groups. These working groups have been established in order to reach at concrete, actionable recommendations on how to make progress in areas of particular concern, which have been identified as follows:

- Financial Management & Procurement Harmonization & Country Systems Strengthening;
- Capacity Development and Sector-Wide Approaches;
- Harmonizing Monitoring and Evaluation Systems.

PDF 2007 Focus

The focus of this year's PDF Session on Aid Effectiveness is on *review, consolidation* and *enhancement* of initiatives taken to increase the effectiveness of aid in Pakistan.

After a short introduction of the session and clarification of its objectives by the Chair, a presentation will be made by the Government of Pakistan to inspire and inform the subsequent discussion. The presentation will outline and critically review the progress made until today. Further, it will highlight still existing challenges for making foreign assistance more effective and will propose concrete actions to overcome these challenges.

The presentation will be followed by a moderated discussion, which will involve a high-level panel, as well as the wider plenary. The chair will discuss with the development partners a formal mechanism, which is consultative and participatory, as well as agreeable to all, and which will ensure that ongoing and future initiatives to increase aid effectiveness will complement each other in addressing key challenges identified.

Panel members will be asked to reflect on key issues that influence the effectiveness of foreign assistance in Pakistan from their point of view. Further, they will be requested to outline concrete steps to overcome these issues and to foster the implementation of the five principles of the Paris Declaration.

Expectations

The session is expected to increase the understanding between government and donors on main aid effectiveness issues and to reach at common objectives for the future. Essentially, the session is expected to become the starting point of a revived joint agenda for increased aid effectiveness in Pakistan.

HISTORICAL MAPPING

PAKISTAN DEVELOPMENT FORUM 2001

Conference Overview

The Pakistan Development Forum was held from 12-15 March 2001 in Islamabad (Jinnah Convention Centre). As the first major meeting between Government and donors since 1998, the main theme of the PDF was the Government's wide-ranging reform program. Aside from the inaugural and concluding sessions, there were five substantive sessions devoted to: economic reforms, human development, private sector development and privatization, governance reforms, devolution and provincial reforms. Donors were told about progress and issues in reform implementation, and also given assurances about the Government's commitment to democracy. Finance Minister Shaukat Aziz inaugurated the PDF.

Country Context

The 2001 PDF took place after a gap of almost three years. During those three years Pakistan had been hit by a number of shocks – economic, political and financial. In May 1998 India tested its nuclear weapons, leading Pakistan to follow suit. The resultant run of capital, freezing of foreign-currency accounts, reduction in foreign investment, worsening of Pakistan's credit rating, and drop in official development assistance, all led to a severe fiscal crisis. Attempts to get out of this through debt rescheduling and IMF assistance failed to

prevent the country having unsustainable levels of foreign debt, and foreign currency reserves ‘measured in weeks of imports rather than months’. Political problems continued both internally and externally, with attacks on the Supreme Court, conflict in Kashmir, growing sectarian violence, and attempts by the Sharif government to impose Shariah law.

These various crises took place at the end of a decade that saw Pakistan’s GDP growth rate decline from an average 5-6% in the 1980s, to 3% in the latter half of the 1990s. Persistent problems with the industrial and agricultural sectors, a high population growth rate of 2.6% per year and rising unemployment were some of the factors responsible for a rise in poverty in the 1990s. [This after it had fallen substantially in the 1980s.] This rise was also intimately connected to poor governance: endemic corruption, poorly managed public institutions, inconsistent and ill-conceived policies, weak financial management, overstaffing, and so on, leading to ineffective public services. Pakistan’s human development indicators were well below those of other countries with comparable income levels.

In October 1999 came the change of government in Pakistan. General Pervez Musharraf assumed power as Chief Executive, from Prime Minister Nawaz Sharif. The ouster of an elected government caused concern in the international community, and added to Pakistan’s ‘pariah’ status. Already facing massive challenges, the new government’s task was made more difficult by a drop in agricultural output due to poor rainfall, rising oil and wheat import prices, and declining cotton and textile export prices.

Soon after taking power, General Musharraf announced a Seven-Point Agenda to tackle the country’s many problems: rebuild national confidence and morale; strengthen federation, remove inter-provincial disharmony and restore national cohesion; revive [the] economy and restore investors’ confidence; ensure law and order and dispense speedy access to justice; depoliticise state institutions; devolve power to the grassroots level; and ensure swift accountability. ‘The strategic objective was to establish the institutional basis for good governance and a policy framework for achieving both economic revival and poverty reduction government.’

The 2001 Pakistan Development Forum, initiated by the Government, therefore came at an extremely significant time. It was the first following the October 1999 change of government in Pakistan. It came after a decade that had seen Pakistan’s development and growth indicators deteriorate significantly, spurred on by an underlying ‘crisis of governance’. And it came one year after Pakistan had signed up to the Millennium Development Goals, achievement of which would require changes in policies, resource allocations and institutional functioning.

The 2001 PDF was the first opportunity in three years that donors and Government had had to collectively discuss Pakistan’s development. For the Government, it was a chance to allay international concerns about the 1999 transition, outline its reform program and bring Pakistan’s development partners on board. For donors, it was a chance to hear the new government’s reform program laid out in a systematic manner and put across their own concerns and priorities.

Government Initiatives and Achievements

The main theme of PDF 2001 was the ambitious reform program initiated by the Musharraf government, focusing on generating economic growth, good governance and poverty reduction. PDF 2001 was used by the Government to explain its reforms and details of their implementation to Pakistan's development partners. This was reflected in the agenda which, as well as inaugural and concluding sessions, had five sessions devoted to various reform areas: economic reforms; human development; privatization and private sector development; governance; devolution and provincial reforms.

As Finance Minister Shaukat Aziz made clear in his opening remarks, 'The first and foremost challenge we are facing today is how to reinvigorate growth'. Poverty reduction was identified as the other major challenge. But the Government also made clear that it saw growth and poverty reduction initiatives as mutually reinforcing. Donors were told that the Government would be focusing on four areas to generate growth: small and medium enterprises (SMEs), the energy sector, agriculture and information technology. On agriculture, the Government shared with donors its concerns that long drought spells in Balochistan and Sindh could have a negative impact on productivity, thereby hampering growth and poverty reduction efforts.

In the 2001 PDF, the Government acknowledged that - with 60% of revenue used for debt servicing - Pakistan faced a massive debt crisis. It had formed a Debt Reduction and Management Committee, whose report stressed economic growth and measures such as increased tax collection and privatization, as crucial for tackling the debt issue. Reiterating its commitment to macro-economic stability, and highlighting the initiatives it had already taken in this regard (e.g. resolution of the Hubco dispute), the Government also called on Pakistan's development partners to provide strong support.

Efforts to improve tax revenue included, for the first time in Pakistan, a comprehensive tax survey and documentation campaign, expansion of GST, and strengthening tax administration. Moves to improve financial management included the creation of Public Accounts Committees; promulgation of a New Accounting Model (NAM) and system of accounts; preparatory work on a Medium-Term Budgetary Framework; and drafting of a Freedom of Information Law. It was impressed on Pakistan's development partners that the Government recognized massive structural reforms were needed, and in just 17 months, it had made significant progress in that regard.

The Government explained that its stress on growth (through the four drivers outlined above) would automatically lead to poverty reduction, but in order to ensure that growth benefited all - and particularly the poor and vulnerable - the Government was also implementing direct poverty-alleviation measures. The four major elements of the Government's poverty alleviation program were identified as: public works programs; food support program; revitalizing the zakat system; and provision of micro-credit. The 2001 Interim Poverty Reduction Strategy Paper included these elements. Economic growth would allow the Government to increase spending on public services.

Export promotion, with sustained double-digit export growth, was highlighted as a crucial part of the Government's debt management strategy. Donors were told about measures being taken by the Ministries of Commerce and Industry in this regard. The energy sector in

Pakistan had traditionally been a massive drain on public funds. The Government described the initial moves it had taken for energy sector reform, notably restructuring of WAPDA and KESC, and explained that its long-term goal was privatization – with the safeguard of strong regulatory regimes. Its new privatization law (applicable to all sectors, not just energy) not only provided legal cover for investors' rights, but included a commitment to use 90% of privatization proceedings for debt reduction, and the remainder for poverty alleviation programs. In order to improve Pakistan's bloated and public-sector dominated banking sector, the Government had initiated moves for streamlining, commercialization and eventual privatization.

One of the points the Government stressed to donors at the 2001 PDF was its acknowledgement that Pakistan's problems stemmed from an underlying 'crisis of governance' and its determination to promote good governance. In this regard, donors were told about moves for civil service reform, e.g. strengthening the Federal Public Service Commission, reduction by 30% in the Railways staff, review of civil service pay and pensions; measures to promote accountability and transparency in the public sector; and judicial reforms.

A key pillar of the Government's program to improve governance in Pakistan was devolution. The Devolution Plan of 2000 had laid the outline of a new system of local government, aimed at increasing participation, improving accountability and thereby leading to better service delivery and poverty reduction. In the 2001 PDF, the Government shared with donors its thinking with regard to devolution, progress and future plans – notably completion of local government elections and new governments being sworn in by August 2001. The fact that 33% of local government seats were reserved for women was highlighted, and commended by donors.

Finally, the Government addressed donor concerns about the future of democracy in Pakistan. Donors were assured that 'this Government is fully committed to democracy', but with the caveat that it wanted to restore democracy that was participatory, accountable and worked for the people. 'We believe in democracy which improves governance, improves the delivery system of social services, increases transparency, help alleviate poverty, where the national objective is supreme, and which promote national cohesion.'

Donor Perspective

Development partners at the 2001 PDF expressed support for the Government's commitment to reform, and the measures undertaken to date.

Donors stressed the need for the citizens of Pakistan to be taken 'on board' the reform program through communication and participation. In particular, they stressed the need to include traditionally marginalized groups: women, minorities, the poor. Devolution was particularly commended in this regard, precisely because it would promote grassroots participation in local decision-making. As the UN Resident Coordinator put it: 'The Devolution Plan represents the best opportunity in a long time to realize the donor community's long-standing advice for participatory human development.'

Various donors stressed the need to invest in provision of vital services like health care and education, as well as to improve social protection and safety nets for the very poor. Whilst commending the Government's privatization drive and other measures to generate growth, they warned that it should protect the poor (particularly those in the informal labour market) from the negative fall-out of such measures. Donors also warned that the real challenge in Pakistan was *implementing* policies and commitments.

Donors used the 2001 PDF to express their concerns about the future of democracy in Pakistan. They urged the Government to adhere to its October 2002 deadline for returning democracy to Pakistan. However, they also stressed that the return to democratic rule would be short-lived if opportunities were not seized to support the strengthening of basic institutions of democracy, including civil society organizations, the media, and political parties.

In her closing remarks, Mieko Nishimizu summed up what Pakistan's development partners had learned from the 2001 PDF:

'We learned a great deal from you about Pakistan's economic revival programme, what you have already done to date, and where you are heading. Most of all, we saw in your eyes, heard in your voice, and sensed in your presence -- individually, and collectively as a team -- your courage to lead the change process and your determination to succeed.'

PAKISTAN DEVELOPMENT FORUM 2002

Conference Overview

The 2002 Pakistan Development Forum took place in Paris from 29-30 April. The three main conference sessions were on economic management, governance and human development. At the 2002 PDF the Government highlighted achievements and challenges in implementation of its reform program, particularly with regard to: restructuring of public expenditure towards growth enhancing and poverty-reducing outlays; improving monitoring and transparency in public finances; tax policy and tax administration reform; public enterprise restructuring and privatization; financial sector and foreign exchange market reforms; and governance generally.

Country Context

The 2002 Pakistan Development Forum took place in the wake of two events that significantly impacted Pakistan's regional and international context. The first of these was the 9/11 terror attacks in the United States, following which Pakistan became a key ally in the US-led 'war on terror'. While the 9/11 attacks raised Pakistan's importance and facilitated its rehabilitation in the international community, but they also led to a global economic downturn to which Pakistan was not immune. The second was the December 2001 attack on the Lok Sabha in New Delhi, following which tension between India and Pakistan escalated and both sides mobilized large numbers of troops along the international border and LoC.

Pakistan thus faced a number of problems: the general slowdown in the world economy, high oil prices, protracted drought, trade disruption in the wake of September 11, and regional and domestic security issues. However, due to improvement in macroeconomic fundamentals achieved through stabilization policies pursued in the preceding two years, closer relations with the Group of Seven leading industrial countries and increased remittances and larger foreign grants, the economy was in a better position to absorb the external shocks. The signing of the Poverty Reduction and Growth Facility with the IMF and rescheduling of the country's bilateral debt by the Paris Club in 2001 further reduced the economy's vulnerability. With a comfortable cushion of reserves, and a flexible exchange rate policy, Pakistan was building up resistance to external shocks.

Government Initiatives and Achievements

As with the 2001 PDF, the main theme of the 2002 Pakistan Development Forum was the wide-ranging reform program being implemented by the Government, and achievements and challenges in this regard.

The Government described the progress it had made in implementing governance reforms. The main focus was on institutional reforms, particularly with regard to the civil service and police (justice sector). Government initiatives were highlighted including: promoting autonomy of FPSC; changes in civil service laws; systemic improvement for promotion processes; delegation of administrative and financial powers; training and procedures for performance assessment; rightsizing and restructuring; accountability mechanisms for NAB; police reforms; access to justice; policy making for a more efficient and citizen oriented judicial and legal sector and public procurement regulations.

The Government provided an update on devolution and the accompanying changes for devolution from the federal to the provincial levels in the political, administrative and financial fields. Proposals being developed by the NRB were also detailed, mainly with regard to changes in political structures and systems; devolution from central to lower levels; introducing efficiency and transparency in governance; and civil service reforms. The Government stressed the requirement for additional financial support in the short term, particularly for establishing new institutions and systems and for the reform of infrastructure and modernization of the police and lower judiciary, training of elected representatives and government functionaries; e-governance and capacity building.

At the 2001 PDF the Government also shared with donors its Interim Poverty Reduction Strategy Paper (I-PRSP). This had three main goals: increasing growth potential; improving social outcomes; and reducing vulnerability to shocks. The approach, goals and targets of the Pakistan Poverty Reduction and Human Development Strategy were presented and it was explained that it was fostering growth through economic reforms, physical and social asset creation for the poor, development of social safety nets and good governance through devolution of power, civil services reform, access to justice and police reform. Poverty trends were also discussed.

On economic management, the GoP summarized the progress that had been made to stabilize the economy over the last two years, and the improvements in Pakistan's debt situation. In terms of policy developments, donors were told that the Government's agenda for the medium term consisted of articulation of tax policy; initiation of a universal self-assessment scheme for income tax, progressive reduction of the tax rate for banks and private companies over the next 5 years to 35% and the progressive elimination of withholding taxes. Also that the process of Central Board of Revenue (CBR) reforms had gathered momentum and other related reforms had been initiated. The Securities and Exchange Commission of Pakistan continued with reform of the stock markets. The Government also continued with the process of trade and foreign exchange system reforms.

Liberalization of the oil and gas sectors were identified as priority areas for the GoP, while restructuring of the publicly-owned banks had moved ahead. Looking at the 'big picture', the Government would be focusing on the key drivers of development: further improvements in governance at all levels of the state and the further liberalization of the economy. The former included the adoption of a fiscal responsibility law, an anti-money laundering law and measures for ensuring the reliable provision of key public services.

Donors were told that emerging challenges related to the newly initiated devolution reforms: accountability at the lower levels was a particular concern. Energy was identified as another challenge: socio-political pressures had built up due to the extraordinary run up in international oil prices, while geopolitical tensions related to Iraq had also gained force. The financial situation of gas and power utilities was worrisome. Fundamental reform of the power sector was seen to be critical for addressing the main risk to fiscal adjustment.

The GoP requested donors to consider a substantive reduction in interest rates, so that the objective of attaining overall debt sustainability could be achieved before the ten years visualized by the Debt Management and Reduction Committee. GoP's commitment to following prudent fiscal policies, in the context of a sustainable debt strategy, was emphasized while pointing out the need to concentrate public investment in areas which could help Pakistan to achieve targets in the poverty alleviation program. GoP stressed the need to use grant assistance as well as debt-for-social sector assistance on employment generation. The GoP recognized the support of bilateral donors and assured them that spending would be done in a transparent and accountable way.

Donor Perspective

The donor community expressed satisfaction with the way the Government had progressed on its economic adjustment program, in meeting macro-economic targets and in addressing long-standing structural problems. The Government's commitment to pursue ambitious reform efforts under the PRGF, despite the difficult socio-political environment following September 11, was lauded. The main goals in the interim PRSP were noted to be adequate for providing a basis for concessional lending, namely, increasing growth potential, improving social outcomes, and reducing vulnerability to shocks. There was also consensus over the challenges facing the country, namely, poverty reduction, achieving higher growth with lower inflation, raising annual growth to 5–6 percent within a few years, through productivity gains and a recovery of private investment and consolidating stabilization gains.

Donors noted and stressed measures related to trade liberalization, maintenance of a fully flexible exchange rate regime for strengthening competitiveness of the economy, fiscal consolidation through a broadening of the tax base and improved tax administration and restructuring of public expenditure. Monitoring and transparency in public finances were emphasized and weaknesses in social services provision as well as increased revenue allocations were noted. Institutional reforms of CBR and KESC as well as creation of incentives for more private investment were emphasized by the donor community. Implementation of spending priorities mentioned in the IPRSP regarding social sectors was stressed.

Donors highlighted the prevalence of poverty and its multidimensional aspects: the role of education and health in poverty alleviation were particularly mentioned. The reliance of people on private sector facilities (e.g. schools and clinics) was attributed to the deterioration of public service quality. Limited progress in meeting health (especially maternal health) and nutritional requirements were mentioned as key concerns. Other prevalent health threats in Pakistan were noted and the impact of ill health on children's physical and mental development was mentioned.

Donors opined that the reforms in Pakistan offered an opportunity to tackle human development problems by catering to technical and institutional constraints. It was pointed out that devolution provided a unique opportunity for addressing interconnected problems in an integrated manner and that the creation of the tehsil municipal administration was a radical, and long necessary, step. It was suggested that the approach to human development needed to focus on the importance of the youth bulge and its implications, quality of public service delivery, the interlinkages among sectors, treatment of girls and women, and local management of public services.

Pakistan's development partners noted the progress in financial and civil service management and accountability and stressed the need for complete and impartial implementation of legal and judicial reforms. They registered their interest in further supporting the reforms process and expressed their desire to get more frequent updates on the process. The Government's drive against rooting out corruption was appreciated. It was pointed out that civil service reforms should tackle issues such as code of conduct for civil servants, clear rules on conflict of interest and nepotism, a significant reduction of discretionary powers, systematic monitoring and enforcement of the rules, promotions on merit and an easy complaints mechanism and a protection program.

PAKISTAN DEVELOPMENT FORUM 2003

Conference Overview

The 2003 Pakistan Development Forum took place from 12-14 May at the Convention Centre in Islamabad. Representatives from 17 bilateral donors and 20 international agencies participated in the Conference, alongside senior Government officials and private sector/civil society members. The draft Poverty Reduction Strategy Paper was a key focus of the Conference, as well as continuing governance reforms, economic reforms and initiatives to strengthen the private sector. For the first time, the Conference had a session dedicated to Provincial Perspectives (notably in the context of devolution).

Country Context

The 2003 PDF was held while Pakistan was recovering from several external and internal shocks. These included the US-led war in Afghanistan, continuing border tensions with India and extended drought in the country. Though macro-economic parameters had stabilized, all these developments had a bearing on the country's economic performance: the growth rate in 2002 was 2.1%, well below the expected 3.6%.

The investment climate remained at ebb due to geo-political tensions in the region. Agriculture was hit by a fourth year of drought and growth fell to 1.2%. Large scale manufacturing fell to 4.0% from above 8% previously. Inflation, however, declined to 3.5%

and the balance of payments situation improved due to large inflow of remittances, donor loans and grants and payments (for use of Pakistani airbases by coalition forces).

The 2003 PDF was also the first since the restoration of elected national and provincial governments in Pakistan, following the October 2002 polls.

Government Initiatives and Achievements

The full Poverty Reduction Strategy Paper was a key theme of the 2003 PDF. This was presented to donors, with the explanation that this was prepared in consultation with local governments as well as civil society groups. The full PRSP addressed the gaps in the I-PRSP, notably related to gender, the environment and labour. Key initiatives were also unveiled for the social sectors, notably health and education. These were not new policies but rather strategies and work plans to achieve targets in the next three years.

Governance reform and devolution was another important theme. The state of devolution reform was discussed in the context of improving social service delivery. Provincial governments were all given the opportunity to present their perspectives on devolution reform. Local government Nazims also gave an update of progress, and identified the challenges involved in improving devolved service delivery.

The Government explained to donors its initiatives for private sector development: specifically, industrial reforms, the privatization program and Pakistan's preparation for the WTO regime. Private sector representatives gave their perspectives on what is required to revive the private sector. The session identified key areas where further work was needed to strengthen the enabling environment for private sector development. Visions for the textile, leather and engineering sector were presented to the participants. The role of small and medium enterprises was also emphasized.

The 2003 PDF had a session dedicated to water resources. The Government outlined the water situation and its plans to expand the water sector: resource requirements and institutional constraints were also identified.

Economic reforms continued to be a main focus of the Pakistan Development Forum. The Government gave a comprehensive update on macro-economic reforms. It highlighted the fact that macro-economic stability, signs of which were visible in the 2002 PDF, had become established. Foreign currency reserves, at \$10.5 billion, were unprecedented.

The Government explained progress with implementation of various economic reforms including: banking and financial reforms, fiscal reforms to manage debt and support growth. Banking and financial sector reforms included consolidation and privatization of the banking sector and building strong capacity for regulation through strengthening of the State Bank of Pakistan and Security and Exchange Commission of Pakistan. Fiscal reforms were also discussed and progress on revenue side through increasing the proportion direct taxation and other measures were presented. In this connection the plans for overhauling of Central Board of Revenue to make it modern and progressive were also presented. Tax administration reforms were also described, in the context of promoting growth.

The Government stressed that, while progress on the economic front had been good, many problems and challenges remained. Notable among these were the need to: accelerate growth; create fiscal space for greater investment in human development; reduce losses of public sector corporations; improve infrastructure; and invest in the private sector. It called on donors to provide support in meeting these challenges.

Finally, the Government highlighted the fact that elections had been held in October 2002, and provincial and national assemblies and governments were in place. It also stressed its strong commitment to the wide-ranging reform program initiated since October 1999.

Donor Perspective

Donors commended the quality of discussion and debate at the 2003 Forum. They also appreciated the quality of the draft PRSP and hoped that the programs that were critical to reducing poverty would be fully funded. They also indicated their willingness to providing continued support in efforts to fight poverty. E.g. DFID expressed confidence in and support Pakistan's development program; Norway showed interest in the Debt Swap proposal launched by the Government to support funding in the social sectors. Both countries, as well as UN delegates, said the Millennium Development Goals underscored their funding strategies.

The United States acknowledged Pakistan's performance on Poverty Reduction Growth Facility. It announced support for devolution and the National Health Facility Program in Partnership with DFID. The return on USAID in Pakistan was also announced as a sign of long term commitment to Pakistan's development, with focus sectors being education, health, governance and economic growth.

Among multilateral development partners, ADB and the World Bank praised the Government's efforts on planning and implementing home grown reforms and pledged long term financial and technical support.

All donors commended the restoration of elected governments in Pakistan. They welcomed the presence of elected legislators in the Forum, and their contribution to discussions on the progress of reforms.

PAKISTAN DEVELOPMENT FORUM 2004

Conference Overview

The 2004 Pakistan Development Forum took place from 17-19 March at the Convention Centre in Islamabad. The title of the Conference was ‘Spurring Growth for Economic Development through Infrastructure Development’. Representatives from bilateral donors, and international agencies participated in the Conference, alongside senior Government officials and private sector/civil society members. In addition to the Poverty Reduction Strategy Paper, key themes in the 2004 PDF were infrastructure development (particularly water, power and telecommunications) and the role of the private sector in this.

Country Context

The PDF 2004 took place as a peace process was being initiated with India. Tension with India had already diminished, and both sides had withdrawn their forces from the international border. It also took place in the context of the on-going war on terror in Afghanistan and Iraq.

Pakistan’s progress in achieving macro-economic stability was confirmed by the massive upgrade in the country’s credit rating by international credit agencies. From Selective Default in 1999, Pakistan had risen to B2 by Moody’s and B by Standard and Poor’s. This

enabled Pakistan to return to the international capital market with a new issue of Eurobonds, which was well-received.

Government Initiatives and Achievements

At the 2004 PDF the Government presented the full Poverty Reduction Strategy Paper to donors, prepared after a two-year consultative effort. It was explained that the PRSP was a comprehensive strategy to accelerate growth whilst maintaining economic stability (through reducing poverty and creating job opportunities), improving governance, investing in human capital, and targeting the poor and the vulnerable. Employment, environment and gender were strengthened compared to the Interim PRSP.

The Government also described its efforts and progress on health, education and devolution as Pakistan's progress, and plans for alignment of policies to the PRSP objectives. Higher education was stressed along with practical perspectives (from the ground) on delivering social services through local governments.

In keeping with the Conference title, considerable focus was placed on infrastructure development, as well as power and water. The urgent need for power sector reforms was highlighted, and the Government outlined its plans for investment in the sector. Donors were told about various initiatives taken by the Government including adoption of the Power Generation Policy 2002 focusing on energy security, increased exploitation of domestic resources and incentives for investment through private sector. The Government also approved plans for restructuring of WAPDA into GENCO, NTDC, DISCOs to make it more competitive, efficient and competitive along with WAPDA vision 2025. Plans for improvement of the water sector were also elaborated. Discussion on the telecommunications sector stressed the tremendous growth of this over the past few years, and progress on deregulation, promoting private sector investment and lowering the cost for the poor.

The 2004 PDF stressed the role of the private sector in infrastructure development, given that demand for infrastructure could not be met by the public sector alone. The discussion highlighted the need for an enabling environment for public-private partnerships. Private sector leaders presented their perspectives.

As always, the Government used the PDF to explain its economic reforms and progress on achieving economic growth. Donors were told that the growth rate reached 5.1% in 2003 from 2.1% in the previous year. The major driver of this growth was almost doubled remittances from abroad and a strong export performance. The agricultural growth recovered to 4.1% growth on account of better availability of irrigation water. Inflation declined further to 3.1% from 3.5%.

The Government explained that its policy focus remained on reducing the debt burden with Fiscal Responsibility and Debt Limitation Bill being submitted to the National Assembly. Privatization of the State Owned Enterprises continued to be an emphasis area to reduce the government expenditures. Fiscal reforms were also initiated in provincial governments.

Whilst elaborating achievements on the economic front, the Government stressed that many challenges remained. Many of these were the same as those highlighted in 2003, namely: accelerating growth, increasing spending on development, reducing the burden of loss-making public sector corporations, improving infrastructure and accelerating investment in the private sector. An addition from the 2003 list was the need for second-generation reforms for institutional strengthening, further reform of the civil service and justice sector, and creating an enabling environment for the private sector.

Donor Perspective

Several donors commended the Government's efforts to keep social sectors, human development and service delivery at the forefront of its poverty reduction efforts. They also commended the Government for completing the PRSP, which they described as a comprehensive document and an effective strategy.

Individual donors made specific comments. The Canadian representative lauded the full PRSP's launch and the increased budgetary support for it, but stressed that the PSDP should follow the Pakistan Environmental Act 1997 and called for more focus on gender issues. In the same vein, the Norwegian and French representatives said human development and MDGs should be the focus in all growth-related strategies.

The Japanese representative showed strong support to human development as well as infrastructure and called for better and more effective implementation. The United States' representative said that his Government was pleased with the PRSP and thought that it was essential to a country where 46 million people live in poverty. He showed strong support for local governance and service provision through devolved structures. He also said that his country has agreed to provide increased and sustained support for five years in social sectors like health and education.

The Country Director of the World Bank closed the PDF by saying how pleased he was to see that Pakistan stood firm on the road to reform and was "back in business." He was also pleased to see that the PRSP had allocated even more resources to poverty reduction, and that the concerned Ministers were stressing more investment in the social sectors.

PAKISTAN DEVELOPMENT FORUM 2005

Conference Overview

The 2005 PDF was held from 25-26 April in Islamabad. Its theme was ‘Sustaining Growth and Improving Quality of Life’. The title reflected the commitment of the Government to generating growth, promoting development and alleviating poverty. These commitments, articulated in the PRSP, were operationalized in the Medium-Term Development Framework, which was presented to donors at the 2005 PDF. Other sessions at the PDF were devoted to human development, governance, infrastructure and sustaining growth.

Country Context

The 2005 Pakistan Development Forum took place against the backdrop of the on-going war on terror (primarily in Iraq) which had some fall-out in Pakistan. However, it also took place in the context of a vastly accelerated peace process with India. Substantive progress was made in improving relations, promoting people-to-people contact, CBMs, bilateral trade, and other areas.

The period from the last PDF saw a robust performance in the real sectors of the economy, steep rise in imports of machinery and industrial raw materials, and continuing high

domestic demand. The agriculture sector showed some improvements as did the industrial sector.

Government Initiatives and Achievements

The recently finalized (draft) Medium-Term Development Framework was a key focus of the 2005 PDF. Donors were presented an overview of the MTDF and its relationship to the 2003 PRSP. The MTDF operationalizes the commitments made in the PRSP. It was pointed out that boosting investment to exceed 25% of GDP, infrastructure development, human resource development etc., were essential requisites for the attainment of overall goals. Details of the Khushal Pakistan Fund were discussed and it was linked to additional spending in the social sector. It was also noted that the KPP would act as an umbrella under which all donors could coordinate their activities. The GoP mentioned that strategies would be devised for productivity enhancement in various sectors, including investment promotion, privatization, deregulation and liberalization of trade. In the energy sector, production of energy, building gas pipelines and nuclear energy would be targeted. The GoP also clarified that the draft MTDF would be further refined, based on consultations with development partners.

The 2005 PDF also discussed realignment of the PRSP to ensure attainment of the MDGs. The Government highlighted the need for education to reduce poverty as well as for health, infrastructure development and good governance. The key drivers of economic growth were identified as agriculture, housing and construction, small and medium enterprises, energy sector, trade and information technology. Plans for capacity-building at all levels for M&E of the PRSP were shared, and the Government expressed the hope that continued support would be provided by donors to ensure that the PRSP targets and MDGs were met.

A second key theme was targeting poverty and unemployment. Initiatives for economic empowerment of rural population, provision of employment and empowerment opportunities and social safety nets were discussed. The Government explained its plans to empower people through initiatives such as Pakistan Poverty Alleviation Fund, the Livestock development program, Khushali Bank, etc. Various other initiatives, e.g. setting up of a Rural Enterprise Management Company to transfer modern technology, design and marketing ideas to local entrepreneurs, and a program to upgrade and expand vocational centres, were also mentioned. Key challenges facing the Government with regard to the empowerment of women were discussed and different women focused programs were mentioned. On social safety nets, the need for formulation of social protection strategy was highlighted as well as the need for reliable data collection through social mapping.

The 2005 PDF had a strong focus on human development. The Government outlined the core challenges faced by Pakistan in the field of education and the steps being taken in this regard, primarily pertaining to child enrolment and adult literacy. Mainstreaming of Madaris; reducing the disparity between private and public schools; GoP initiatives for adult literacy and teachers' training; and the Punjab Education Sector Reforms were discussed. The Government highlighted the increase in the education budget and expressed the hope that in the coming year the current level (2.7% of GDP) would be raised to 3%. There was also discussion of the challenges being faced, notably in the continuation of programs, ensuring

quality, and building capacities at the provincial and district levels. The role of public-private partnerships and community mobilization were also discussed.

There was a review of the Government's health strategy and reforms, including initiatives to improve maternal and child health and combat communicable and other diseases. The major challenges in the health care system were identified as largely institutional in nature. It was recommended that monitoring and surveillance systems be strengthened. Acknowledging the Government's commitment to achieve the MDGs, the session noted the challenges posed by the high incidence of communicable and non-communicable diseases. Also by resource constraints: the Government pointed out that demands on its finances were much greater than just those required for achievement of the MDGs. It stressed the need to integrate the functions and different layers of government so that the synergies of a holistic approach could be realized.

Education was the other social sector the Conference focused on: specifically on vocational training and higher education. Mainstreaming of technical and vocational education was discussed, and the need to improve quality of life by shifting emphasis from general education to employable technical education and vocational training. Plans and future programs for boosting vocational training and resource requirements were shared with partners. In the context of higher education, increased allocations for higher education were highlighted, together with achievements and plans to attract brighter people to higher education, and the challenges facing the HEC. Participation of the private sector in this regard was termed critical.

The 2005 PDF reviewed progress on governance reforms, particularly in relation to devolved service delivery; innovations through citizen participation; improved corporate governance; police and civil reforms. The GoP emphasized that second generation reforms, aimed at strengthening institutions, would include industry, agriculture, trade, financial sector, tax systems, judiciary, police and civil services.

A number of issues with reform implementation were discussed: the delay in the transfer of audit and accounts function; amendments to the Police Order 2002 and the LGO 2001; and the emergence of fraudulent CCBs and elite capture in some instances. However, improvements in service delivery were also noted - attributed to the devolution process - and innovations through citizen's participation CCBs. Suggestions were provided to enhance the role of CCBs in monitoring, evaluation and feedback, performance management and social awareness, with the ultimate goal of increasing transparency and improving service delivery.

With regard to civil service reform, the Government elaborated its aims and objectives, stressing the need to ensure transparency, accountability and merit-based induction. It explained that its reform strategy included restructuring, professional development and rewarding good performance. Development partners were told that a National Executive Service (NES), a cadre of professional and responsive civil servants capable of formulating and implementing proactive public policy, was being considered.

Returning to a key theme in the 2004 PDF, there was considerable discussion of infrastructure, focused on national energy needs and infrastructure requirements; water

resource development and water security; roads network development; ports and shipping in Pakistan; rehabilitation of the water sector in Balochistan and urban infrastructure development in Sindh. The Government shared its plans for construction of new dams, accelerated exploration of oil and gas, development of nuclear, renewable and alternate energy resources. As well as efficient energy use, the Government stressed the need for infrastructure for both power generation *and* distribution and transmission.

With regard to promoting sustainable growth, the Government provided an assessment of Pakistan's performance to date. Its vision for rapid industrialization of Pakistan – focusing on the engineering sector - and the role of public-private partnerships to boost investment and production was emphasized. Improving trade performance was discussed and the importance of exports in attaining growth and poverty alleviation was highlighted. The Government described its goals of increasing the value and volume of exports, and enhancing the market share of core products. It outlined its strategy for reducing cost of business, deregulation and liberalization of investment, tariff rationalization, quality and standards and protection of intellectual property rights.

In the context of privatization the Government stressed that meeting the unprecedented demand for infrastructure could only happen through private sector involvement. Key privatization transactions were shared and the need for ownership of the process by the public was underlined. The initiation of a mechanism of citizens' participation in the privatization process through stock exchanges was reported and concerns regarding quality and quantity were noted. The role of agriculture in the economy was emphasized, and the nexus between agricultural growth and poverty reduction. The need to graduate to high value agriculture was stressed, and the Government reiterated its goal of making agriculture profitable and demand driven.

In the 2005 PDF, the Government acknowledged that Pakistan had set ambitious targets for itself, but that though difficult, these were doable. However, it stressed that, in addition to its own resources, the development sector required considerable donor participation. The establishment of a Donors Coordination Cell was announced at the PDF 2005.

Donor Perspective

Donors at the 2005 PDF commended the Government on the MTFD. Decisions to strengthen the Statistics Division and build a coordinated monitoring framework for the PRSP and MTFD were well-received. However, a common concern was voiced on the limited attention given to poverty in the MTFD, as well as to the SME sector, and it was suggested that there be targeted interventions for the poor. Donors also stressed the need for consistency between the MTFD and PRSP.

On governance, the Government was urged to take into account issues such as federal to provincial devolution, fiscal decentralization, transparency, accountability and enforcement; administrative and operational decentralization; institutional and human capacity building. The need to conclude the long over due National Finance Commission Award was emphasized. The Government was also urged to ensure an enabling environment for the establishment and functioning of citizen bodies such as CCBs, monitoring committees and

public safety commissions. Devolution and governance were among the areas identified as priority areas for development assistance.

Government presentations on education; social protection; gender empowerment were well-received. The Government's responsibility for education was noted as well as the fact that technical and vocational training system needed improvement. Donors stressed the need for credible monitoring data; employment facilitation programs; and community participation in poverty reduction programs. Increase in funds for MDGs, capacity building at the district and local levels, increased allocations for education, focus on the informal sector and land reforms were other priorities mentioned by the donors. Sustaining growth and improving the quality of life of citizens were noted to be key challenges for the country.

Additional priority areas mentioned by donors included energy, water, infrastructure, and communications sectors' growth. Donors shared their concern regarding storage and distribution of water, energy conservation and use and tapping of alternate energy sources. Quality of drinking water was noted to be a key concern. Access to markets and up-gradation of technology in the agriculture sector were recommended. Assistance was offered in human development, industrial diversification, and reducing disparity in social sectors.

The donors welcomed the Government's decision to hold quarterly meetings with the development partners. Lastly, the Government was urged to improve donor coordination and making available PDF proceedings on the website.

PAKISTAN DEVELOPMENT FORUM 2006

Conference Overview

The 2006 Pakistan Development Forum was held from 10-11 May in Islamabad. The theme of the conference was **'Drivers of Economic Growth: Unleashing the Potential of the Private Sector'**. The PDF sought to highlight the Government's pro-investment, pro-growth and pro-poor policies. It comprised an inaugural session, followed by nine 'sector-specific' sessions devoted to: the private sector, the SME sector, MDGs and human development, environmental sustainability, social protection, infrastructure, devolution, second-generation reforms and aid effectiveness.

Country Context

The 2006 Pakistan Development Forum took place against the backdrop of sustained economic growth, averaging 7% for the previous four years. Reforms were continuing, with the second round of local government elections were successfully completed in late 2005. The PDF was also the first to be held since the devastating October 2005 earthquake that led to some 80,000 lives being lost, many more injured and caused massive damage to infrastructure, housing, commerce and services in affected districts of NWFP and Azad

Kashmir. The international community and the Pakistani people, at home and abroad, had responded generously to the plight of the earthquake victims, but the reconstruction task was massive and would require billions of Rupees. On the international front, the 2006 PDF took place against the backdrop of a continuing - albeit somewhat stalled - peace process with India; intensifying conflict in Iraq; and renewed fighting and attacks by the Taliban in Afghanistan.

Government Initiatives and Achievements

The main theme of the 2006 PDF was how to promote the private sector to become a driver of economic growth. The Government's overall strategy to achieve sustained growth was outlined: water and energy security, human capital development, infrastructure development and second-generation reforms. The Government acknowledged the private sector was one of the main engines of economic growth and that its role was to create an enabling environment for this. The private sector was urged to take advantage of the opportunities being offered.

The concept and importance of competitiveness was discussed, as well as the challenges faced in promoting this and the role of the private sector. Stress was placed on the fact that competitiveness is systemic – from national through to firm level – and has to be approached across all levels in an integrated manner; also that both the public and private sectors are critical to competitiveness. Various speakers from the private sector noted that there had been significant achievements in growth over the past few years (e.g. macro-economic stability, increased public sector spending, strengthening of the CBR), but urged steps in a number of priority areas (political stability, the trade gap, infrastructure and energy) to ensure sustained growth, and called for sustained policies. The Government was urged to promote public-private partnerships and create a conducive environment for private sector investment, e.g. liberalization, efficient water management, supportive infrastructure.

The role of the agriculture sector in economic growth was highlighted and recommendations made to promote agricultural productivity and competitiveness, e.g. through continued sound macro-economic policies, technology and infrastructure development, improved trade policy and quality controls. The 2006 PDF also examined policies and progress to facilitate small and medium enterprises in Pakistan. Factors hampering SME growth, e.g. economic policy uncertainty, difficulty in accessing financing, corruption, were examined. It was also noted that SMEs account for a significant percentage of loans in Pakistan, but that awareness-raising and capacity building was needed to further enhance this. The Government was urged to take the lead in promoting SME technology and facilitating the sector.

Pakistan's progress, priorities and challenges in achieving the MDGs and promoting poverty reduction were reviewed in the PDF. The possible need to modify targets for Pakistan was discussed, and steps outlined for an MDG-based national strategy. Focusing on Pakistan's progress in achieving health and education targets, it was noted that while there had been achievements (e.g. increased school enrollment, women's empowerment, reduced under-five mortality rate), if current trends continued Pakistan would *not* meet the MDGs. The need for support from the international community was stressed, and there were calls for MDG-

based global partnerships. Lack of capacity and other weaknesses in monitoring arrangements for the MDGs were highlighted, with calls for improvement.

The 2006 PDF had a session dedicated to environmental sustainability, which examined the challenges in promoting economic growth whilst also ensuring environmental protection, e.g. lack of enforcement of environmental legislation. The necessity of bringing about an attitudinal change *vis-à-vis* the environment was stressed, with calls for long-term commitment and strategies. These include 'environmental modernization' with defined targets, clear timelines, measurable indicators, and sufficient resource allocations. The Government detailed initiatives being taken for environmental sustainability, e.g. strengthening linkages between economic and environmental sectors, environmental protection through legislation and advocacy; raising environmental awareness.

The issue of social protection was discussed at the 2006 PDF. Its importance in reducing inequity and poverty was stressed, and prevailing social protection programs in Pakistan were reviewed as well as ways to improve these. Conditional cash transfers and provision of micro-credit were identified as two important mechanisms, along with public works programs. There were recommendations for more resources to be invested in social protection, for better data and for institutional strengthening of the Ministry for Social Welfare and Special Education.

A major theme of the 2006 PDF was infrastructure development, and the need for this to ensure continued economic growth. The Government announced recent initiatives to increase energy production and facilitate private sector investment, and outlined its strategy to ensure energy security. It also described measures to improve electricity transmission and progress on restructuring of the power sector, noting the need for private sector funding. The need to improve water availability and achieve water security was stressed: curbing water losses and improving storage facilities and other infrastructure were identified as important steps to achieve this. The requirement for economic growth of improved transport and communications, notably the National Trade Corridor, was also highlighted.

The 2006 PDF reviewed progress on major governance and related reforms being undertaken by the Government. One of the most significant reforms implemented by the Government was devolution and the establishment of a third tier of local governments. Achievements including the second local government elections, progress on fiscal decentralization and greater citizen empowerment were highlighted, along with challenges such as lack of capacity for financial management and lack of resources. The Government announced that draft plans for provincial restructuring had been circulated, with a view to ensuring local government autonomy whilst giving provincial governments a regulatory role.

The Government detailed second-generation reforms it had introduced e.g. in the financial sector, capital markets, tax administration, privatization, governance, and the subsequent achievements: economic growth, reductions in poverty and unemployment, reduced debt burden, rising foreign exchange reserves. Stressing that sustained growth required second-generation reforms, it described major initiatives already launched in this regard (e.g. police and judicial reform, civil service reform, banking and financial sector reform, a major overhaul of the CBR) as well as some future reforms (e.g. a new Banking Law, a deposit insurance scheme to protect small depositors, demutualization of stock exchanges).

Steps for consolidation and merger of financial institutions and privatization of the banking sector (e.g. Agriculture Bank, SME Bank) were described and future reform priorities: these included introducing standards and requirements for proper disclosure, promotion of development finance and mainstreaming of agricultural credit. Second-generation reforms related to strengthening of capital markets and maintenance of a favourable environment for business growth were outlined, as well as initiatives being taken by the SECP, e.g. setting up of the Insurance and Corporate Law Review Commission to suggest changes in the corporate sector.

The Government explained the objectives, approach and composition of the new National Commission for Government Reforms, and explained that it had been set up to tackle the legacy of weaknesses and inefficiencies hampering the public sector, and that its wide-ranging scope extended to all tiers of Government. Delegates were told the NCGR would review and rationalize the functioning of all departments, working in a consultative, participatory manner and its recommendations would be forwarded for implementation to a High-Powered Steering Committee, co-chaired by the President of Pakistan and other senior officials.

Donor Perspective

Donors at the 2006 PDF commended Pakistan for its efforts in response to the 2005 earthquake, and the progress made in relief and reconstruction. They also commended the Government on the strong economic growth seen in the country, and acknowledged there had been improvements in development indicators.

Looking ahead, donors identified ‘problems of success’ as the challenge facing Pakistan, key among which was ensuring supply matched demand. A related challenge highlighted by donors was the need to ensure economic growth benefited ordinary people, and to promote savings and productive investments – crucial for future development.

Various donors stressed the need for financial macro-balance, infrastructure development, and power generation as crucial for sustained growth. They endorsed the role of the private sector as a driver of economic growth, and urged increased competitiveness and strengthening of the private sector. Public-private partnerships were identified as one option to secure the massive investment needed for infrastructure development. Donors also pressed on the Government the importance of implementing second-generation reforms. Several stressed the need for spending on social service delivery, in particular the health and education sectors.

Finally, development partners reiterated their commitment to the Paris Declaration and described steps they had taken for implementation, e.g. harmonization steps under the informal Poverty Reduction Group, and identified measures that could further the process, e.g. an institutional set-up within EAD to allow Government-donor policy dialogue, and the big multilateral banks working together to promote alignment.