

The World Bank in Pakistan

COUNTRY BRIEF

JULY 2005



Increasing girls' access to education in Northwest Frontier Province.

Pakistan has made significant development progress since its independence 58 years ago, as measured by some key social indicators. Health and education services have expanded and improved, and life expectancy has increased from 59 years in 1990 to 64 for males and 66 for females in 2003. Infant and maternal mortality rates have dropped, as have illiteracy rates.

During the 1990's Pakistan made only modest progress in reducing poverty and improving the welfare of its people. Growth of real gross domestic product (GDP) slowed to less than four percent and per capita real income grew by only slightly more than one percent per year, leading to an increase in poverty to 32 percent. Social indicators stagnated. For example, the net primary enrollment rate declined from 46 percent in 1991/92 to 42 percent in 2001/02, with male enrollments declining from 53 percent to 46 percent, and female from 39 percent to 38 percent. By the late-1990s, Pakistan was in a position of extreme vulnerability with high and unsustainable fiscal deficits and a heavy debt burden, which squeezed public investment and social spending.

Beginning in 2000, the government initiated a wide-ranging and ambitious reform program, which has resulted in a dramatic turnaround. Pakistan has turned around a deteriorating macroeconomic situation to a rapidly improving one. In 2004/05, GDP grew by over eight percent. These macroeconomic achievements have allowed the country to achieve fiscal consolidation. Both external and internal balances have strengthened and reserves now cover five months of imports. Public debt has fallen to 60 percent of GDP from almost 90 percent in 2000/01. Social and poverty-related expenditures have been raised from 3.8 percent of GDP in 2001/02 to 4.7 percent of GDP in 2003/04. The government has also launched far-reaching structural reforms to privatize public sector enterprises, strengthen public and corporate governance, liberalize external trade, and reform the banking sector.

There are now indications that these reforms have begun to pay off in the form of improved development outcomes. Based on the recently released Pakistan Social and Living Standards Measurement Survey (PSLSMS), literacy rates of population 10 years and older have in-

creased to 53 percent as compared to 45 percent in 2001/02. While both female and male literacy, at 40 percent and 65 percent respectively have increased, the gender gap has not shown any significant reduction. However, despite these favorable developments, formidable challenges remain. Pakistan's social indicators still lag behind countries with comparable per capita incomes.

DEVELOPMENT CHALLENGES

Poverty remains a serious concern in Pakistan. According to the rebased GDP numbers, the per capita income comes to US\$720; poverty rates, which had fallen substantially in the 1980s and early 1990s, started to rise again towards the end of the decade. Though complete data from the recent Integrated Household Survey is not yet available, it is evident that a large segment of the population lives in poverty. More importantly, differences in income per capita across regions have persisted or widened. Poverty varies significantly among rural and urban areas and from province to province, from a low of 24 percent in urban Sindh to 51 percent in rural Sindh.

Pakistan has grown much more than other low-income countries, but has failed to achieve social progress commensurate with its economic growth. The educated and well-off urban population lives not so differently from their counterparts in other countries of similar income range. However, the poor and rural inhabitants of Pakistan are being left behind. For example, access to sanitation in Pakistan is 23 percent lower than in other countries with similar income.

Maternal mortality remains high at 450 per 100,000 live births. Gender gaps remain in schooling, largely due to the rural areas where only 22 percent of girls above age 10 have completed primary level or higher schooling as compared to 47 percent boys. While the PSLSMS indicates an improvement in Net Enrolment Rate (NER), from 42% in 2001/02 to 52 per cent, it still indicates that almost half of the primary school age cohort is currently out of school. While the NER shows an insignificant gender gap in urban areas, NER for rural girls at 42 percent trails behind rural boys' NER of 53 percent.

Meeting the vision embraced in the Millennium Development Goals by 2015 (including the reduction of infant and child mortality by two thirds and maternal mortality by three quarters and halving the percentage of the population living in poverty) will require renewed efforts in Pakistan. The World Bank's assistance strategy is based on measurable outcomes using the MDGs as the background for its engagement in Pakistan.

WORLD BANK ASSISTANCE TO PAKISTAN

The World Bank's strategy is to support implementation of the Government of Pakistan's own Poverty Reduction Strategy Paper (PRSP) and to provide financing and technical assistance for both economic and human development. The strategy is built around three main themes which correspond to the pillars of the PRSP.

SUSTAINING HIGH AND BROAD BASED GROWTH, AND IMPROVING COMPETITIVENESS

Pakistan's PRSP emphasizes the importance of sustaining rapid and broad-based economic growth as the principle means of reducing poverty. While significant progress has been made in reducing state intervention in the economy and improving the regulatory framework for private business, firms continue to face significant policy, regulatory, and infrastructure constraints. To help address these constraints and create an environment conducive to healthy private sector growth, the Bank program will support legal and regulatory reforms to improve the business environment along with investments in water, power, transport, and other infrastructure sectors.

IMPROVING GOVERNANCE

Improving government performance is a central element of Pakistan's poverty reduction strategy. The Bank is assisting the government's efforts in this area by supporting reforms in public financial management and procurement; restructuring of the tax administration bureaucracy; support for civil service reforms; and assistance to local and municipal governments to improve their capacity for delivering public services.

IMPROVING LIVES AND PROTECTING THE VULNERABLE

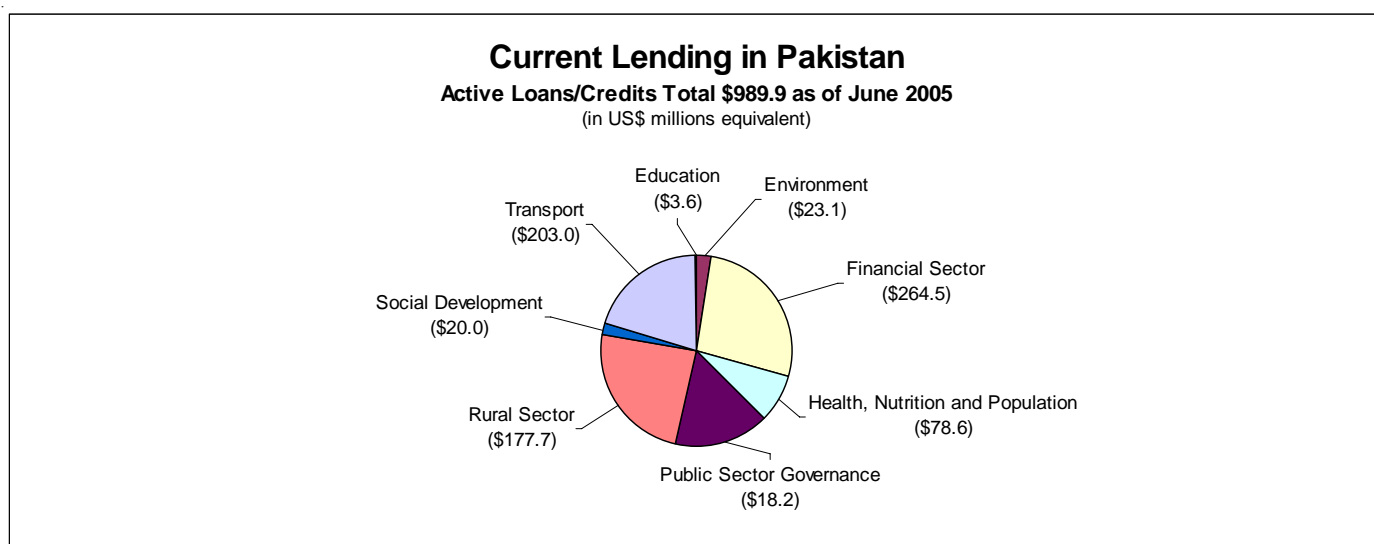
The World Bank also supports Pakistan's efforts to improve the lives of its citizens through efforts to improve access to, and quality of, public services in education, health, electricity, water supply, and sanitation, with an emphasis on addressing gender disparities. At the same time the Bank is assisting in efforts to reduce vulnerability and poverty through effective safety nets and

targeted programs to reach the poor.

The Bank will continue to support implementation of targeted activities in poor communities, especially in rural and drought-prone areas. The Bank will seek to build on the successful experience of the Pakistan Poverty Alleviation Fund (PPAF) which has reached 6,500 communities through micro credit and community-driven physical infrastructure projects, and ongoing Community Infrastructure Projects in AJK and NWFP.

CURRENT LENDING

Pakistan joined the World Bank in July of 1950. Since 1952, the World Bank has approved 266 loans and credits for Pakistan (100 loans and 166 credits), totaling more than US\$15.7 billion, of which about US\$9 billion remains outstanding. The FY06 ongoing portfolio consists of 17 projects under implementation with a net commitment of US\$1.1 billion.



Box 1: WEAVING SUCCESS

Endless plains of sand and dry bushes - the heat and arid conditions of the desert make it virtually impossible for one to imagine that life could exist here. Yet scattered all over Tharparkar desert are small communities. Inside these communities is a world very different from ours, yet extremely rich and colorful in tradition and culture. Ram Jee ji Veri is one such community.

Until a few years ago, there was an increasing trend among the villagers to migrate out of the village in search of greener pastures. There was no water for miles around, and life was difficult for families living in Ram Jee ji Veri. However with support from the Pakistan Poverty Alleviation Fund (PPAF), the water supply scheme was constructed. This was the first time most villagers had seen running water, and it was thought of as no less than a miracle.

Once the village established its own water supply, migration ceased. In communities such as Ram Jee ji Veri, an issue close on the heels of water shortage is lack of employment. Parago, like most men in the village, grew desert friendly grain and seed crops that are easily cultivated in extreme conditions of the desert. Some of the produce is reserved for family use and the rest is sold in nearby cities when prices for these crops are higher.

The desert is a difficult place to farm, and the weather is conducive for farming only four months each year. The crops Parago was able to farm and the money he earned was never enough to feed his family. With eight children, himself, and his wife to feed

and support, Parago, like so many Thari people, was forced to take out loans from local lenders whose impossibly high interest rates can only be described as usuary.

When the PPAF water supply project was underway, Parago came to know about the micro credit program that PPAF had initiated with Thardeep Rural Development Program (TRDP), PPAF's partner organization in the region.

Parago's father was an artisan whose speciality was weaving Thari shawls at a handloom in his home. Though Parago and his brothers were all taught the skill at a young age, none of them actually fell back on it as a source of income, preferring to farm instead. A camel bit off Parago's elder brother's right hand a few years ago, and he could not farm anymore. With only limited use of his right hand, Parago's brother started earning his livelihood weaving these shawls at a loom in his own house.

He was provided materials by an intermediary who sold these shawls to bulk buyers. Parago's brother was paid a very small amount as compensation for his labour.

Parago decided to invest in his brother's trade and took a credit of Rs. 5,000/- with which he bought materials for shawls. He gave the materials to his brother who weaved them into shawls. Parago took these shawls to Nawabshah, a large city compared to the hamlets in Thar. In Nawabshah, his shawls were a great success. Parago started making a handsome profit and that was a turning point for the Parago family.

Parago has three daughters and five sons. His three elder children help to supplement the household income by weaving carpets for an intermediary who caters to bulk buyers. It takes nearly two months for them to complete one carpet. The hand woven carpets sell for at least Rs.250/- per foot and the average carpet is around 54 square feet. The children are paid, Rs 4,000 per carpet.

Parago has successfully completed three loan cycles with the PPAF/TRDP micro credit program, taking loans of Rs 5,000/-, 12,000/- and 15,000/-. Having done that, Parago realizes the potential of his trade. He says that if possible he would like to take credit of Rs. 50,000/- payable in installments over five years. He wants to invest this money in materials for carpets and shawls. He wants to buy his own carpet loom so his children can work directly for him and not for the intermediary. He knows that if he can manage that his whole family will be self employed and the money made from their handicraft will be theirs and they will be more prosperous.

Now, Parago's household income is enough to allow him to send his children to school. The elder children could not go to school at the right age because of financial constraints, but now the younger children are going to school. "I wish I had been able to send my older children to school" says Parago, "but constraints make one helpless. It isn't easy to educate children when it means they will have to leave work."

Recently Parago paid back Rs. 20,000/- to the local lenders, went to local village fair with his shawls and in 17 days, he managed to earn a profit of Rs.13000/- However, he still has to pay Rs.70,000/- to the professional lenders.

Parago understands the importance of saving and while he regularly makes payments to the lenders and runs his household more comfortably, he makes it a point to save at least Rs.1,000/- every month. Parago's financial condition has improved, yet he and his family maintain a simple lifestyle. He has not bought a radio or television and he explains that "the way we live is the way our whole community lives. This is our way of life. All that we require is that life is peaceful and without worries about being indebted to lenders who charge usuary rates, that we have food in our bellies and clothes to wear. A simple life with better future for our children is all we want."

(Case Study by PPAF Media & Communication unit)

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