



Report No. 32764-PK

PAKISTAN

North West Frontier Province Economic Report

**Accelerating Growth And Improving Public Service Delivery
in the NWFP: The Way Forward**

December 08, 2005



**Government of the
North West Frontier Province**



**Poverty Reduction and Economic
Management Unit, South Asia Region
World Bank**



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CURRENCY EQUIVALENTS

Currency Unit = Pakistan Rupee (PKRs)
US\$1 = PKRs 60.15 (December 14, 2005)

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ACRONYMS AND ABBREVIATIONS

ADP	Annual Development Plan	LGO	Local Governance Ordinance
AJK	Azad Jammu Kashmir	LHW	Lady Health Workers
AIT	Agricultural Income Tax	M&E	Monitoring and Evaluation
BHU	Basic Health Unit	MDG	Millennium Development Goals
CCB	Citizen Community Board	MITI	Ministry of Trade and Industry
CCC	Concept Clearance Committee	MPA	Member of Provincial Assembly
CDGP	City District Government of Peshawar	MTBF	Medium-Term Budget Framework
CDMD	City Development and Municipal Department	NEPRA	The National Electric Power Regulatory Authority
CPR	Contraceptive Prevalence Rate	NFC	National Finance Commission
CSR	Composite Schedule of Rates	NGO	Non-Governmental Organization
CWIQ	Core Welfare Indicators Questionnaire	NHP	Net Hydrel Profit
DCO	District Coordination Officer	NTDC	National Transmission and Dispatch Company
DDO	District Development Officer	NWFP	North West Frontier Province
DFID	Department for International Development (UK)	O&M	Operation and Maintenance
DHQ	District Headquarter	P&D	Planning and Development
EDO	Executive District Officer	PATA	Provincial Administered Tribal Area
EEF	Elementary Education Foundation	PESCO	Peshawar Electric Supply Company
EMIS	Education Management Information System	PFC	Provincial Finance Commission
FAR	Floor Area Ratio	PGDP	Provincial Gross Domestic Product
FBS	Federal Bureau of Statistics	PHC	Primary Health Care
FEF	Frontier Education Foundation	PHED	Public Health and Engineering Department
FHA	Frontier Highways Authority	PHP	Project for Horticultural Promotion
GDP	Gross Domestic Product	PIHS	Pakistan Integrated Household Survey
GER	Gross Enrolment Rate	PSD	Private Sector Development
GoNWFP	Government of North West Frontier Province	PSLMS	Pakistan Social and Living Standards Measurement Survey
HIES	Household Income and Expenditure Survey	PTA	Parent Teacher Association
IEC	Information, Education and Communication	PRSP	Poverty Reduction Strategy Paper
IFI	International Financial Institution	SAC	Structural Adjustment Credit
HIES	Household Income and Expenditure Survey	SDA	Sarhad Development Authority
LED	Local Economic Development		
LFS	Labor Force Survey		
DHQ	District Headquarter		

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PREFACE AND ACKNOWLEDGEMENTS

This report is the joint product of a team from the Government of the North West Frontier Province and the World Bank, and its preparation has benefited from generous financial support from the U.K. Department for International Development (DFID). In September 2004, the Government of the NWFP constituted a counterpart team who were closely involved in the report's preparation. This team was headed by Mr. Siraj ul Haq, Senior Minister, and included the Chairman of the Planning and Development Board, and the Secretaries of Finance, Planning, Communication & Works, Education, Health, Irrigation, Industries, and Agriculture Departments and also a representative from the private sector.

The report was prepared by Paul Wade, Khalid Ikram and Zareen Naqvi in the Poverty Reduction and Economic Management (PREM) unit of the World Bank's South Asia Region, under the guidance of Manuela Ferro, Lead Economist, Ijaz Nabi, Sector Manager, and John Wall, Country Director. The peer reviewers were Sudarshan Gooptu, Ron Hood, and Rocio Castro (World Bank), and Farid Rahman as external peer reviewer.

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The report team benefited greatly from collaborative work with the province's counterpart team during two preparation missions (December 2004 and February/March 2005). The counterpart team coordinated all government and private sector inputs, provided comments, feedback, and guidance to the study team at all stages of the analysis and report preparation, and helped facilitate interaction with other line departments. The draft report was submitted to the government in June 2005 and discussions with the government concluded on October 7, before a powerful earthquake struck the NWFP and other areas in northern Pakistan.

While the main report was prepared before the earthquake, a brief section on its likely consequences and an appendix on lessons for disaster preparedness, management and mitigation have been added. The authorities have started to release new data on social outcomes. When the complete data set is available, a supplementary note will be issued updating relevant sections of this report.

THE OCTOBER EARTHQUAKE AND ITS LIKELY CONSEQUENCES

Just as this report was being finalized for the press, a powerful earthquake measuring 7.6 on the Richter scale struck the northern areas of Pakistan on October 8. Five districts in the NWFP—Abbottabad, Batagram, Kohistan, Mansehra, and Shangla—were severely affected. These five districts account for nearly a quarter of the province's geographical area and 17 percent of its population. A Damage and Needs Assessment mission from the World Bank and the Asian Development Bank (October 2005) reported that the share of the affected districts in the social and physical infrastructure of the province was higher than their share in population, because of the lower population density and the more scattered settlements in the affected districts. It estimated that of the totals in the province, the affected districts accounted for 22 percent of the stock of private housing, 26 percent of schools, 22 percent of health institutions, 25 percent of villages and electricity, 21 percent of households with potable water, and 19 percent of the road network. The total output generated in the five districts is estimated at \$1.5 billion in 2003/04.

It is too early to attempt a definitive estimate of the cost of the earthquake to the province and the GoNWFP. Indeed, it is not even clear what "definitive" in this context means, because the final calculation will involve a large number of subjective judgments. The latter include questions such as: how much of the infrastructure and the damaged/destroyed private property will be rebuilt/repared; what quality standards will this rebuilding aspire to; in what time period is this reconstruction to be completed; what compensation or support will be offered to the affected groups merely to help them survive until such time as their means of earning a livelihood are restored; how much of the required amounts will be provided by the government, how much by private philanthropy, and how much from foreign donors; and so on.

A preliminary approximation of total losses and reconstruction costs puts the direct damage to the districts of the NWFP at about \$1 billion, with indirect losses at nearly \$300 million.¹ Reconstruction costs—valued at an improved standard replacement rate, which includes the cost of rebuilding to a quality that responds to local conditions and risks from future earthquakes—are put at over \$1.5 billion. In addition there are costs associated with compensating families for loss and injury and relief for survivors. These preliminary estimates of reconstructing the assets directly damaged by the earthquake take no account of human losses or of the cost of providing relief to the survivors. It is clear that the NWFP has suffered a very serious blow.

Even with fairly generous donor support, the bulk of the requirements will have to be met from Pakistan's own resources. The NWFP's budget will not be able to accommodate a significant share of the relief and reconstruction effort, although the province will no doubt be expected to do its best. Depending on how much of the costs of relief and reconstruction will be borne by the GoNWFP this may require adjustments in consumption expenditure in the budget, reprioritization of investment and other expenditures, the postponement of some projects, a larger effort at mobilizing resources from within the province, and perhaps additional borrowing from abroad. It is also evident that the reconstruction effort will be spread over time. The NWFP will have to think in terms of the long run, because of limits on the implementation capacity of government institutions, because of the time that will be required to clear the debris of the destroyed buildings, and because the impending onset of winter will require the government to focus its energies on questions of survival and defer that of reconstruction.

¹ *Indirect losses* comprise reductions in the flow of goods and services, and other economic consequences—such as increased expenses, curtailed production, and diminished revenue—that arise from the direct damage to production capacity and social and economic infrastructure.

Apart from requiring a greater financial outlay, the earthquake will have consequences for the government in other areas. The authorities will have to pay particular attention to the prices of items the demand for which will have increased because of the earthquake. These include basic food items, construction materials, and household goods, such as blankets, sheets, etc. Another possible consequence of the earthquake and the loss of livelihood in the affected areas is that substantial numbers of people might migrate to other parts of the province. This will create additional pressure on the infrastructure and on jobs in those areas, while the emergence of slums could create problems of hygiene and sanitation.

Since the authorities' investigations into the effects of the earthquake are still continuing and the judgments of major observers remain very fluid, it is too early at this time to provide a quantitative discussion of the effects of the earthquake on the economy of the NWFP. When more firm judgments are reached on the issues mentioned above, and as more detailed assessments of the damage and loss are completed, a supplementary note on the budgetary consequences of the earthquake will be issued.