

EXECUTIVE SUMMARY

Over the last century, Pakistan has successfully harnessed the Indus River to develop a major irrigated-agriculture sector that remains the backbone of its economy. However, the country is divided by income inequality and geographic disparities that are an increasing source of concern, and which are likely to be potentially destabilizing. These divisions are particularly pronounced in the agriculture sector, as most of the rural poor lack access to land and irrigation water. Ensuring efficient use of water and building proactive partnerships that involve the private sector can contribute to fulfillment of agriculture's potential for diversification and growth.

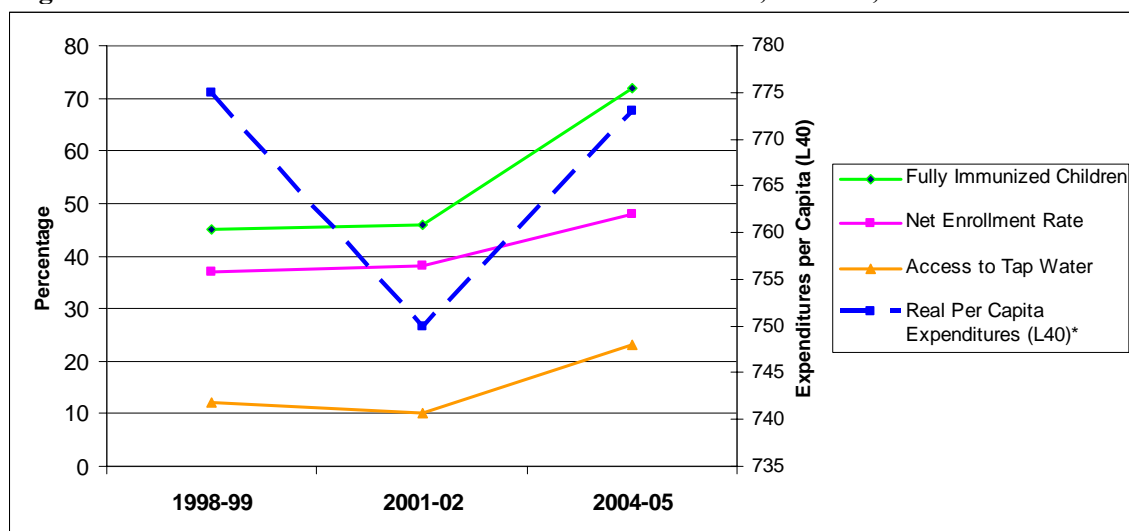
However, for the rural non farm poor, escaping poverty will also likely require a combination of migration and a revitalization of the rural economy, which generates substantial rural employment. Expansion of the rural non-agriculture sector and improvements in the welfare of the rural poor will not occur however, without the undertaking of significant investments in infrastructure and improvements in social services, including safety nets. Two critical elements must underpin the necessary transformation of the rural sector. First is the efficiency of public institutions and the need to make these more accountable and flexible. Second is the capacity to organize the "people sector" so that farmers, communities and villages gain a voice and achieve the scale needed to attract the private sector and financial services as well as to strengthen the demand side of development by making government more accountable.

BACKGROUND

After a decade of moderate growth but little or no long-term change in rural poverty in Pakistan, agricultural output, rural incomes, rural poverty and social welfare indicators all showed marked improvement between 2001-02 and 2004-05: Real agricultural GDP per capita rose by 7.4 percent; average per capita rural expenditures rose by 5.9 percent; and per capita expenditures of the poorest two quintiles rose by 3.1 percent. Further, rural poverty declined from 39.1 percent to 34.0 percent according to World Bank estimates. Other rural welfare indicators improved even more sharply. Child immunization rates rose by 26 percentage points, from 46 percent to 72 percent; net primary school enrollment rose by 10 percentage points, from 38 percent to 48 percent; and access to tap water in the home rose by 13 percentage points, from 10 percent to 23 percent.

These impressive achievements notwithstanding, there is not yet cause for complacency. Approximately 35 million rural people remain poor (accounting for about 80 percent of Pakistan's poor), and rural poverty rates in 2004-05 were still at levels approximating those of the 1990s. And in spite of improvements, non-income measures of welfare related to health and education are low in comparison with those of other countries in South Asia. Infant mortality per 1000 live births is 82 in Pakistan (88 in rural areas), compared to only 62 in India, 56 in Bangladesh and 12 in Sri Lanka. The national primary school enrollment rate for girls in Pakistan is only 48 percent (42 percent in rural areas), compared to 86 percent in India.

Figure 1: Social Indicators of Rural Households in Pakistan, 1988-99, 2001-02 and 2004-05



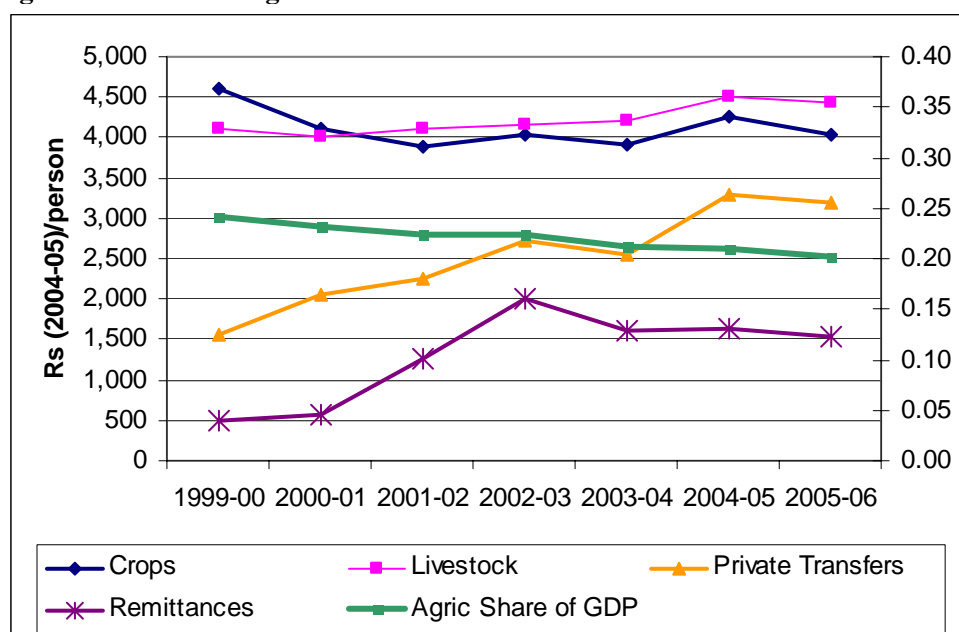
Source: PIHS 1998-99, 2001-02; PSLM 2004-05.

Notes: * Real per capita expenditures of the bottom 40 percent of rural households, Rs (2004-05)/capita.

Moreover, not all improvements in incomes are the result of government policies or sustainable increases in private-sector productivity. Impressive gains in agricultural output and real incomes of the rural poor relative to 2001-02 levels is in part a reflection of low output and incomes in that year due to drought and other adverse shocks. The longer term agricultural GDP per capita growth rate (1999-2000 to 2004-05) was only 0.3 percent annually. In addition, much of the improvement in total incomes can be attributed to a steep rise in net private unrequited transfers from abroad (including workers' remittances). By 2005-06 these transfers averaged more than Rs 3,000 per person for Pakistan's entire population, equivalent to more than two-thirds the real output of crop agriculture or livestock production, (Figure 2). Yet, these transfer incomes, some of which accrue to rural households or are spent on rural and small-town products and services, may not continue to grow at the rates of recent years. Workers' remittances, a major component of these transfers, have stagnated over the last three years.

Pakistan has already taken important steps to spur agricultural growth and farmer incomes through liberalization of trade and pricing policies. Implicit taxation of tradable agricultural products through trade policy and real exchange distortions was largely eliminated in the late 1980s and the 1990s. Likewise, direct government intervention in agricultural markets is now minimal, with the exception of wheat. The country is also taking steps to promote its agricultural exports and has joined the Cairns group in the WTO negotiations. Pakistan's agriculture, particularly its irrigated crop and livestock sub sectors, are poised for gains in competitiveness if the country can develop and diversify higher value supply chains and if the recent exchange-rate appreciation does not become a limiting factor to its export potential.

Figure 2: Trends in Agricultural GDP and Net Private Transfers in Pakistan



Source: Pakistan Economic Survey, (various years) and authors' calculations.

Notes: Per capita figures are calculated using the total population of Pakistan.

Who are the Rural Poor?

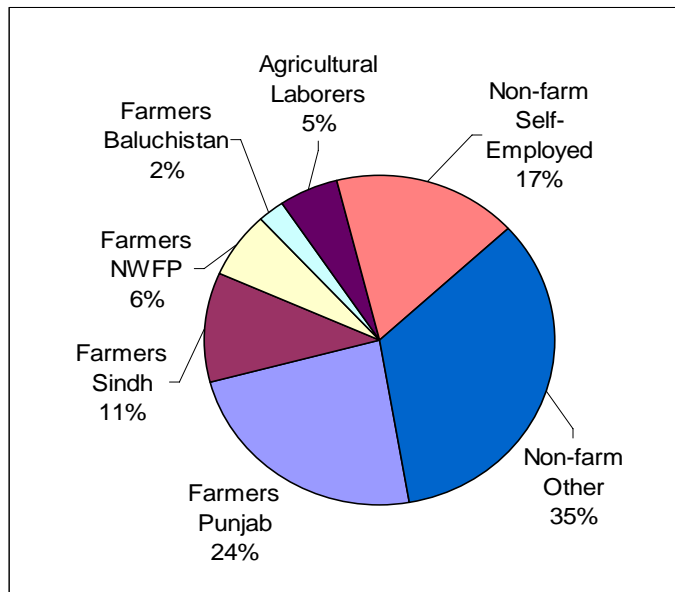
Although agriculture is at the heart of the rural economy, the majority of Pakistan's rural poor are neither tenant farmers nor farm owners. Farmers (including both owners and tenants) comprised only 43 percent of households in the bottom 40 percent of the rural per capita expenditure distribution in 2004-05. Non-farm households (excluding agricultural laborer households) accounted for slightly more than half (52 percent) of the poor. Overall, agriculture (including both crop and livestock production) accounts for only about 40 percent of rural household incomes; the poorest 40 percent of rural households derive only about 30 percent of their total income from agriculture.

Growing Disparities

A major reason for the large proportion of rural non-farm poor in Pakistan, as well as poverty levels among small farmers, is the prevailing highly unequal distribution of land and access to water. According to the 2000 Agricultural Census, only 37 percent of rural households owned land, and 61 percent of these land-owning households owned fewer than five acres, or 15 percent of total land. Access to usable water is also quite unequal, a major cause of lower productivity in the dry lands (*barani*) relative to irrigated land, land at the tail end of watercourses relative to land at the head end, and areas with saline groundwater as compared with areas that have sweet groundwater. Because of this skewed distribution of ownership and access to productive assets, much of the direct gains in income from crop production, particularly irrigated agriculture, accrue to higher-income farmers.¹

¹ In principle, land reform could help reduce the inequality of land distribution. Past land reforms in Pakistan involving land ownership ceilings faced substantial opposition, however, and had only limited effects. One alternative is sales or grants of government land to the poor. Another option is market-based

Figure 3: Rural Poor in Pakistan by Household Group, 2004-05



Source: Calculated using PSLM 2004-05

Notes: The poor are defined as households in the bottom 40 percent of the rural adult equivalent per capita expenditure distribution. Livestock herders who do not receive any crop income, (four percent of the rural poor), are included in the Non-farm other category.

Additional measures to accelerate rural income growth and poverty reduction are essential if Pakistan is to extend the promising trends in growth, poverty reduction and social welfare of the past several years. In addition to land and water, unequal distribution of household income and access to public services, both within and across provinces, is predominant. These disparities threaten not only future growth and poverty reduction, but social cohesion and stability, as well. Thus, inclusive growth that enhances the welfare of the rural poor is essential for Pakistan's future. The alternative is more extreme inequality and polarization, with large pockets of poverty in rural areas and accelerated migration of unskilled people to urban areas that will find it increasingly difficult to provide needed employment and social services.

Agricultural growth is not enough

Agricultural growth is a necessary, but not sufficient, condition for rapid reduction of rural poverty. Agricultural growth remains important to raise the incomes of small farmers and to generate growth linkages by increasing demand for rural non-farm goods and services. However, in most of rural Pakistan, the impact of agricultural growth linkages on rural poverty is limited for two reasons. First, much of the gains in rural incomes are spent on urban goods and services. Second, gains to non-agricultural rural incomes and employment as a result of growth linkages are shared among a large number of rural poor.

Pakistan's rural and small-town non-farm sector, however, faces numerous constraints, particularly concerning access to credit and inadequate infrastructure. As in other South Asian countries, the non-farm sector in Pakistan's rural villages and small towns primarily consists of family based micro-enterprises, averaging only about two workers per enterprise. According to a 2005 survey, more than 30 percent of these enterprises rated access to

land reform involving voluntary sales of land (which could involve large fiscal costs). See World Bank (2004b).

finance as the most important overall constraint to the operation and growth of their business. Poor road infrastructure raises transport costs and reduces profitability. Lack of access to reliable electricity (half of village enterprises reported power outages of 20 days or more in a typical month) limits production or necessitates private investment in generators.

Moreover, high rates of rural-urban migration and the increasing integration of the rural and urban economies point to the importance of investment in human capital, in addition to policies addressing growth of the agricultural and rural non-farm sectors. As in most of Asia, Pakistan's economy is in the midst of a major transformation involving growing urbanization and increased linkages among rural, urban and international markets. About two-thirds of Pakistan's population lives in rural areas, where average per capita expenditures are 31 percent lower than those in urban areas (Rs 1259/month and Rs 1818/month in 2004-05, respectively). Many members of today's rural households are likely to migrate to more urbanized areas. Others that remain in rural areas will derive an increasingly large share of their incomes from employment in small towns. Investment in the human capital of these workers will not only enhance their productivity in the rural economy, but also enable them to earn higher incomes if they choose to migrate.

TOWARDS A STRATEGY FOR RURAL GROWTH AND POVERTY REDUCTION

Given the context, a comprehensive rural growth and poverty-reduction strategy is needed, with four main pillars:

- Promote efficient and sustainable **agricultural growth** to raise the incomes of small farmers and to generate growth linkages in the rural non-farm economy
- Create an enabling environment for the **rural non-farm sector** to enhance employment and incomes, and improve **rural public service delivery** in infrastructure, health and education to serve as a foundation for growth and to increase household welfare
- Enhance the **effectiveness and governance of rural institutions** through decentralization and strengthen local demand for enhanced accountability through more proactive use of public-private partnership
- **Empower the poor** and protect the most vulnerable through social mobilization, safety nets and by facilitating access to productive assets for income-generating activities.

PROMOTING EFFICIENT AND SUSTAINABLE AGRICULTURAL GROWTH

Agricultural growth has historically played a major role in Pakistan's development and continues to be crucial for overall growth and poverty reduction. Investments in large-scale surface irrigation in the 19th century, the Indus Waters Treaty agreed in 1960, and subsequent major investments in the Tarbela dam (the world's largest earth-fill dam) and link canals provided the basis for a vibrant agricultural sector and the development of the country's modern economy. Even though agriculture's share of GDP has fallen from about 40 percent in the 1960s to about 20 percent today, strong overall growth is infeasible without strong agricultural growth also. Agriculture remains the largest source of household income for 38 million Pakistanis, including 13 million of the poorest 40 percent of rural households. Substantial scope exists for increasing productivity and overall economic efficiency in the sector.

Agricultural Production and Technology

Because of constraints on arable land with access to water, crop sub-sector growth cannot take place without increases in productivity. Past investments in crop technology

(especially cereals) have had very high payoffs in South Asia in terms of poverty reduction, both by raising farmer incomes and by reducing the real prices of major staples (wheat and rice). Further investment in agricultural technology, especially for the major cereals and cotton, (crops for which Pakistan has a comparative advantage), is needed both to offset declining soil fertility in many regions and to augment productivity. Increased recourse to public-private partnerships in research and extension, an approach that has been successful in other developing countries, is one promising way to boost the effectiveness of public spending.

Achieving substantial future growth in agricultural crop incomes will also require additional diversification into higher-value crops appropriate for Pakistan's various agro-ecological regions. Substantially greater efforts are needed in agricultural research on higher value crops such as oilseeds, vegetables and fruits as well as livestock, and improvements in seed certification and quality control. Increasing the price of water rights so that they more closely reflect the opportunity costs of water also would encourage cultivation of high-value fruits and vegetables. Perhaps most importantly, formation of farmers' organizations and new forms of marketing arrangements (such as public-private partnerships and contract farming) can significantly reduce transactions costs and increase sales volumes and prices paid to farmers.

Programs to increase livestock production, especially production of dairy cattle and milk in Punjab and Sindh, and sheep and goats in NWFP and Baluchistan, could have significant direct impact on the incomes of the rural poor. Productivity gains for small-holder dairy farmers are feasible through the use of improved feeds, better veterinary services, and more efficient marketing channels to help ensure more remunerative milk prices for farmers. Multi-national firms have enjoyed some success in improving the efficiency of marketing channels, but pasteurized and UHT milk still account for only about 10 percent of total milk consumption in Pakistan; the remainder is fresh milk. Vertically integrated cooperatives such as the *Idara-e-Kissan* (Hala Dairy) that deliver both the requisite technology and veterinary and marketing services to small farmers are promising alternatives. Designing effective programs requires attention to the cultural and economic constraints facing rural women, who play a major role in the care of livestock, including the collection of fodder, cleaning of sheds and the processing of animal products.

Increasing Efficiency of Water Use

Increasing the efficiency of water use is critical for the sustainability of agriculture in Pakistan. Water remains the key resource constraint on Pakistan agriculture. Irrigation water is critical for agriculture in much of the country, and massive public investments in dams and canals in the Indus river basin, as well as mainly private investment in wells for groundwater irrigation have been essential for agricultural production. However, current patterns of water use in Pakistan are causing significant environmental degradation. Losses of soil fertility due to agricultural soil degradation (soil salinity and erosion) are estimated at Rs 70 billion per year or 1.5 percent of total GDP and 6.8 percent of agricultural GDP, according to 2004-05 GDP figures. In addition to environmental loss, inefficiency in the allocation of water within canal systems causes lower crop productivity at both the head ends of canals (due to over-use of water and water-logging) and the tail ends (due to water shortages).

Improvements in water delivery (including investments in drainage, control structures and conveyance mechanisms), **better water management** (through strengthening of water course organizations, farmers organizations, area water boards or professional canal management agencies) and **greater efficiency of water use at the farm level** (crop choice and adoption of water saving technologies) are the most promising approaches in the short to medium-term.

Irrigation Departments need to establish asset management plans that indicate measures for divestment of assets that can be turned over to the private sector or farmer organizations. Irrigation Departments also need operation and maintenance plans that include medium-term expenditure frameworks, assignment of financial responsibilities to the various actors, pricing policies and cost-recovery mechanisms. **Service delivery and allocation of water can be improved through promotion of water user associations and farmer organizations (FOs)**, as well as through improvements in the existing infrastructure. FOs could be given authority to collect and hold fees for canal water (*abiana*), as well as for operation and maintenance of distributaries and branch canals.

Financial incentives could also rationalize water use. Given that water is increasingly scarce in Pakistan, a shift from water-intensive crops like sugar cane to less water-intensive crops like oilseeds (sunflower and canola), maize, and vegetables irrigated with drip irrigation techniques, could result in large water savings, increasing water availability downstream and reducing environmental degradation. For example, shifting 60 percent of land under sugar cane cultivation to a maize-wheat rotation or converting about one-quarter of ordinary rice land to maize would save enough water to supply the current water needs of Karachi.

Charges for canal water (*abiana*) should be revised to better reflect opportunity costs of water use. *Abiana* can be used to incentivize farmers to diversify to higher value crops. However, to minimize problems of non-payment, fee increases must be accompanied by improvements in service delivery. Raising water charges to levels approximating the opportunity cost of water is likely to be politically infeasible, however. An alternative would be the development of markets for tradable water rights such as exists in Chile and Mexico. This would require laws establishing tradable water rates and the strengthening of local institutions to enable these to serve as brokers in water markets. Projects and programs involving agricultural extension, technical assistance, market development and credit may be needed to ease the transition of farmers and processors to alternative crops and products.

Agricultural Markets and Trade Policies

Direct government involvement in markets through domestic purchases and sales has declined since its peak in the 1970s and 1980s. Interventions in sugar cane and rice markets have ceased, but in recent years provincial and federal agencies have intervened in cotton and wheat markets. These interventions, which typically lead to large financial losses and discourage private sector investment in storage and trade, should be, if possible, phased out. Promotion of farmer associations to increase farmer's market power, particularly for production of highly perishable fruits, vegetables and dairy products, can improve producer prices and volumes sold.

Several steps can be taken to improve market efficiency and reduce the fiscal burden associated with government intervention in wheat markets. International experience suggests that the main objectives of Pakistan's wheat policy—to secure the provision of adequate supplies of wheat flour for consumers at affordable market prices and to maintain prices paid to producers at sufficiently high levels to ensure domestic production and real incomes for wheat farmers—can be achieved more efficiently through greater reliance on market mechanisms. The federal government has actively promoted liberalization of wheat markets in recent years by advocating avoidance of domestic marketing and storage restrictions and promoting a liberalized import policy. Significantly lower volumes of public procurement by provincial food departments and PASSCO would immediately reduce subsidies and increase the private sector's market share. Increased transparency and consistency in the implementation of these policies could increase price stability and enhance food security in Pakistan.

Faster growth in Pakistan’s exports of non-traditional agricultural products (fruits and vegetables, meat, fish) will require improved capacity to meet Sanitary and Phyto-sanitary (SPS) standards imposed by importing countries. Pakistan presently lacks a coherent strategy (or framework of strategies) for quality and SPS management in relation to its trade. Organizationally, there is a need to consolidate and enhance the fragmented, isolated, and non-coordinated capacity of SPS management institutions and regulations. This can be achieved by better defining the roles and responsibilities of the various agencies involved in SPS management, strengthening technical capacity for risk assessment, and re-institutionalizing early warning and surveillance systems for pests, diseases and contaminants.

Trade policies and governance issues that reduce efficiency of supply chains for processing, transport and commercialization of high-value agricultural products also need to be addressed. These issues are particularly important for products destined for highly competitive international markets. For example, import tariffs on cold and sanitary packaging materials inflate processing costs of milk and milk powder. Similarly, governance problems related to clearance of goods at customs and ports add to costs for export goods. And unofficial payments for security protection add to marketing costs for both domestic and internationally traded goods.

CREATING AN ENABLING ENVIRONMENT FOR THE RURAL NON-FARM SECTOR AND IMPROVING PUBLIC SERVICE DELIVERY

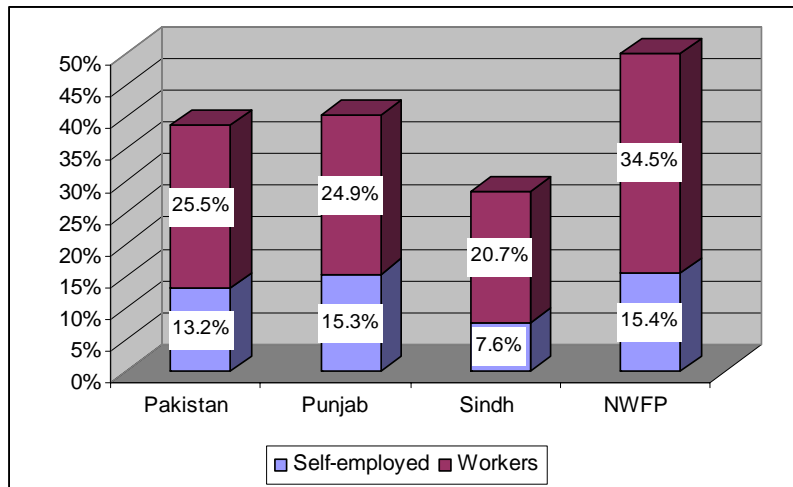
Although agricultural growth remains an important pathway out of poverty in rural Pakistan, particularly for the 40 percent of Pakistan’s poor who are farmers, 45 percent of the rural poor rely on non-farm activities as their main source of income. Poor farmers also derive about half of their total incomes from non-farm activities. Moreover, nearly 40 percent of the labor force of rural Pakistan is employed in non-farm sectors, either in self-employment (26 percent) or wage workers (13 percent). For these reasons, a well developed and functioning rural non-farm sector is essential to generate employment, ensure income diversification and reduce poverty. Achieving this will require substantial improvements in rural service delivery, particularly for investments in rural and small-town infrastructure. Greater investments in health and education are also required to both improve living standards today and to build human capital for the future.

Enhancing Access to Credit

A number of successful financial-sector reforms have been implemented in recent years, but rural and small town non-farm enterprises, which primarily tend to be micro enterprises involved in trade and services (about 60 and 30 percent of enterprises, respectively), still lack access to formal credit. Survey results indicate that access to credit is a major constraint and that many firms seeking credit are unable to get it. Potential suppliers of credit are often reluctant to lend to rural and small-town businesses because of high transaction costs and perceived high risks. Various measures are needed to increase the flow of credit and spur investment and growth. Among these:

- Develop alternative forms of collateral acceptable to banks
- Make procedures for loan applications less cumbersome
- Provide practical training for entrepreneurs in accounting and preparation of business plans to improve their ability to signal credit-worthiness to financial institutions

Figure 4: Percentage of the Rural Working Population* Employed in Non-farm Sectors



Source: PSLM 2004-05.

Notes: *Active labor force, aged 10 years and above.

- Organize potential borrowers in groups or professional associations to reduce risks and transaction costs for lenders
- Strengthen the institutional and regulatory framework for the enforcement of contracts, arbitration and conflict resolution

Facilitating Linkages to Input and Sales Markets

Market linkages could be facilitated by supporting the creation and development of more effective local business associations or organizations. These organizations could arrange product fairs, help develop business directories, and provide information services and details on how to undertake market research. They could also share information on prices, quality standards and how to access technical, financial and organizational services for greater value addition. Facilitating group marketing and business clusters could also help rural enterprises take advantage of scale economies, thereby allowing them to purchase inputs at lower prices, access larger markets and share the use of equipment and infrastructure.

Improving Public-service Delivery

Because spending on rural public service delivery is highly fragmented, with major components allocated across the various levels of government, a concerted effort is needed to coordinate government's rural development efforts. Addressing the major infrastructure constraints (e.g. roads and electricity) that hinder growth of the rural non-farm sector will require greater flow of resources to local governments and increased efficiency of public current and development spending. Improvements in public-service delivery in health, education, water supply and sanitation also are needed to enhance welfare of the poor and build human capital for future income growth. Given that there is no longer a formal administrative difference between rural and urban areas in Pakistan, there is no mechanism to track spending in rural areas apart from information on agriculture spending. Accurate monitoring of total spending in rural areas is needed to ensure that rural development needs are addressed and impact measured.

Provision of infrastructure, particularly roads and reliable electricity, can reduce operating and marketing costs, making investments in enterprises in rural areas and small towns more profitable. Access to electricity remains a major challenge in many villages and

small towns, and even among enterprises with access, reliability of supply is uncertain. The median number of days with power outages in a typical month was reported as 20 days in villages and 15 days in small towns. Access to and use of telecommunications among enterprises is also surprisingly limited. Only 31 percent of entrepreneurs in small towns (9 percent in villages) owned fixed line phones or cellular phones. Needed measures include:

- Better road maintenance and extension of basic motorable access;
- Improved institutional arrangements for ownership, management and financing of the rural transport system in accordance with the realities of devolution;
- Promoting greater community involvement in planning and managing transport infrastructure improvements to ensure that infrastructure meets local needs.
- Increased investments in power distribution and transmission, together with accelerating key reforms in the energy sector.

Increased public expenditures are particularly important in health, education and population. In spite of improvements since 2001-02, Pakistan's expenditure and outcome in health and education remain low by comparison with other south Asian countries. These sectors also appear to be under-funded relative to other public expenditures that are less pro-poor.

- Substantial investments in education, including vocational training programs and programs targeted to women, are needed to increase human capital and income-earning potential, so as to break the inter-generational poverty trap.
- Measures to promote slower population growth are also a high priority because of the direct impact smaller family size exerts on per capita household incomes.

IMPROVING THE EFFECTIVENESS AND GOVERNANCE OF RURAL INSTITUTIONS

Pakistan needs to review the role of its public institutions to change a control-oriented, supply-driven system to one that is more decentralized, efficient and demand-driven. The devolution that occurred in 2002 was an important step, but much remains to be done to reap the benefits of devolution, including improving administrative capacity of local government and further strengthening of Citizen Community Boards (CCBs). Greater interaction with private-sector groups of farmers and enterprises through public-private partnerships could facilitate government responsiveness and improve efficiency of investments and programs. In addition, measures that improve governance and accountability such as stricter enforcement of laws, legal reforms and wider dissemination of information on spending and effectiveness of programs can help spur both greater efficiency of government, as well as growth and investment in the private sector.

Reaping the Benefits of Devolution

Fiscal resources for rural development should be increased, particularly at local government (districts, *tehsils* and unions) level and efficiency of spending enhanced.

- These flows should be monitored closely and renewed efforts should be made to ensure that resources reach local governments in these provinces.
- In order to strengthen the local government planning process and the transparency of resource allocation, discretionary transfers' share of total transfers should be reduced and provincial non-discretionary transfers to local governments should increase more quickly than local government wage bills.
- Special attention should be given to monitoring public service delivery in rural areas.

1. **Five years after devolution, there is still confusion regarding the roles and responsibilities of the various levels of government, as well as apparent jurisdictional overlaps.** Immediate steps should be taken to begin to alleviate these administrative constraints and improve the efficiency of spending.

- New staff should be hired and practical training provided, particularly at the Tehsil Municipal Authority level.
- Jurisdictional overlaps should be reviewed and corrected following a systematic assessment of administrative responsibilities at the various levels of local government
- The transfer of resources through vertical programs and other higher-level government programs should be discouraged and reduced, with particular attention to the water and sanitation sector, which currently receives substantial transfers through Members of the National Assembly (MNAs), Members of Provincial Assemblies (MPAs) and directives of the Chief Minister.

The delegation of power to local governments through devolution has brought decision making closer to the communities, enabling them to access government officials and this has led to some improvements in service delivery. Survey evidence suggests that citizens' degree of access to their representatives has increased considerably and problems are solved relatively quickly under the new system. Priorities of the local communities are also increasingly reflected in development schemes. The effective participation of communities could be increased further, however, through:

- Widely disseminating user-friendly guidelines for CCB processes
- Developing training programs for councilors to improve their awareness and ensuring implementation of the Local Government Ordinance (LGO) provisions for CCB funding

Reforming Institutions for Agricultural Development

Irrigation, agricultural research and agricultural extension institutions also need to be made more accountable to farmers.

Reforms of irrigation departments are needed to increase accountability, efficiency, transparency and competition in surface water supply. Key steps include:

- Unbundling the business into bulk (operation of dams and barrages), transmission (canal management) and distribution (management of tertiary systems through water users' associations) components, with relations among the parts governed by contracts
- Encouraging private-sector involvement in management of canals and promoting competition between the irrigation departments and private service providers at the distributary level

Effectiveness of agricultural research at the provincial level could be enhanced by:

- Creating autonomous research organizations with the ability to attract qualified scientists and with adequate administrative and managerial flexibility
- Tailoring research agendas to the needs of individual provinces, particularly regarding soil fertility, water-logging and development of new varieties and products that meet market demand
- Forging partnerships with the private sector and knowledge institutions to develop new technologies, as well as to disseminate and transfer these on a large scale.

Decentralization of agriculture to the district level has been implemented without the necessary measures to ensure adequate capacity and funding. Programs to promote agricultural production can be made more effective by:

- Increasing the capacity of district governments to set priorities and develop implementation strategies
- Strengthening the link between district and provincial agriculture departments to ensure consistency of design and implementation of agricultural programs and policies
- Increasing the amount of funds allocated for agriculture at the district level.

Public-Private Partnerships

Public-private partnerships (PPPs) should be pursued aggressively with respect to agricultural marketing, research and extension, health, education, infrastructure and other sectors to enhance productivity of public-sector programs. It will be necessary to:

- Put in place an incentive structure for the private sector to enter into contractual arrangements with farmer organizations and link delivery of public services to business development
- Create public-private partnerships in agricultural research and extension to help public research systems become more responsive to farmers' actual needs
- Strengthen recent government education-sector reforms that enable engagement with private and NGO schools to improve access and quality of education, including government-supported per child subsidies
- Increase government financial support for NGOs, including Rural Support Programmes (RSPs) that deliver micro-credit, skills training and other private services.

Governance and Accountability

Improving governance is crucial for reducing poverty and promoting growth in both the farm and non-farm sector. Governance issues, including political instability, corruption, insecurity and lingering conflict, are a major bar to investment, economic growth and efforts to reduce poverty. Bureaucracies with low levels of accountability to stakeholders tend toward inefficiency and inability to deliver rural services, including agricultural and livestock research, extension, irrigation, natural-resource management, and market support services. To address these issues, the Government of Pakistan should strengthen recently begun efforts to: i) reform government institutions that oversee economic and financial management, the police, the judicial system, and the civil service; (ii) improve public financial management, accountability, and increased transparency and information on government activities to facilitate public oversight; (iii) strengthen local government institutions; (iv) privatize and deregulate public enterprises to reduce opportunities for rent-seeking behavior.

Improving the mechanisms for contract enforcement, promoting transparency in the legal system and allowing non-farm enterprises a greater say in policy making would help spur rural and small-town enterprise growth. Further, improved mechanisms for contract enforcement would also facilitate market linkages by enabling smaller enterprises to enter into sub-contracting arrangements with larger firms and thereby gain access to larger markets.

All rural development efforts could be improved through enhanced monitoring and evaluation. Adopting a national, results-based management framework is a crucial step to ensure effective use of resources.

- Both projects and larger programs should establish indicators at the outset, carry out simple baseline assessments and monitor indicators against targets.
- Improvements in collection of basic data are also needed. In particular, data on wage rates in small towns and rural areas should be collected to help monitor labor-earnings trends in the agricultural and rural non-farm sectors.

Publishing local, provincial and federal government plans and financial reports would improve access to information and make the local government system more transparent and accountable.

EMPOWERING THE POOR AND PROTECTING THE MOST VULNERABLE

Increasing the flow of resources to local governments and improving administrative procedures address mainly the **supply of public services**. However, a major reason for the limited impact of rural development efforts in Pakistan and many other countries is a lack of participation and influence by rural poor households, which **limits effective demand for public services** and hampers efficiency in development programs. Social mobilization can empower the poor, enabling them to play a greater role in the development process, not only to improve delivery of public services, but also to increase their market power by building so-called voice and scale in the farm and non-farm sectors (farmer organizations, water users, self help groups). Finally, although inclusive economic growth should be the main mechanism for reducing poverty, increased efforts toward social protection are needed to protect the most vulnerable.

Social Mobilization

Too often, a top-down approach is implemented – one that sees the rural poor simply as beneficiaries of public programs supplied by the government. Instead, a development paradigm is needed that puts the household and its community at the origin of development initiatives. Empowering the rural poor to take on this role, however, requires social mobilization, a central pillar of the government's Mid-Term Development Framework (MTDF), which covers 2005-2010 and a key feature of the Rural Support Programmes (RSPs). Community Boards (CCBs) are also the product of social mobilization, although these have a more limited focus on development projects implemented through local governments.

Social mobilization, along with economic empowerment and eventual graduation of groups, should be at the core of the rural livelihood development strategy. The benefits of broad economic growth trickle down very slowly when the poor have little access to key physical, social and financial endowments. To overcome highly unequal distribution of these and to achieve rapid pro-poor growth, poor people need new opportunities to organize, generate business and link with mainstream development activities.

- Social mobilization, as a way to develop institutions **OF** the poor as opposed to institutions **FOR** the poor, is a central component of effective rural livelihood development. Mobilizing poor people provides them with a voice and the scale required to more effectively engage with the range of institutions and individuals providing public and private services.

- Economic empowerment, whether through micro-credit, grants or skills training, facilitates access to assets, increases incomes, and demonstrates the creditworthiness of individuals and groups.
- Ultimately these groups may graduate to form other federative and associative movements involved in income-earning activities including public-private partnerships, various types of franchising and contract farming arrangements. These movements can provide the organization and critical mass needed to reduce transaction costs and leverage private sector and financial services.

To strengthen and expand these and other efforts at social mobilization, the government could:

- Initiate a social mobilization program aimed at building social capital and promoting organizations and institutions of the poor
- Facilitate access to productive assets by poor people through a matching grant window or the establishment of revolving funds at the community level
- Include social mobilization components in the design and implementation of rural development programs

Micro-Finance

In addition to social mobilization efforts, microfinance programs can empower the poor by alleviating severe credit constraints that limit their incomes and increase their vulnerability to adverse shocks. Major microfinance programs exist that are run by NGOs in rural areas, such as the Pakistan Poverty Alleviation Fund (PPAF), already exist, though coverage in Pakistan is smaller than in other south Asian countries. Pakistan’s microfinance programs may improve their effectiveness through adoption of the following international best practices:

- Focus on savings and the efficiency of savings services, as savings may be even more important for the poor than credit and micro-credit without savings institutions may not be sustainable
- Organize the demand side and help poor communities demonstrate their creditworthiness
- Continually assess product demand to design saving and lending products to meet that demand (informal lenders, and even the staff of credit institutions themselves, have been able to develop suitable products);
- Increase lending to women’s groups (the majority of sustainable successes worldwide have been with women) through socially acceptable mechanisms suited to specific localities;
- Find efficient ways of linking local informal rural finance institutions to formal institutions.

Social Protection

Safety nets for both the rural and urban poor should be made more efficient and scaled up to cover all ultra-poor and some poor households (4-11 million households).

- Cash transfer programs such as the Food Support Program (FSP) can be scaled up and the scope of these programs expanded to encourage long-term human-capital investments among the poor; one example is the Child Support Program pilot.
- Nutritional interventions aimed at improving health and nutrition of women and infants, such as The Tawana Pakistan school feeding program should be, as needed, redesigned or piloted and scaled up.

- The government should also consider piloting a major rural workfare program to provide temporary employment for vulnerable households.

Programs are also needed to address the problems of heavily-indebted workers subject to forced labor of various types, such as landless sharecroppers in rural southern Punjab and northern Sindh, and brick kiln workers. Possible interventions include:

- Increase public awareness of unfair labor practice issues through seminars and the media
- Strengthen enforcement of existing laws
- Launch a pilot project to provide access to credit and alternative income sources for these groups

CONCLUSIONS

Rural growth is crucial to Pakistan's future. Two-thirds of the country's population and 80 percent of the poor live in rural areas; unless there is sustained progress in these areas, rapid overall economic growth and poverty reduction are impossible. Stagnation of the rural economy could also threaten the social cohesion of the country, drive massive migration to urban areas, and result in massive urban unemployment. Achieving rapid rural growth and poverty reduction, however, requires overcoming major constraints related to unequal distribution of land and access to water, low productivity of crop agriculture, inadequate infrastructure, ineffective public-service delivery, and insufficient participation by rural people in most public-sector development programs.

Nonetheless, Pakistan has made important strides in the last several years to promote rural growth and poverty reduction. There has been substantial progress in liberalizing agricultural markets, promoting diversification and exports, and increasing expenditure on infrastructure and public services in rural areas. Progress has also been made in empowering the poor through social mobilization (RSPs and CCBs) and micro-credit (the PPAF). These efforts should be continued and strengthened. In addition, rapid and sustained reduction of rural poverty will require an even greater focus on building human capital, through improved delivery of health services and sanitation, basic education and appropriate technical training.

Going forward, it is crucial to maintain a multi-faceted and holistic approach to rural development and poverty reduction and to ensure that sufficient resources are invested in this task. Efficient and sustainable agricultural growth is a necessary condition for robust rural economic growth, but in itself cannot be expected to drive substantial reductions in rural poverty given the unequal distribution of access to land and water resources in Pakistan. Thus, policies to promote agricultural growth must be complemented by investments and policies that create an enabling environment for the rural non-farm sector, including increased public investment in rural and small-town infrastructure. Finally, because the ultimate objective of a poverty-reduction strategy is to increase the welfare of the poor, health and education programs that increase the human capital of the rural poor, social mobilization that empowers the poor in their interactions with government and markets and social protection programs that protect the most vulnerable should all receive increased resources and attention.