

**Poverty in Pakistan in the 1990s:**

**An Interim Assessment**

**Summary of the Report**

**Prepared by the World Bank for the  
Pakistan Human Development Forum (January 24 – 26, 2002) Islamabad  
January 2002**

# Poverty In Pakistan in the 1990s: An Interim Assessment

## Summary of the Report<sup>\*</sup>

World Bank, January 2002

The Interim Poverty Assessment report has been prepared by a team led by Tara Vishwanath, with the core team comprising of William Easterly (DECRG), Philip Keefer (DECRG), Ghazala Mansuri (DECRG), and Ambar Narayan (SASPR). Most of the analyses of the household survey data (Pakistan Integrated Household Survey) in this interim document are due to Ambar Narayan, with assistance in the initial stages from Martin Cumpa. Background papers and analyses therein are due to Forhad Shilpi (SASRD) (for extraction of Pakistan Household survey related insights in Chapter 5, and the agriculture sector strategy paper for South Asia, from which insights are drawn), William Easterly (for Chapter 1), and Dr S.M Naseem (for discussions on specific Poverty Programs in Chapter 6). The team would like to thank Shahnaz Kazi (SASHD) for task managing at the World Bank country office in Pakistan, Salman Zaidi (SASPR) for help and comments on Chapter 2, David Dollar (DECRG) for refereeing various intermediate drafts of select chapters, John Panzer (SASPR), Zareen Naqvi (SASPR) and other country team members for their help and suggestions, especially during the early stages of this work, Peter Lagerquist for editorial assistance and Nadia Islam (SARVP) for valuable team and technical assistance. Finally, the team would like to thank N. Roberto Zaghera (SARVP) for support and advice from the start of this endeavor in September 2000, Sadiq Ahmed (SASPR) for his continuing support and guidance, and John Wall (Country Director, Pakistan) and Zoubida Allaoua (SACPA) for enormous encouragement, help and advice in all related policy dialogue.

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<sup>\*</sup> This is a *summary* of an Interim draft of the Poverty Assessment for Pakistan. For more detailed analyses please refer to the full Interim report, which will be available upon request. Also, the final version of the Poverty Assessment for Pakistan, expected in May 2002, will incorporate further analysis using data from a rural household survey and a qualitative survey currently underway in Pakistan.

## Poverty In Pakistan in the 1990s

1. Poverty and backward social indicators remain serious problems in Pakistan. Notwithstanding tripling of per capita incomes over the last fifty years, Pakistan's human development remains behind that in countries with similar levels of income.<sup>1</sup> Internal differences in poverty and human development indicators have persisted or widened – among regions, between rural and urban areas, and between men and women. The 1990s have been a particularly adverse decade. Macroeconomic imbalances widened during the decade and have brought Pakistan on the verge of a debt trap. These imbalances contributed to, and were also exacerbated by a deterioration of the investment climate, and a decline in growth. Progress in poverty reduction and social indicators stagnated, and in few cases progress was even reversed. At the beginning of a new millennium, Pakistan is saddled with unsustainable external and domestic debt, the resources available from accumulating which did not generate commensurate economic and social returns. Turning the situation around hinges on Pakistan's capacity to rapidly address serious macroeconomic imbalances, restore an investment environment conducive to growth, and improve the population's access to health and education services. While the last two years have seen promising initiatives to turn the situation around, they are too recent to have tangible effect, and need to be sustained over time before they can generate significant and palpable results.

2. Poverty in Pakistan, as is the case with most countries, is linked to overall growth performance of the economy. Periods of substantial and sustained poverty reduction – in Pakistan's case, notably, the late 1980s – also happen to be periods of sustained growth. On the other hand, uneven growth in the last decade has led to volatility, and on balance, stagnation of poverty measured in consumption terms. Most importantly, even when growth has occurred, resulting in reductions of *income* or *consumption* poverty, the gains have not translated into commensurate increases in *capability*, as measured by indicators of human development. Pakistan has poor health, education, and fertility indicators for its level of per capita income.<sup>2</sup> Moreover, comparing Pakistan with countries that grew at about the same rate (regardless of initial income level), suggests that other moderate growers achieved more social progress than Pakistan for a given amount of growth. The failure to develop human capital, which can be described as a *social gap* as far as Pakistan is concerned, is one of the likely reasons for the slow-down in growth and poverty reduction in the 1990s.<sup>3</sup> The ability to achieve sustainable growth and poverty reduction in future will thus require addressing the shortcomings in human development, including the institutional factors that contribute to these failings.

### *Poverty, Growth and Inequality*

3. On the whole, growth and to some extent, changes in distribution of consumption are important in explaining changes in consumption poverty in Pakistan. Between 1984-85 and 1987-88, substantial poverty reduction took place, as a result of strong growth performance that led to sizeable increases in mean consumption, along with reduced inequality in rural areas. From 1987-88 to 1990-91, lower growth rates combined with slight worsening of inequality, led to smaller gains in poverty reduction. This pattern was carried into the 1990s, a period that also

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<sup>1</sup> For details on cross-country analysis, see the Interim Poverty Assessment report.

<sup>2</sup> Compared to other countries of its income level, Pakistan has, for instance, 42% lower health spending per capita, 27 more infant deaths per thousand, 23% lower share of population with access to sanitation, 40% fewer girls of elementary school age enrolled in primary school, and 24% lower rate of literacy among adults.

<sup>3</sup> The long-term component of growth rate had fallen by 4% by the end of the 90's, from its peak of 6.6% in the 1980s. Barro (1998) shows that health, education, and fertility indicators significantly affect growth outcomes.

saw large variations in growth rates that led to fluctuations in consumption poverty. During the later part of the 1990s, growth performance dropped off considerably, which led to worsening of the poverty situation since 1996-97. On balance during the 1990s, incidence, depth and severity of overall poverty remained almost unchanged if one were to compare the beginning and the end of the decade (1990-91 and 1998-99).

4. Comparing 1990-91 with 1998-99, the national poverty rate remained almost unchanged between the beginning and the end of the decade (Figure 1).<sup>4</sup> In the intervening years during the 1990s, poverty rates showed high volatility from year to year, and it appears that a steep increase in poverty occurred during the end of the decade (however, due to methodological considerations affecting comparability, the estimates for these intervening years should be treated with some caution).<sup>5</sup> Prior to the 1990s, poverty is found to have declined sharply, particularly between 1984-85 and 1987-88.

Figure 1: Poverty in Pakistan

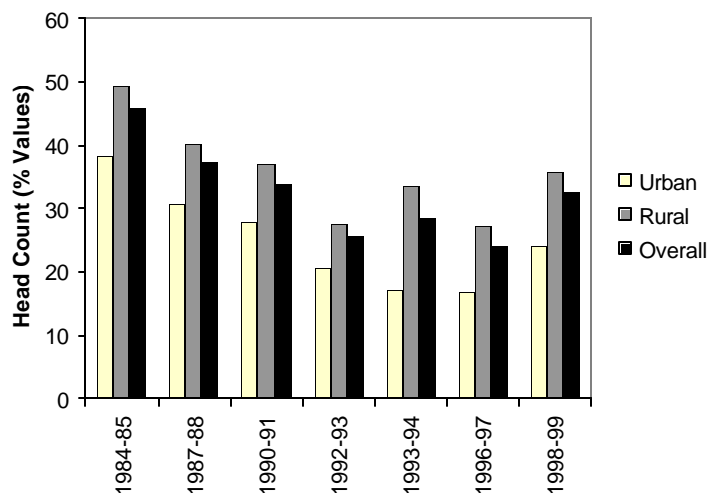


Table 1: Poverty (Head-Count) Estimates for Pakistan

	1984-85	1987-88	1990-91	1992-93	1993-94	1996-97	1998-99
<b>Poverty Headcount</b>							
National	46.0	37.4	34.0	25.7	28.6	24.0	32.6
Urban	38.2	30.7	28.0	20.8	17.2	16.9	24.2
Rural	49.3	40.2	36.9	27.7	33.4	27.1	35.9
<b>Growth of Real Per Capita GDP</b> (Average Annual Rates since previous period)	-	4.1	2.8	2.9	0.0	1.8	0.8

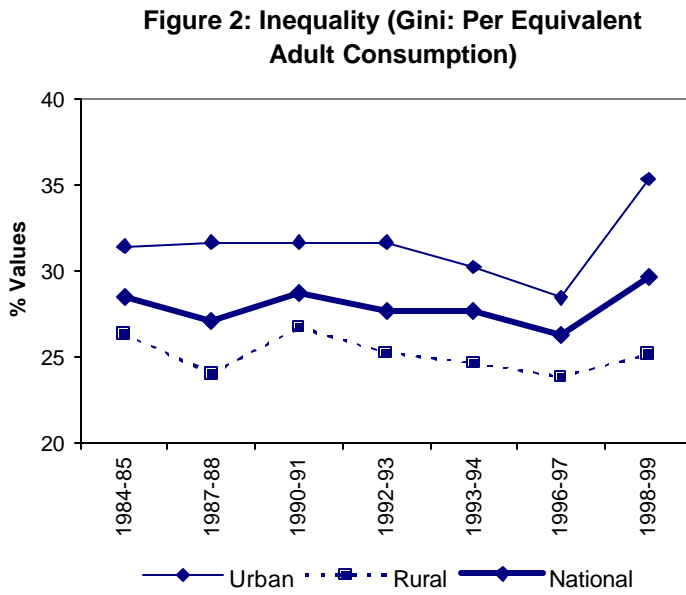
5. The link between growth and consumption poverty can be seen from observing that the later part of the 1980s, characterized by substantial poverty reduction, were also periods of high growth. Since then, as growth slowed in the 1990s, particularly during the later part of the decade, poverty stagnated and some of the earlier gains were even reversed. Disaggregating by region, while urban poverty fell between 1990-91 and 1998-99, rural poverty held at about 36%, widening the rural-urban gap (Table 1). This is of particular concern because 71% of Pakistanis live in rural areas. In addition, a significant share of the population appear to be at the risk of

<sup>4</sup> Poverty is estimated using a poverty line set at the inflation adjusted cost of achieving a minimum bundle of basic needs, including food, fuel, housing and clothing

<sup>5</sup> There are indications, described in detail in the Interim Poverty Assessment Report, that poverty was underestimated in the surveys between 1992-93 and 1996-97; this would mean that the observed increase in poverty between 1996-97 and 1998-99 is somewhat exaggerated.

falling into poverty – vulnerable to a shock like illness or drought – given that in 1998-99, as many as 43% of the total population were concentrated within a small range of 75 to 125% of the poverty line (in consumption terms). The high volatility of poverty rates during the 1990s, especially in rural areas, leads further credence to the evidence suggesting vulnerability of a large section of the population.<sup>6</sup>

6. Inequality trends have also played a part in explaining poverty changes. The period of largest poverty reduction, namely between 1984-85 and 1987-88, was also marked by the sharpest fall in the index of inequality for the country as a whole.<sup>7</sup> By 1998-99, the gini was at a level slightly higher than in 1990-91. Inequality in the urban areas increased sharply by 1998-99, irrespective of whether one takes 1990-91 or 1984-85 as the reference period, while rural inequality was reduced slightly (Figure 2). A growth-inequality decomposition of changes in poverty incidence reveals that in urban areas, some of the potential gains in poverty reduction arising out of growth in mean consumption between 1990-91 and 1998-99 (see Table 2) were negated by rising inequality. In rural areas on the other hand, mean consumption did not increase between 1990-91 and 1998-99 (Table 2), and whatever minimal net reduction in poverty occurred during the period was due to some shift towards more equal distribution of consumption.



7. Given the primary role of agricultural sector in the rural economy, agricultural performance is likely to be critical in explaining observed trends in rural poverty. The average annual growth of value added in agriculture fell from 5.4% during the period 1984-90, to 5.3% during 1990-96, and only 2.2% during 1996-99.

Moreover, growth in agriculture was more volatile during the 1990s than in the 1980s.<sup>8</sup> These trends are consistent with the observed reduction in rural poverty (and rise in mean rural consumption) seen between 1984-85 and 1990-91, the high volatility in rural poverty and consumption thereafter, and the rise

**Table 2: Mean Per Equivalent Adult Consumption (Monthly, Constant 1990-91 Prices)**

	1987-88	1990-91	1992-93	1993-94	1996-97	1998-99
Urban	557	566	570	580	577	589
Rural	390	417	457	423	438	411

<sup>6</sup> The ongoing Pakistan Rural Household Survey (PRHS), whose findings will inform the final version of the Poverty Assessment for Pakistan, will provide more detailed evidence on the extent, nature and implications of vulnerability.

<sup>7</sup> Inequality is measured by the gini coefficient of per equivalent adult consumption

<sup>8</sup> Growth of value added in agriculture ranged from as high as 12% during 1995-96, to negative growth during 1992-93, and near zero growth during 1996-97.

in rural poverty from 1996-97 to 1998-99. Given the importance of agricultural sector in determining rural poverty, it will be important to understand the critical bottlenecks in the rural economy must be underpinned by an analysis of the micro-level factors that act as obstacles to productivity and growth, and contribute to the vulnerability of rural households. These issues will be addressed briefly later in this report.

8. In the light of these preliminary findings, an in-depth examination of the structural factors that led to weak and unstable growth performance, starting in the late 1980s and continuing into the 1990s, would be necessary to determine the constraints to growth. Some of these areas – for instance, those responsible for constraining private investment – are beyond the scope of the current report; the focus of this report, consistent with the agenda of the Poverty Assessment, will be to explore the human and social dimensions of poverty that go beyond what is represented by consumption and income measures of poverty. This would be especially critical in understanding the nature and extent of the aforementioned social gap in Pakistan, and the extent to which the lack of capability these gaps translate into, acts as an obstacle to improvements in economic opportunities for the poor.

#### *Understanding the Linkages to Poverty*

9. Data from the household surveys in the 1990s offer some evidence on the multi-dimensional nature of poverty and the extent to which the poor are deprived, not only of consumption, but also of the ability to undertake investments and to develop skills. The following economic and social factors are identified as particularly closely linked to poverty:

- a. *Disadvantageous consumption patterns*: The poor in Pakistan allocate a larger share of their expenditures towards food, fuel and lighting, especially in urban areas, and consequently spend less on items, such as healthcare or education, which could boost their long-term earning potential. For instance, the poor spend around 53%, 8% and 3% of their total household budget on food, fuel and education respectively, compared to 47%, 7% and 4% respectively for the non-poor.
- b. *Skewed pattern of landownership*: More than one-half of the rural population in Pakistan is landless. The incidence of rural poverty is the highest among those who own no land and falls steadily as the ownership of land increases. Over 40% of landless households are poor and together constitute 70% of the rural poor, while less than 3% of households owning 10 acres or more are poor.
- c. *Large family size*: Only 5% and 14% of Pakistani households with between 1-2 and 3-5 members respectively are poor, whereas this is the case for 46% and 48% of households with between 11-15, and than more than 15 members respectively.
- d. *Poor educational attainment*: 42% of the population living in households with illiterate heads is poor, compared to 21% of those in households with literate heads. Net primary enrollment rate is 59% for the non-poor, and 37% for the poor, and particularly low among poor female children in rural areas.
- e. *Poor health and fertility indicators*: The poor are less likely to access health facilities – the incidence of medical consultation for diarrhea among children is 79% for the poor, compared to 84% of the non-poor; similar or larger gaps exist in various measures of access to maternal health care. While the rate of contraceptive use is low for the whole country, especially in rural areas, poor women are even less likely to use contraception methods – 15% of married

women of age 15 to 49 in the lowest expenditure quintile have ever used contraceptives, compared to 25% of those in the highest quintile.

- f. *Lack of access to critical infrastructure:* As many as 24% of the poor rely on potentially unsafe sources for drinking water, compared to 19% of the non-poor; only about 52% of the poor live in households connected to electricity, compared to 76% of non-poor households.
- g. *Vulnerability to abuses or power, weak rule of law:* Compared to other countries with similar levels of income, Pakistan ranks poorly on indices of graft, government effectiveness and rule of law. On each of these counts, drawing on scale ranging from –2.5 to 2.5, it scores nearly one half a point lower than would be expected. As widely evidenced, the poor are more affected by the costs this imposes.

10. Such linkages provide some indication of the nature and extent of poverty in Pakistan, not just as a measure of consumption, but also related to human development. Educational attainment and health are among the most valuable benefits of such development and are also important determinants of whether someone living in poverty is likely to improve their circumstances. In aggregate, the educational attainment and health of Pakistan’s population is therefore crucial to its ability to grow, and the deficiencies along these dimensions constitute the social gap identified before as the critical constraint to long-term growth and poverty reduction. Evidence from household data offers opportunities to quantify the trends in education and health in recent years, and permits a systematic investigation of factors that help explain differences in the educational attainment and health. Such analysis would help in explaining the pattern of human development and identifying the critical constraining factors, which would in turn inform a discussion on the kind of policy interventions necessary to address the social gap in Pakistan.

*Education in the 1990s*

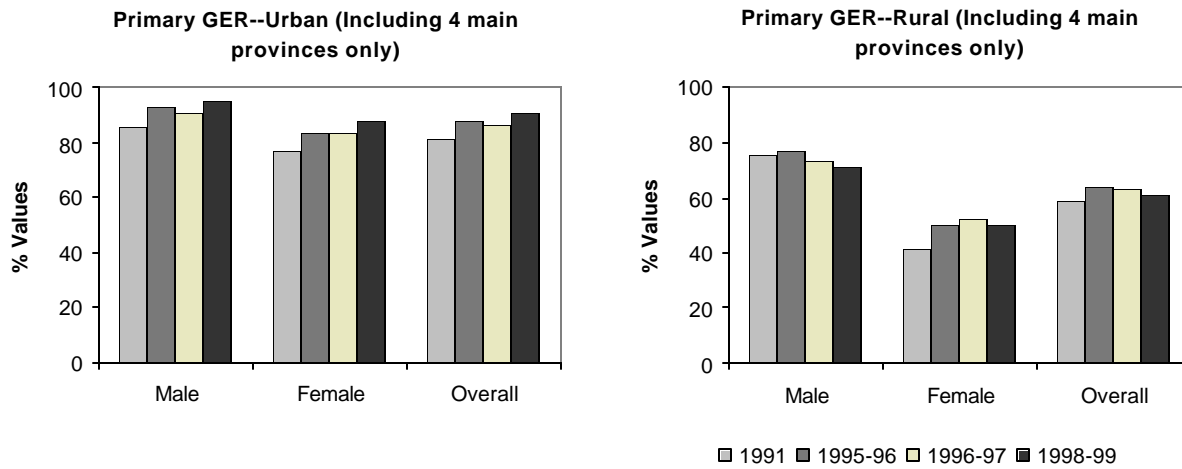
11. Among the salient trends noted for the 1990s is the fact that progress has been slow, especially during the later part of the decade. The primary gross enrollment rate (GER), after improving until the middle of the decade, stagnated (Table 3). A GER of 69% around 1998-99 was well short of the target of 88% by 1997-98 set by the country’s ambitious Social Action Program. Since 1995-96, GERs have stagnated or even fallen (for males) in rural areas (Figure 3).<sup>9</sup> Throughout, enrollment showed significant rural-urban differences, and while the gender gap closed slightly, this was unfortunately in part due to some declines in male enrollments.

**Table 3: Primary Gross Enrollment Rates (%)**

	1991	1995-96	1996-97	1998-99
Punjab	..	73	73	76
Sindh	..	70	64	56
NWFP	.	66	68	67
Balochistan	..	63	58	58
All Four Above	..	71	70	69
Azad J & K	..	..	..	101
Northern Areas	..	..	..	75
FATA	..	..	..	39
Pakistan -- Urban	81	88	87	91
Pakistan -- Rural	59	64	63	61
Pakistan – Male	78	81	78	78
Pakistan -- Female	53	60	61	60
Pakistan -- Aggregate	65	71	70	69

<sup>9</sup> Even when the entire decade (from 1991 to 1998-99) is taken into account, GER for all males has remained unchanged (at 78%) and increased somewhat for females (from 53% to 60%), to combine for a modest increase (from 65% to 69%) for the entire country.

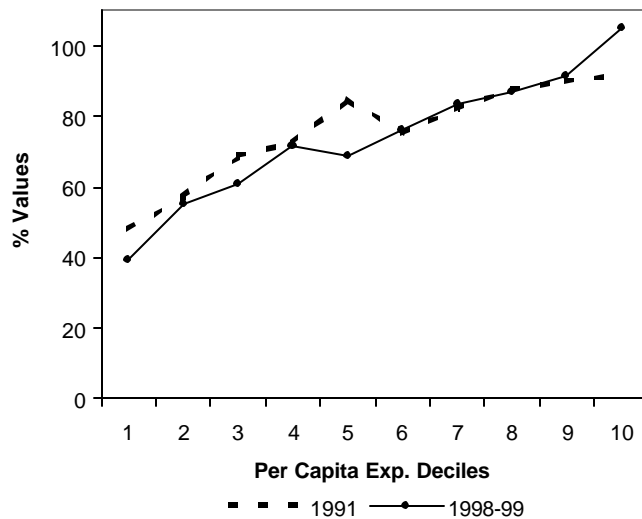
**Figure 3: Primary GERs in the 1990s Have Shown Little Improvement**



12. Primary net enrollment rates (NERs) – a better measure for educational attainment – tell an even starker story. Primary NER for the entire country was 51% in 1998-99, which included a large rural-urban gap (67% to 45%) and a sizeable male-female gap (57% to 44%). Primary NER for girls in rural areas is as low as 36%. The gender gap persists across the rural regions of all the four main provinces, with rural Sindh and Balochistan evincing particularly low female enrollments.

13. Educational attainment is closely related to poverty, with large gaps in literacy and enrollment rates dividing the poor and the non-poor. Comparing between 1991 and 1998-99 (Figure 4), gross primary enrollment ratios for 1998-99 are lower than those in 1991 for all the lower expenditure deciles. A similar story is found to apply to secondary enrollment rates also. In fact for both primary and secondary enrollments, large improvements in enrollment over the period can be seen only for the highest expenditure deciles, indicating rising inequality between the rich and the poor in educational attainment.

**Figure 4: Gross Primary Enrollment Ratios by Per Capita Expenditure**



14. The rich-poor gap in educational outcomes is also reflected in detailed enrollment profiles. The proportion of children who have never attended school is much larger among the poor (52%) than the non-poor (31%). Poor children are also likely to fare badly among those who have attended school, with relatively higher dropout rates, and greater proportions attending grades lower than those appropriate for their age. This points to a combination of factors like late entry into school and greater likelihood of grade repetition, hindering educational attainment of poor children.



15. An important issue in the context of Pakistan is an observed increase in the share of the private sector in schooling over the years – private share in primary enrollment increased from 14% to 23% and that in secondary enrollment from 8 to 17 %, between 1991 and 1998-99. The increases were spread out over all expenditure deciles, e.g. private share in primary enrollment increased from 5 to 10% for the lowest decile and from 35 to 60% for the highest decile.<sup>10</sup> Between 1991 and 1995-96, enrollment in non-government primary schools increased by 70% compared to 4% for government schools. The shift in favor of private schools deserves close scrutiny on issues related to the nature, cause and impact of such a change. Some questions are especially critical: firstly, whether a substitution in the *supply* of schooling has taken place in the direction of private schools; secondly, whether such a shift, if it indeed has occurred, has limited the access of the poor to education, given that private schools tend to be more expensive; thirdly, what impact has competition from private schooling had on the quality and availability of public schooling.<sup>11</sup> Understanding these will be crucial to devising a public policy on education that incorporates the potential role and opportunities provided by the private sector.

16. Education is thought to widely impact the economic status and welfare of household members. The issue of how education matters is especially relevant for Pakistan given that the spread of education has been slow and marked by wide disparities. Evidence from household data suggests that literacy and education have positive impact on labor earnings in Pakistan, albeit with some variations across genders and urban/rural regions. In addition, education yields strong externalities within households. Simple correlations suggest such externalities on the social dimension: infant mortality rate is 34% points lower for infants born of women with some education than for those born of women with no education; enrollment rates are higher, and gender differences in enrollment are significantly lower for children with literate mothers. Regression analyses reveal that education externalities also impact earnings; education of household members is found to have a significant positive impact on labor earnings, especially for non-literate males employed in the non-agricultural sector.

17. The presence of intra-household externalities carries a powerful policy implication – namely, the importance of the *spread* of literacy and education among the population. A household with no education may benefit from even one member gaining access to education, beyond the immediate gains to the particular member – in terms of improvements to health and education of children, as also in better earning opportunities for other members in the immediate future. There is a gender dimension however – women seem to benefit less from such externalities than men do, suggesting that intra-household distribution of such benefits is less in favor of women. This underscores the need for policy measures to recognize the importance of intra-household behavior and social norms in the distribution of economic and social benefits among household members.

18. Access to schooling facilities can play a crucial role in school participation, especially since the availability and quality of public schooling have long been thought to be critical constraints to educational attainment in Pakistan. From the PIHS (1998-99), around 79% of the rural population of the country is found to live in villages where there is at least one primary school for girls within 1 km. distance. For 12% of the rural population, the nearest school is at least 6 km. away. Even the mere availability of a school is seen to be strongly associated with school

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<sup>10</sup> The share of private sector as mentioned here *excludes* enrollment in madrassas. The share of madrassas in aggregate enrollment is found to be miniscule, around 0.7% only for the country as a whole, suggesting that a minimal role for religious schools in the aggregate picture. This of course does not preclude such schools playing disproportionate roles in certain areas.

<sup>11</sup> The average yearly per student expenditure for primary schooling in private schools for Pakistan in 1998-99 is Rs. 850 for government schools, and around Rs. 3700 for private schools (PIHS, 1998-99).

participation: primary NER for girls is 43% among households living in rural areas with a primary school for girls within 1 km. distance from the village, compared to around 13% for the rest of the rural population. Similar patterns are observed for net secondary enrollment for boys and girls alike, and across almost all provinces.

19. A multivariate analysis of school participation confirms the importance of economic status, parents' education and access to school facilities in determining the probability of a child attending school.<sup>12</sup> The probability of a child attending school increases significantly as he/she belongs to a higher expenditure group.<sup>13</sup> Having a mother who attended school makes it 23% more likely for the child to attend school than one who does not; the corresponding figure is 16% for having a father who attended school. For rural subgroups, the probability of a girl child and a boy child attending school is increased by 15% and 22% respectively by the presence of a primary school (for the corresponding gender) within 1 km. of the village.

20. The fact that the mere presence of a school within a short distance is associated with higher enrollment rates speaks for the need to expand access to schools, particularly for women. At the same time, the mere presence of a school facility is not enough to ensure better education outcomes; for example, in spite of near-universal physical proximity to at least one primary school for boys, primary enrollment rates among boys in rural areas was only around 71% in 1998-99. While this would be the result of a combination of complex demand and supply-side factors, poor quality of existing schools, related to governance problems, is likely to be an important one. Although the household data analyzed here do not offer much scope to explore such issues, evidence from secondary sources suggest that quality problems arising out of institutional failure are widespread, with strong adverse impacts on attendance and enrollments.<sup>14</sup> Therefore, the focus of an education strategy should be on institutional reforms to expand availability, as well as improve quality of education facilities.

### *Health in the 1990s*

21. While various health indicators in Pakistan (computed from PIHS of 1998-99) have shown improvements as compared to the beginning of the decade, as mentioned before, most indicators still compare poorly with countries with similar levels of income. Overall, health indicators for Pakistan tend to be much worse in rural areas than in urban areas, and for the poor relative to those better off; they also tend to improve with women's education and where relevant, with access to safe water and sanitation.

22. *Infant mortality* (per 1000 live births)–mortality rate among infants of age 1 or less – of 83 in 1998-99 compares favorably with 127 in 1991. There exists a large rural-urban gap, and an even larger gap between infants born of women with some education, and those born of women with no education. Infant mortality rates are also significantly lower for households with access to proper sanitation facilities (Table 4). *Incidence of diarrhea* among children of age 5 and under (in 30 days preceding the survey), considered an important indicator of child health, has fallen from 25% in 1991 to 12% in 1998-99, with the largest gaps existing between rural and urban areas.

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<sup>12</sup> A probit regression of school participation of children of age 6-14 is used to identify the extent to which different factors play a role, controlling for all the other probable factors

<sup>13</sup> The probability of a child attending school is 10%, 16%, 21% and 25% higher if his/her household belongs to the 2nd, 3rd, 4th and 5th per capita expenditure deciles respectively, compared to the reference group – children in households belonging to the bottom decile.

<sup>14</sup> See, for example, Gazdar (2000): this study reports, based on a detailed survey, that out of 125 schools the survey team visited, only 47 could be classified as “fully functional”.

23. Statistics on *pre and post natal care*, and the *conditions surrounding childbirth* provide critical information on the status of female health. Incidence of pre-natal medical consultation among married women (of age 15-49) is found to be low in general (31%), with very large differences between rural and urban regions, and within regions among various expenditure groups as well as literacy status of women. Similar patterns are observed for other indicators, like proportion of deliveries unassisted by trained personnel, and incidence of post-natal consultation.

**Table 4: Infant Mortality (Age 1 and Below) by Household Characteristics (Per 1000 Live Births)**

	1991 <sup>15</sup>	1998-99 <sup>16</sup>
All Pakistan	127	83
Urban	..	70
Rural	..	88
Male	..	85
Female	..	81
By Mother's Education:		
No Education	134	90
Some Education	81	56
Drinking Water:		
Piped Indoor	117	70
Outside Home, Covered	121	90
Open Source (River, Pond)	156	83
Drains:		
Covered Underground	94	54
Uncovered Open	120	86
None	141	89

Finally, although the knowledge of contraceptives has increased sharply from 1991 to 1998-99 (38% to 92%), the increase in actual use of contraception (10% to 20%) has not been proportional to the expansion in knowledge. As expected, there are wide differences in use of contraception, by rural and urban areas, economic status and the woman's education.

24. While various household characteristics like education, along with social attitudes, cultural mores and extent of isolation from information play a role in determining these outcomes, it is especially important to consider what role availability of facilities play, specifically in rural areas where access is likely to be limited. Just 69% of the rural population of Pakistan lives in villages that have some health facility or trained health worker. Availability of all kinds of health facilities tends to be higher for those in the higher expenditure deciles, which would accentuate the sharp differences in health outcomes between the poor and the relatively well off. This seems especially likely, given that access to facilities is associated with health status. The whole range of health indicators, from infant and child mortality rates to indicators of female health, are found to be better for villages where there exists a hospital, dispensary or clinic, or for that matter, any health facility or health worker (Table 5).

25. The fact that even without controlling for quality, availability of facilities seem to matter for health indicators, suggests that expanding access towards more universal coverage should be imperative for public policy. Moreover, just like in education, quality of health facilities is a critical factor: evidence from other sources indicate serious questions about the quality of service provided by public facilities, especially in rural facilities like the Rural Health Centers and Basic Health Units.<sup>17</sup> Thus expanding the availability of health facilities must also be accompanied by measures to improve quality of service, through institutional reforms that address accountability problems of those responsible for service delivery.

<sup>15</sup> From Poverty Assessment for Pakistan (1995), World Bank

<sup>16</sup> Infant mortality rates were calculated as averages for children born in the period 1993-97, to ensure that only infants who would be of age 1 and above (if they were alive) are considered.

<sup>17</sup> See Chapter 7 of the report by SPDC (2000)

**Table 5: Access to Health Facilities and Selected Health Indicators (1998-99)**

Selected Health Indicators	Any Hospital, Dispensary or Clinic		Any Health Facility or Worker	
	In PSU	Not in PSU	In PSU	Not in PSU
Infant Mortality per 1000:	80.9	93.3	83.2	99.4
Male	83.9	93.4	87.1	95.0
Female	77.8	93.1	79.0	103.8
Child Mortality per 1000:	104.5	117.0	104.0	129.5
Male	110.7	115.3	113.3	113.6
Female	98.1	118.8	94.0	145.9
Incidence of Pre-natal Consultation (%)	25.7	19.6	26.0	13.7
Proportion of Deliveries Unassisted by Trained Personnel (%)	42.4	48.3	42.9	52.2

*The Role of Governance in Service Delivery*

26. As seen above, in education and health alike, under-provision of public facilities, along with poor quality of existing facilities are important factors constraining human development in Pakistan. Given that these deficiencies can be traced to institutional failures related to governance problems, it will be important to examine the political economy of service delivery in Pakistan, especially in the light of the fact that the country is undergoing major governance reforms in the form of its 2000 devolution plan for local government. While the discussion here will focus on education for which more information is available, most of the issues will be pertinent to the case of health services also.

27. Very briefly, two principal factors can be seen to contribute to the failure of universal public education in Pakistan. First, elected officials have more incentives to provide targeted benefits to specific individuals or groups, rather than public goods to a wider and more anonymous set of beneficiaries, of which universal public education is an example. These incentives are partly explained by the unique set of informal rules of political competition that prevail in rural areas in particular, driven by the ease with which political competitors can identify their supporters and target them with benefits. The distance between communities in rural areas makes the value of targeted benefits greater. Also, since rural areas are dominated by voting blocs, patronage is a far more effective strategy than quality public good provision. Thus educational inputs in Pakistan flow in a manner more consistent with the patronage model: schools are built for the jobs and profit opportunities that construction provides; teacher postings are based less on merit and more on how best to provide jobs to supporters.<sup>18</sup> There are, in contrast, few incentives to increase access or to promote accountability of service providers for the quality of education.

28. Second, many Pakistani households, relative to households with similar incomes in other countries, seem to place a low value on education – particularly the education of girls – so that there is little political incentive to enhance the access of girls to education. Evidence indicates that there are significant social and cultural barriers to education for girls, to the extent that

<sup>18</sup> Gazdar (2000) demonstrates significant variability in school functioning and traces it to variations in the extent of patron capture of educational resources, patron-teacher collusion, and collusion between teachers and the school administration.

education for girls is considered harmful by a significant number of households.<sup>19</sup> From the point of view of elected officials, pushing for expanded access for girls to existing educational facilities is not only of limited political utility, but presents real political hazards. These attitudes also have implications for institutional reforms such as decentralization.

29. Improving the accountability and incentive mechanisms of public service delivery is one of the primary objectives of the comprehensive plan of devolution being implemented in Pakistan. The plan aims to reform an over-centralized government in order to improve decision-making, accountability and service delivery. It envisages creating full-fledged district governments with legislative and financial powers, serving below the federal and provincial levels. This structure will have three tiers, with direct popular elections to the first level (the Union Councils), and indirect elections for key decision makers (by an electoral college comprising of the Union Council members) at the Tehsil and district levels (Tehsil and Zila Councils respectively). The devolution effort can be expected to succeed only to the extent that it solves fundamental governance problems that have bedeviled earlier efforts to improve service delivery. In particular, devolution will succeed if local government officials exhibit a notably greater interest in improving the provision of public goods than in targeting private goods, and if they are better placed to overcome parental resistance to the education of girls. A thorough analysis of these two issues awaits the data collection that is going on in the field right now.

30. Preliminary analysis suggests some reason for optimism on the first count, and some reason for pessimism on the second. The optimism stems from the possibility that the institutional changes introduced by devolution are likely to reduce patronage incentives. The second reason for optimism is that with devolution, there are potentially more checks operating on officials who try to provide patronage. Devolution may, therefore, provide a positive change to the incentives of government decision makers regarding delivery of public goods. However, a necessary pre-condition for such optimism is that the elections at the local level be competitive.

31. It is less likely, however, that devolution can solve the problem of obvious and significant resistance to standard forms of educational provision for girls, among numerous households and communities. Experiences in other countries suggest that when incentives of local governments are low or even perverse due to significant local opposition to reform, the involvement of higher-level governments becomes necessary.<sup>20</sup> Interventions to overcome lack of local incentives can take different shapes: outright subsidies to households to send their daughters to school would be one example, another would be cross-sectoral incentives to districts, perhaps in the form of provision of goods (such as infrastructure) that are heavily demanded. Further information and more detailed analysis would be necessary to evaluate the kind of incentives that local governments do have, and the kind of higher-level interventions that may be necessary.

#### *Addressing Rural Poverty and Vulnerability*

32. As mentioned before, any poverty reduction strategy for Pakistan must focus on the rural economy, given that two-thirds of Pakistan's poor reside in rural areas and their poverty is both deeper and more severe than urban poverty. Moreover, such a strategy should be informed by a

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<sup>19</sup> Nearly half of all girls between 10 and 20 years old have never attended school. When asked why, the nearly 40 percent of these girls indicated that parental or elder disapproval was the main reason.

<sup>20</sup> For example, in the United States, efforts to persuade states to integrate public schools eventually required federal intervention. While this experience does not by any means mirror the situation in Pakistan, the key point is that of the necessity of intervention by a higher-level government when local incentives are not enough to institute a reform.

detailed micro-level analysis of the important constraints that operate in the rural economy. While the lack of suitable data at present limits the scope of such an analysis, what follows is an attempt at briefly summarizing the important issues, which would help identify a set of challenges critical for a rural strategy to address.

33. Most rural households depend on agriculture for their livelihoods, either directly or indirectly, and the bulk of non-farm economic activity in the countryside is also closely linked with agriculture.<sup>21</sup> Given that, of particular concern is the apparent inability of whatever increases in agricultural productivity has occurred to alleviate rural indigence in recent years. While agricultural productivity grew about 4.8% over the 90's, outpacing population growth rate of 2.5%, rural poverty of about 36% in 1998-99 was unchanged from that in 1990-91.

34. On the face of it, this suggests a rather weak link between agricultural productivity and rural poverty. This can be partly explained by evidence suggesting that excessive fluctuation in agricultural productivity and/or prices during the 1990's affected the consumption of poorer households disproportionately. As noted before, there was substantial volatility in the growth rate of value added in agriculture from year to year (see Table 4), and changes in rural per capita consumption and poverty appear to correspond to these fluctuations. This suggests that income risk arising from production uncertainty may be a cause of substantial vulnerability to poverty in rural areas. Indeed, there were a number of natural disasters over this period, compounded by fluctuations in the price of exports.

35. Vulnerability from exposure to income risk is likely to vary by the asset holdings of households, as well as by access to markets, like credit, which can serve to dampen the effects of income volatility. It needs to be understood, therefore, how access to assets and markets varies across rural households and what is its impact on poverty dynamics. Moreover, when markets are incomplete or absent, the distribution of assets within an economy can have a direct bearing on a household's ability to diversify between income generating activities, and to undertake productivity enhancing investments.

36. Such evidence as could identify the nature, cause and impact of household vulnerability is not available in the PIHS and HIES surveys used for this report. Notably however, the Pakistan Rural Household Survey (PRHS) undertaken for the final report is expected to substantially address some of these information gaps. Based on existing literature, the current report attempts to provide some preliminary analysis on the factors that constrain agricultural growth and productivity, and contribute to vulnerability of rural households.

37. A highly skewed pattern of distribution of assets, notably land, is one of the important reasons behind the vulnerability of a large number of rural households. This is especially true given that formal credit markets are highly imperfect, necessitating the use of land as collateral. More than one-half of the rural population in Pakistan is landless, while 2.5% of landowners control over a third of agricultural land, in holdings that exceed 50 acres (Table 6). As expected, the proportion of land owned increases steadily with economic status. Also as mentioned before, the incidence of rural poverty is the highest among those who own no land and falls steadily as the ownership of land increases. Moreover, despite population pressure and inheritance practices, the distribution of land has not become more equitable over time.<sup>22</sup>

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<sup>21</sup> Agriculture also contributes a quarter of the country's GDP, employs almost half of the labor force, and has a significant impact on the country's balance of payments.

<sup>22</sup> The Gini coefficient for land concentration has actually risen from 0.64 in 1980 to 0.65 in 1990.

38. Inequity in land ownership is also one of the reasons why overall agricultural yields in Pakistan remain below that of other countries with similar resource endowments. The impact on productivity can occur in various ways. First, there is evidence from a number of developing countries, including Pakistan, that as farm size increases, productivity falls. One reason for this is high labor supervision costs that encourage large farmers to reduce cropping intensity. Second, while land rental markets increase access to land, the form of tenure on land can have a significant impact on productivity, the incomes of tenants, and investment incentives. Share tenants are likely to be less productive than owner or fixed rent tenants, since any productivity gains must be shared with the landlord; the lower returns to tenants also add to poverty. The prevalence of share tenancy, even in irrigated areas where production risks are low, points to imperfections in other markets, specifically the credit market, and limited opportunities for income diversification by the poor.<sup>23</sup>

**Table 6: Distribution of Land Ownership in Pakistan, 1990**

Farm Size (acres)	Percent of Owners	Percent of Total Farm Area
5 or less	54.0	12.0
5 – 25	39.0	39.0
25 – 50	5.0	15.0
50 – 150	2.0	17.0
150 and above	0.5	17.0
All sizes	100.0	100.0

*Source:* Government of Pakistan, Agricultural Census (1990)

39. Available evidence also strongly indicates that the relative absence of financial instruments to manage risk is a significant determinant of rural poverty. In the 1990s, rural financial markets seem actually to have thinned, with much slower growth in institutional agriculture credit compared to the previous two decades. Agriculture credit as a percentage of agriculture GDP actually declined from 5.2% during 1991-95 to 4.7% during 1996-2000. Other trends – a decline in the number of bank branches, a negative real deposit rate (average of –1.6% between 1995-99), and a fall in the share of commercial lending in total agriculture credit – also confirm a thinning of rural financial markets. During this period the dependence of tenant farmers on non-institutional or informal sources of credit increased, while both owner and owner-cum-tenant farmers enjoyed improving access to institutional credit, chiefly from Agriculture Development Bank of Pakistan (ADBP).

40. Overall, the evidence presented in the report indicates that access to institutional credit is severely restricted, and the bulk of cultivator households are simply access rationed out of the market. In the face of such credit constraints, landless tenants would be driven to opt for share tenancy contracts, thus further worsening the productivity implications of inequitable land ownership. Moreover, the increasing cash costs of production, due to rising input prices, have increased the credit needs of farmers. In the absence of a timely source of institutional credit most small farmers rely exclusively on informal lenders who charge high interest rates and often tie loans to the marketing of crops, thus further reducing the net returns to farming. All these factors combine to reduce the incentive and ability to invest to increase yields in agriculture on the one hand, and the ability to mitigate risk on the other.

41. Another key constraint to agricultural productivity is availability of adequate water for both irrigation and domestic use. Due to a somewhat arid climate and inadequate water resources,

<sup>23</sup> According to PIHS (1998-99), about a third of all cultivation was done by tenants, of which two-thirds was done by share tenants, and the rest by fixed rent tenants.

cultivation in Pakistan is overwhelmingly dependent on irrigation. Since any further increase in agriculture productivity requires increased water availability, an expansion in production depends on improving the efficiency of the existing irrigation system. However, there is good evidence presented in the report that suggests that current water use patterns are wasteful, disproportionately punitive on the poor, and impose large costs on the economy. Notably, given the limited scope for major increases in water supply in and outside the Indus basin, improvement of efficiency of currently available water use remains the only viable option for increasing productivity of irrigated agriculture in Pakistan in a sustainable way.

42. The inequality in land distribution and thinness of agricultural labor markets in Pakistan suggest that the non-farm sector is highly important for the livelihood of the poor, as well as for diversifying their income sources to reduce vulnerability. Identifying growth opportunities in the non-farm sector should thus be a primary concern. Currently available data however do not provide the information base to explore in detail the constraints to investment, productivity and employment in the non-farm sector. This is again an area where the data from the ongoing PRHS, which has a detailed non-farm section, is expected to provide valuable insights.

43. There is also evidence that public policies have had undesired effects. Over the years, ad hoc interventions in agricultural markets, presence of a large and inefficient public sector, high protection, and improper regulations of the agro-processing sectors have bred large inefficiencies in agricultural marketing and processing, costs of which are frequently shouldered by the farmers. While Pakistan's overall macroeconomic policy framework moved significantly in favor of agriculture during the 1990s, as the country moved from a policy of fixed exchange rate to a policy of managed float and liberalized its trade regime significantly, significant policy distortions still remain.<sup>24</sup> The slow pace of liberalization in the domestic output markets and a policy of keeping prices of major crops below their parity levels have caused the terms of trade to move sharply against agriculture, squeezing both farmers' income and incentive to invest in yield improvement. Also, the current cascading tariff structure accords higher protection to the manufacturing sector at the cost of intermediate goods and exports for which agriculture remains the most important supplier. Moreover, government intervention in the shape of support prices does little to protect poor farmers and in fact may end up penalizing them, as evidenced for instance by significant rent seeking in wheat procurement.

44. Historically Pakistan has relied almost exclusively on achieving rural poverty reduction through increased agricultural productivity and policy interventions, ranging from price supports, input subsidies, and preferential access to low cost credit, to public investments in infrastructure. While the effectiveness of most of these strategies has come under question, it is difficult to provide concrete policy recommendations without a more complete analysis, based on the requisite data. The forthcoming PRHS study will provide some scope for that. Meanwhile, on the basis of what the discussion so far, the main policy challenges can be identified, as well as some general strategies for addressing them.

45. There is a need for broad-based and coordinated policy reforms, which should seek to address some critical areas. *First*, it will be of critical importance to create assets for the poor, given the negative impacts of highly unequal distribution of land and other key assets on investment and productivity. Any concomitant interventions need to address the reasons why major previous attempts at land reform have neither succeeded in affecting redistribution, or ensuring security of

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<sup>24</sup> In contrast to the 1990s, during the 1970s and the 1980s, over-valuation of the exchange rate along with higher protection for the domestic manufacturing sector had created a significant anti-agriculture bias in Pakistan.



tenure, and did in fact entail adverse consequences for the rural poor. *Second*, given the severe restrictions on institutional credit, improving access to credit is another critical area for public intervention – a difficult challenge in an environment where asset inequality is severe. One approach that many countries have adopted, and that Pakistan is moving towards, is microcredit. While this represents an enormous opportunity, there is a need to understand carefully the strengths as well and constraints of micro-finance institutions (MFIs). A *third* priority area for public policy should be improving opportunities in the labor-intensive non-farm sector. A *fourth* challenge would be to improve public expenditure and management of agricultural infrastructure and resources, particularly water resources. In this context, there is a need to rationalize expenditure administration – providing incentives that induce private investment in water and land management. These can be done in a framework of a community driven development process that encourages decentralized decision-making and structures of responsibility.

### *Policies and Priorities for Poverty Reduction*

46. The insights gathered from the discussion so far suggest some priority areas for poverty reduction, which can be divided into the broad categories of *rural* and *urban* regions, *education and health*, and *social protection*. In view of the landscape of poverty in Pakistan and the existing constraints to opportunities for the poor, the principal strategies should focus on some broad objectives: improving poor people's access to markets, including markets for credit; removing institutional obstacles to service delivery, particularly in the context of Pakistan's ongoing devolution reforms; and finding ways to address the large inequalities in ownership of assets, including land and housing. These objectives are broadly consistent with a concurrent Interim Poverty Reduction Strategy Paper drawn up the Government of Pakistan.

### Rural Economy

47. As seen above, improving productivity and reducing poverty and vulnerability in the rural region will require strong improvements in access to land, credit, infrastructure – particularly water, as well as expansion of opportunities in the non farm sector. A reassessment of land reform efforts in Pakistan is clearly needed, with previous reforms having been largely unsuccessful, and indeed hurting many marginal farmers. Notably, tenancy still persists in about 70 percent of cropped area in Sindh, which is characterized by stronger feudal power. In light of the failure of formal banking institutions in rural finance, improving access to credit will likely require both encouragement and evaluation of the variety of NGO and micro credit institutions, modeled on the Agha Khan Rural Support Project (AKRSP), that have come up in Pakistan in recent years. While their lending model addresses fundamental market failures in credit markets, there are outstanding questions about their long-term solvency and impact.

48. In regards to the extension of water provision and irrigation, the government's water management program has so far focused on creating additional storage capacity through dams, canals and lining of watercourses. However, the long run benefits of this appear likely to run into diminishing returns. There is however a clear need to rationalize the public delivery system, increase public investments in the management of land and water resources, and to create an environment which encourages private on-farm investment and the rational and equitable use of rural resources, involving substantial community organization and participation. Analysis based on data from the ongoing PRHS will help inform such a strategy. Overall, it is clear that strong inter-linkages exist among the four main issues shaping the rural economy, and that these must be considered when designing policy. For instance, merely improving access to land is unlikely to have the intended results without improving access to inputs and credit.

## Urban Economy

49. In urban areas meanwhile, the most urgent need for intervention is to mitigate vulnerability through social protection. While some amount of poverty reduction occurred in urban areas in 1990s, mainly due to growth in consumption, the growth would have had much greater impact on poverty in the absence of the considerable increase in inequality that was also been observed. The primary challenges in urban areas therefore consist of expanding growth opportunities on the one hand, and enable the poor to benefit from the growth process on the other. In that context, expanding opportunities in the informal sector will be important since a vast majority of the urban poor is employed in that sector. Access to credit, and lack of technical know-how are the major bottlenecks in the informal sector that must be addressed to improve productivity. There may be a role in this context for informal, community-driven approaches, based on principles similar to microfinance initiatives in rural areas.

50. One of the more neglected, yet important correlates of urban poverty is the lack of adequate housing. 40 to 60% of the urban population lives in katchi abadis or non-regularized subdivisions of agricultural land. Since they lack a clear title to land, they cannot access formal long-term credit for housing, e.g. from the House Building Finance Corporation (HBFC). Government housing programs have been relatively unsuccessful in tackling this problem, due to a variety of reasons, including lack of trust of government on the part of beneficiary, lack of community participation, and lack of capacity and capability in the implementing agencies. In addition, there are no avenues for credit available to low-income groups and the poor for housing. More successful have been programs like the Orangi Pilot Project (OPP). A key feature of their success is that they have relied on community's involvement to finding solutions to housing problems, accessing the services of the line departments and networking with the technical experts. Notably, since PIHS data does not cover the urban informal sector and slum settlements where most of urban poverty exists, obtaining such data should be a priority for the future.

## Education and Health

51. The key concern that emerges from the discussion so far is to do with access to education and health facilities. Better outcomes in enrollments (especially in rural areas and for females), infant and child mortality and proxies for maternal health are all associated with the presence of facilities within a relatively short distance from the community. While the data does not allow one to explore the quality issues with service delivery, evidence from other sources suggest that lack of quality and functionality of existing facilities, for obvious reasons, are further constraints to human development. Thus in order to improve the status of human development in Pakistan, it will be imperative to increase the availability of facilities, along with correcting the institutional failures that have hampered quality of service delivery in the past.

52. However, while finances are a constraint, the mere availability of funds will not ensure significant improvements, as seen from the experience of the Social Action Program (SAP) in the recent past. SAP was launched in 1992/93, with the aid of donor financing and technical assistance, with the objective of social development in four target areas – elementary education, basic health care, family planning, and rural water supply and sanitation. The program has had some successes: improvements have occurred in health indicators, access to related infrastructure, immunization and availability of Lady Health Workers. However, the gains have been marginal, and especially so in education which has been the major area of focus. The program appears to have succeeded more in terms of enhanced funding and more physical facilities, rather than in ensuring delivery of quality services by creating accountability. Consequently, the impact on enrollments and other measures of school attainment have been highly limited, as evident from the trends described before.

53. One reason for these disappointing outcomes is the politicization of the distribution of benefits under SAP. Not only was there tampering with the agenda of implementation, but the mechanisms through which SAP was sought to be implemented provided powerful vehicles for patronage, to the detriment of community participation and often in direct conflict with the planned goals. Future reform efforts must directly address the incentives for distorted implementation that hampered implementation of SAP.

54. Ongoing reforms in Pakistan have sought to address some of the critical constraints in education service delivery, by focusing on the core institutional factors that have limited the success of efforts like SAP. The government's Education Sector Reform strategy emphasizes national assessments and training, specifically aimed to close the "achievement" gaps that arise out of poor standards and lack of qualified teachers. The aforementioned devolution plan, on the other hand, is in the large part expected to address accountability issues in service delivery, including education and health. As discussed before, the institutional changes introduced by devolution could increase the incentives of local government to improve service delivery, weakening the systems of patronage that have often dominated in the past. Yet it is clear from both domestic and international experience that devolution is no panacea. More information is needed, and it is clear that the impact on education and health will only become apparent over a long time horizon.

55. The optimism about devolution must also be tempered by the realization that local level decision-making may not be always enough. As discussed before, this is especially true with regard to demand-side problems like parental resistance to child's education, and in particular to girls' education. Interventions may likely require significant resources and involvement of higher-level governments, perhaps through instruments like outright subsidies to households. Experiences in Nepal and Bangladesh show that girls' enrollment can be improved by paying families to send their daughters to school. In Pakistan, this approach is being tested in isolated World Food Program initiatives in Balochistan and NWFP.

56. The increased role of private schools in Pakistan, though yet insufficiently studied, may offer opportunities for public-private partnerships, especially in urban areas where private schools are relatively prevalent. While private schools are naturally more likely to attract the relatively well off because of cost considerations, in selected areas there may be a role for providing public subsidies – either in the form of vouchers to parents for the education of children at selected private schools, or as direct subsidies to private schools – that encourage school enrollment of poor children. One example is the Quetta Urban Fellowship Program, where private schools controlled by the community in poor urban neighborhoods were encouraged to establish new facilities for girls through subsidies paid directly to the schools. The program had a positive impact on female enrollments, increasing girls' enrollment in the target neighborhoods by around 33%. The arguments in favor of such subsidies are that private schools are more efficient and that public-private competition tends to improve quality. These however need to be weighed carefully against the counter-argument that scarce public resources would be better spent in improving the public school system, which has more universal reach.

57. In the area of health, a specific concern relates to reports from various sources that indicate limited progress in preventive health care. According to PIHS (1996-97), only about half of the children in the country were immunized in 1996-97, including only about 40% of children belonging to households in the lowest income quintile. In view of such shortcomings, the government's medium term health strategy is rightly focused towards raising public sector health expenditures, concentrating on prevention and control programs, especially in the area of reproductive health, child health, nutrient deficiencies and communicable and infectious diseases.

Programs include adoption of strategies against TB and malaria, measures for preventing the spread of Hepatitis B, HIV, and AIDS through immunization and public health campaigns. It also promotes targeted interventions that focus on disadvantaged sections of society, especially in rural areas, through programs like Lady Health Workers Program and Women Health Project.

### Social Protection

58. Given the Pakistani government's institutional and financial constraints, the social protection strategy for the immediate future has to involve existing programs like public works, targeted assistance, and programs that involve the use of informal community-based institutions. This requires improving or finding alternatives to existing formal programs.

59. The principal formal program in Pakistan takes the form of cash transfers to the poor through the publicly administered Zakat system. Zakat can be thought of as a wealth tax, deducted at source and paid in to a central fund, from where it is disbursed to provincial Zakat funds, to be then divided between local committees for disbursement to individuals. Studies have concluded that the impact of Zakat funds on poverty and vulnerability has been very limited, mainly because of the relatively small amount of aggregate transfers. Zakat collections as a proportion of GDP amounted to only 0.2 percent by 1992-93, so that even if all the benefits had gone to the lowest quintile of households, the income of this group would have been augmented by only 2 percent. Moreover, there is evidence of mis-targeting. Estimates based on HIES data indicate that in 1996-97, only around 29 percent of the direct benefits went to the bottom expenditure quintile among households. One of the reasons for inefficient targeting is to do with problems in identification of eligible beneficiaries, partly due to patronage at the local level. The system of collection and disbursement of Zakat has been recently reorganized to improve their efficacy, by strengthening the institutional framework for implementation, and monitoring of the program, and by raising the amount of grants to beneficiaries. The revitalized Zakat system will also provide funds to beneficiaries not only to fulfill basic needs but also to rehabilitate them, by assisting in small-scale commerce or other means of suitable livelihood.

60. Unlike in other countries, public works programs in Pakistan have failed to smooth consumption in periods of high unemployment, in part due to their capture by patronage politics. Examples of such programs are the Rural Works Program (1962-72), and the Peoples Works Programs (1972-83). In this context it is encouraging that the government's recent Khushal Pakistan Program incorporates active community participation in program selection. Funds are allocated under the Program to the districts through provincial governments, the schemes under the program are identified and selected at the district level through active community participation, and the projects are managed and implemented in partnership with the communities.

61. While systematic evaluations of the Khushal Pakistan program would be possible only after the program has been in operation for some time, some crucial aspects need to be considered in the design and implementation of the program in order for it to attain its social protection objectives. Critical challenges include ensuring targeting efficiency, maximizing employment and stabilization benefits, and creating community infrastructure beneficial to the poor. Experiences in other countries have shown that delivery of benefits, as well as cost-effectiveness can be enhanced by effective organization at the local level. Since the ongoing devolution program in the country can help strengthen local governments and build capacity, the success of the Khushal Pakistan program will be linked to that of the broad devolution exercise.

62. Microfinance offers considerable promise, yet at present, the microfinance programs that exist in Pakistan are unable to cover a vast majority of the poor. The main impetus to

microfinance has so far come from the NGOs, primarily the rural support programs. In view of the heightened demand for microcredit in poor communities, the Government and donors have realized the need for ensuring the supply of sufficient funds on a sustainable and institutionalized basis. To channel the funds, two major on-lending institutions have been set up, distanced from the Governmental bureaucracy through the involvement of the NGOs and the private sector. While the Pakistan Poverty Alleviation Fund (PPAF) has adopted the method of wholesaling credit through selected NGOs, the Khushali Bank initiative has incorporated retailing credit to the individual borrower through a newly created microcredit bank with the cooperation of nationalized commercial banks and local organizations.

63. For the long-term sustainability of microcredit, as well as to create conditions conducive to scaling up these programs, links between such institutions and formal markets must be strengthened. In keeping with this objective, the State Bank of Pakistan (SBP) has envisaged licensing of three categories of microcredit institutions at national, provincial and district levels, as public or private limited companies. This will enable them to raise capital, and generally exploit opportunities in the formal sector. Given that these institutions will not be subject to the same degree of surveillance by the SBP as other banking institutions to allow them the needed flexibility in the operations, it would be necessary to develop a regulatory framework suitable for them. Moreover, in order to eliminate inefficiency and reduce the costs of delivery of borrowed funds, there may also be a need to foster competition in the microfinance market. Integrated public policies can support such efforts by providing technical and financial support in the start-up phase, and in the long term by creating an enabling legal and regulatory framework for such institutions.

### *Conclusion*

64. This report is part of an ongoing project to understand poverty, growth and human development in Pakistan. It argues that if the country does not close its social gap, its long-term ability to grow economically, alleviate poverty and sustain its debt will be fundamentally compromised.

65. Spanning social, economic and fiscal difficulties, the country's current predicament is not rooted in a discrete set of policies amenable to rapid rectification, but in structural factors linked to issues of governance. It is within this context of a broader failure of policy that one should understand Pakistan's inability to take sufficient advantage of the growth that it has enjoyed in the past, to attract investment, build enough infrastructures or to promote adequate advances in social indicators. Over the past decade, stagnating poverty and a persistent, even widening social gap are direct legacies of these failures.

66. As this report strongly suggests, issues of governance, in the form of lacking accountability, voice and participation, are at the heart of many of the difficulties encountered in mitigating poverty and broadening access to social services in Pakistan. Neither debt reform nor the mere availability of donor funds is likely to dispel these problems. The strategies and tactics to bolster human development in Pakistan outlined by this report take this into account, emphasizing also the need to consider and implement concomitant policies in a comprehensive, mutually reinforcing manner. The Pakistani government's ongoing governance reforms are perhaps the strongest indication of its commitment to this process. The World Bank hopes to continue lending its support, and looks forward to sharing and discussing its findings and recommendations with other stakeholders in Pakistani development.