Poverty: The Irony of Development

Jennifer Bennett and Maha Jahangir

The concept of poverty is usually defined by reference to the deprivation of some characteristics such as basic nutritional needs, access to education, consumption, expenditure, other basic needs and entitlements. Another aspect of poverty is the disparity in income earning. For example, the net wealth of the 10 richest billionaires is $133 billion, more than 1.5 times the total national income of the least developed countries. Concentration of wealth in the hands of a few, and a widening gulf between the rich and the poor also characterise poverty. Though inequality and poverty are separate issues, it is widely accepted that reduction in inequality also reduces poverty.

Estimates show that 1.2 billion people survive on less than $1 a day: 44 percent of these people live in South Asia and 24 percent in sub-Saharan Africa. Three quarters of these people, almost 1 billion, live and work in rural areas. Their livelihood depends on the production of food. The rural poor face numerous barriers to progress. Landlessness, access to credit, poor infrastructure, lack of social services such as health and sanitation, illiteracy, and dependence on seasonal weather conditions all disempower the poor. The rural poor are extremely vulnerable to external shocks, diseases, natural disasters and political instability. Such constraints do not allow them to partake in the fruits of economic growth. There are stark rural and urban disparities and often social indicators for urban centres fare better than the rural areas.


The multifaceted nature of poverty makes it a very complex and problematic issue. The causes of poverty and the factors that perpetuate this cycle are nevertheless related. It is not sufficient, however, to understand the nature of poverty to identify the poor. The measurement of poverty plays an important role in defining policies and strengthening the fight against poverty. Indicators of poverty include poverty lines, headcount measures and other indices to create a threshold of comparison between the poor and non-poor. Measures of absolute poverty only consider the position of those in poverty and not their relationship to the rest of society. Often, income is used as a proxy for measurement. However, this fails to capture other contextual constraints to poverty reduction, such as gender differentials in command over household income. Measurement of poverty is thus a tenacious issue. However, estimates of poverty are the most significant of apparent indicators connoting human security. They not only reflect on the governing structures that exist and the related distribution of state resources but speak volumes about the priorities of governments as manifested in their development policies.

The relationship between poverty and economic growth lies at the heart of development economics. The debate between growth and poverty reduction has been intense. While many contend that economic growth is both a necessary and sufficient condition for poverty alleviation, there are others who assert that the benefits of growth are not uniformly spread. Traditionally, it was also assumed that rapid economic growth may marginalise the interests of the poor. Investing in the poor was considered less productive, because the poor have a lower propensity to save. Thus, there was an apparent trade-off between economic growth and poverty reduction.

Pakistan has enjoyed a consistent level of economic growth, with an average growth of 3.0 percent and over per annum between 1950 and 1999. However, an examination of the basic social indicators reveals a very dismal state of human development in the country. Growth patterns in Pakistan have shown that high economic growth rates have not translated into people's well-being. There are several factors which contribute to the unrelenting poverty and underdevelopment despite the economic success the country has enjoyed. Thus, in Pakistan's case merely economic growth has not been enough for poverty alleviation and human development.
This chapter contends that growth is a necessary condition for poverty alleviation but it is not sufficient. Poverty is a multi-dimensional problem and cannot be understood mainly in terms of lowness of income. Appreciation of the rural and gender dimensions of poverty are a necessary prerequisite to any consideration of poverty reduction. The structural and socio-economic factors that perpetuate poverty need to be analysed and addressed accordingly. To this end, this chapter will examine the trends of poverty in Pakistan; macroeconomic performance will also be examined briefly, followed by an assessment of the various national policies designed for poverty alleviation, and the role of International Financial Institutions (IFIs) and donor agencies in setting the agenda for development in Pakistan. The paper concludes that indigenous pro-poor growth policies need to be instituted along with macro-stability.

7.1 PAKISTAN: TRENDS IN POVERTY

Pakistan is classified as a middle-income country and ranks 135th in the Human Development Index. Poverty is a major concern in Pakistan. The declining trend in poverty in Pakistan during the 1970s and 1980s was reversed in the 1990s. It rose rapidly from 17 percent poor households of the total population in 1987-88 to 32.6 percent poor households in 1998-99. Most of the increase in poverty took place after 1996-97, coinciding with the onset of a macroeconomic crisis. In the 1990s, poverty increased sharply in rural areas, and in 1998-99 the incidence of rural poverty (36.3 percent) was substantially higher than urban poverty (22.6 percent) (See Table 7.1.). The population living below the income poverty line of US$1 a day is 31 percent which implies that every third household in the country does not have enough income to afford a daily intake of 2500 calories per person. Figures reveal that 46 percent of the population remains without access to sanitation facilities, 10 percent without access to safe drinking water and 51.3 percent are illiterate.

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3 Human Development Report 2005, UNDP.
Table 7.1: Trends in Poverty: Head Count (Poor households as percent of Population)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963-64</td>
<td>40.24</td>
<td>38.94</td>
<td>44.53</td>
</tr>
<tr>
<td>1966-67</td>
<td>44.50</td>
<td>45.62</td>
<td>40.96</td>
</tr>
<tr>
<td>1969-70</td>
<td>46.53</td>
<td>49.11</td>
<td>38.76</td>
</tr>
<tr>
<td>1979</td>
<td>30.68</td>
<td>32.51</td>
<td>25.94</td>
</tr>
<tr>
<td>1984-85</td>
<td>24.47</td>
<td>25.87</td>
<td>21.17</td>
</tr>
<tr>
<td>1987-88</td>
<td>17.32</td>
<td>18.32</td>
<td>14.99</td>
</tr>
<tr>
<td>1990-91</td>
<td>22.11</td>
<td>23.59</td>
<td>18.64</td>
</tr>
<tr>
<td>1992-93</td>
<td>24.40</td>
<td>23.35</td>
<td>15.50</td>
</tr>
<tr>
<td>1996-97</td>
<td>31.00</td>
<td>32.00</td>
<td>27.00</td>
</tr>
<tr>
<td>1998-99</td>
<td>32.60</td>
<td>34.80</td>
<td>25.90</td>
</tr>
<tr>
<td>2000-01</td>
<td>32.1</td>
<td>38.99</td>
<td>22.67</td>
</tr>
<tr>
<td>2002-03</td>
<td>31.8</td>
<td>38.65</td>
<td>22.39</td>
</tr>
<tr>
<td>2004-05</td>
<td>23.9</td>
<td>28.10</td>
<td>14.9</td>
</tr>
</tbody>
</table>


The following sections present the current state of selected social sectors to depict human development in Pakistan.

7.1.1 Health

Public health expenditure has declined over 1998-2002 (see Figure 7.1). The Economic Survey of Pakistan 2004-05 cites public expenditure on health at 0.6 percent of the Gross Domestic Product (GDP). The average life expectancy at birth is 64 years. The infant mortality rate stands at 82 per 1000 live births. Maternal mortality rate per 100,000 live births is as high as 350. (See Table 7.2.) Only 35 percent of births were attended by a trained health professional. Such dismal figures can be attributed to the lack of basic health services, aggravated by low levels of awareness in the community with regard to basic hygiene. According to the Human Development Report 2005, only 55 percent of people have access to basic health services. Poor sanitation and access to potable water cause further diseases and infections, leading to deteriorating health conditions.

There is an urban bias in the availability of health services such as hospitals, dispensaries and basic health units. In 1996, there were only
505 rural health centres and 5143 basic health units in the whole country. For every 1400 people there was only one physician. The existing network of national public health services is heavily skewed in favour of urban areas, whereas the majority of the population lives in the rural areas (67 percent). While inefficient and inadequate health services characterise every public hospital, it is mostly the rural and urban poor who bear the brunt. It is the poor who have to wait in long queues as opposed to the relatively well-off who either jump the queue or avail the attention of a specialist doctor by paying exorbitant fees in private hospitals. Investment in public hospitals is negligible compared to the needs of a rapidly growing population. No new hospitals are in sight. Instead, plans to privatise some government hospitals are underway, which when complete would charge user fees for services that were earlier available free of charge. Moreover, private medical practice is being encouraged and is growing at the state level. Even doctors working in public hospitals are allowed private practice due to the supposedly unmet needs of the people. As a result, doctors in public hospitals have established flourishing businesses as they often refer patients to their private clinics. Also, unrestricted purchase of medicines from the open market has led to inflated price structures.

Given this scenario, about 60 percent of the burden of disease in Pakistan can be attributed to three major factors: communicable infectious diseases, reproductive health problems and nutritional deficiencies. All of these factors are preventable and treatable. Despite this fact, the incidence of mortality and disease is high. A community questionnaire survey revealed that only 18 percent of rural households in Pakistan have access to Basic Health Units and 12 percent have government dispensary facilities. Private practitioners and dispensaries outnumber government service providers. Instead of basic health services, family planning has unduly received the thrust of health reforms because population control measures are a part of the IMF conditionalities under the structural adjustment programme. Hence, family planning has been the focus of disproportionately large attention. It has eroded the already meager health expenditure allocation and set back the strengthening of primary health care structures.


7.1.2 Population

Pakistan's (previously West Pakistan) population in 1957 was only 37 million at the time of the first post-independence national census in 1951. Today it is estimated at more than 152 million, four times that of 1957.8 Despite the billion dollar interventions to promote family planning, the population tide continues to rise. The major contributor to this rapid rate of natural increase has been the wide gap between fertility and mortality rates. While mortality declined substantially in the 1950s and 1960s, the total fertility rate remained unacceptably high at over 6 per woman up to the year 1994. Recent estimates show that fertility has declined to 4.1 per woman and that the demographic transition has taken place. While the emphasis has been on contraceptive use, female morbidity is considered to be an outcome of high fertility and is generally ignored. Although, there is a dire need to improve maternal and child health through fertility control, reducing this complex reality by equating female health problems with reproductive health matters is a serious and a deliberate flaw in population planning. The main cause of morbidity and mortality lies in the lack of medical care and poor living conditions which are susceptible to infectious and parasitic diseases.

The population age structure remains heavily skewed in favour of the young. Currently, about 41 percent of the total population is under the age of 15 years with about 57 percent aged between 15 to 69 years and 2 percent aged 70 years and above.9 The overall expectation of life at birth is low at around 63 years (See Table 7.2). Nevertheless, that the past and present governments have stuck to a mere allocation of 1.7 percent of the total GDP to the health sector, ignoring the fact that, on an average, about 3 million people are added to the already existing population every year. Unfortunately, such a meagre allocation to the health sector has been maintained since the early years of Pakistan’s inception. The education sector endures the same fate. This is an unpardonable folly since it is common knowledge that education and health are the two founding pillars of any nation’s development and the anchoring sources of human security.

It has been widely propagated by existing and previous governments that the explosive increase in population impacts heavily on the already fragile level of human security and development in the

9 Based on last 1998 Population Census.
The much trumpeted phenomenon of over-population is thus a problem associated with poverty. The authors would like to suggest that if the socio-economic status of the poor were to be ameliorated, the problem of over-population would automatically take care of itself. The problem to date in countries like Pakistan has been the absence of linking the population factor with other interventions that can play a pivotal role in making the population programme a success. Policies are being planned and implemented in isolation, although recent efforts are afloat to link population with other aspects of development. The population will, however, continue to increase till the time the state-level connectivity of population increase with poverty and factors contributing to it are not urgently addressed. It is not by the distribution of contraceptives alone that this perceived population threat can be addressed but by providing a rationale for smaller families, complemented with basic social and economic security nets by the government. For as long as this aspect of human security is in
breach, the poor will continue to derive these securities in larger families.

7.1.3 Education

Education has fared slightly better than health. Although in 1996 public expenditure on education (as percent of GNP) was 2.7 percent, higher than the health expenditure at the time, it has also seen a decline in its share to as low as 1.7 percent in 2002-03 (Figure 7.1). Overall adult literacy was low at 36.4 percent. Primary school pupil to teacher ratio stood at 41, but as much lower for secondary schools at 19. Student dropout rates were extremely high, and net primary enrolment ratio was only 35 percent.10 According to the Pakistan Integrated Household Survey (PIHS) (2001-2002), primary enrolment had not changed much at 72 percent. At five years of age, 62 percent of boys and 65 percent of girls were not attending primary schools. Of the children aged 10-18 years interviewed, 26 percent give the reason for not attending school as it is “too expensive” and 14 percent say it is “too far”. The low enrolment ratios may be attributed to some demand side factors that prevent parents from sending their children to school.

Source: Economic Survey of Pakistan 2004-05

Figure 7.1: Social Sector Spending

10 Human Development Report 1996, UNDP.
However, the inadequacy of the government primary education service delivery is the most important factor. A rural household survey revealed that only 33 percent of schools have adequate buildings, 51 percent have furniture and only 52 percent provide drinking water.\textsuperscript{11} There is also a stark disparity between spending on infrastructure and salaries and the quality of education. No classes were held in 34 out of 200 schools. In the schools that were open, close to 20 percent of the teachers were found absent.\textsuperscript{12}

Aside from the lack of basic physical infrastructure, there is also a dearth of qualified and trained teachers. In terms of the quality of education, the government has failed to develop a standard text for primary and secondary school curriculum. Approximately 69 languages\textsuperscript{13} are spoken in Pakistan. Yet the medium of instruction remains overwhelmingly Urdu and English. Over the years, English has become the medium in elite private schools, while public schools use Urdu texts. A class divide has thus been created in which the rich send their children to English medium schools while the poor are reliant on inefficient, public, Urdu medium schools. There are no incentives for teachers, especially those in less developed rural areas. Thus, teacher absenteeism rates are high. A tendency to reserve the right to education for the sons of the family (owing to the economic crunch, as well as, traditional norms) has deprived girls of even primary education. Due to expenses entailed in schooling and education, parents prefer to invest in their sons, as they are the future breadwinners of the family. Concerted efforts have been launched in the past few years to increase enrolment of girls in primary schools by offering them scholarships, free textbooks and other incentives. The gender enrolment ratio of females to males in rural primary schools is still 62 percent.\textsuperscript{14}

\subsection*{7.1.4 Urbanisation}

Rural-urban migration is another contributing force to chaotic urbanisation and a source of the labour market imbalance in the country. Their presence has tended to swell the growth of urban labour supply, depleting the rural countryside of valuable manpower.

\textsuperscript{12} Ibid.
\textsuperscript{13} http://www.ethnologue.com/show_country.asp?name=Pakistan.
\textsuperscript{14} Economic Survey of Pakistan 2004-05.
resources. Concurrently, it has made job creation more difficult and costly. The population crunch, limited availability of resources, and fewer farm and off-farm employment opportunities have result in massive migration from rural to urban areas. The most damaging consequence of such migration has been the unabated mushrooming of slums and squatter settlements, suggesting that further urban growth will be in the slums. Statistics also show that poverty is increasing, affecting mostly the lower income strata, especially people in villages and in-migrants in the slum areas. Inhabitants in slum areas suffer from lack of basic amenities and delivery of services like health, education, water and sanitation. They also face the problem of utilising services, even if these are of poor quality, in terms of affordability and accessibility. There is no institutionalised human settlement policy to address the needs and welfare of the people living in these areas; nor is there a comprehensive policy to check and control migratory patterns.

Amongst all the four provinces, Sindh is the most urbanised with a total of 48.9 percent of its population living in urban areas (Population Census Organisation, 1998). Karachi, Pakistan's largest city and the commercial hub of Sindh, has grown from less than one million inhabitants in 1951 to well over 10 million in recent years. The rate of urbanisation in recent years has been as high as 3.5 percent per annum. Water, sanitation, transport, and housing have not grown proportionately, resulting in squalid living conditions and poor health. Housing, in particular, has emerged as an extremely acute problem. The pressure on housing continues to increase due to past backlog, incremental demand and migration from rural to urban areas. The total shortage of housing at present is estimated at about 6.25 million (4.31 million units in rural and 1.94 million units in the urban areas). The number of persons per housing unit has been worked out at 6.5 persons (6.4 persons rural and 6.8 persons urban). An understanding of the magnitude of migration in any economy is, therefore, important since it has significant implications for the formulation of appropriate employment policies and any attempt to influence the process of migration in a socially desirable way.

7.1.5 Unemployment

Low level of economic well-being in Pakistan, like in other developing countries, is both the result and the cause of serious problems of unemployment in that supply of manpower is increasing faster than the rate of job creation. The employment scene in Pakistan is dominated by the non-wage sector whereas employees constitute only about one-fourth of total employment. Non-wage employment mainly comprises self-employed and unpaid family workers. Wage employment, on the other hand, is mostly urban based, increasing the pressure on urban social services and the labour market. Based on an existing population of 157 million, the composition of employed population in 2004-05, as estimated from the figures of the Labour Force Survey, 2003-04, comes to about 43 percent in agriculture, which is still the largest source of employment. However, the share of the agriculture sector, which was as high as 60 percent in 1963-64, declined to 49 percent in 1986-87, and further to 47 percent in 1994-95. The second major sector is mining and manufacturing, which accounts for nearly 13.8 percent of the employed labour force. Trade, construction and transport are other sectors which provide employment to 14.8 percent, 5.8 percent and 5.73 percent respectively.

Overall female participation in labour force activity (Refined Activity Rate) was estimated at 15.93 percent. Urban-rural differentiation shows a higher rate in rural areas (19.5) compared to urban (9.4) ones for females. These figures show an increasing trend when compared to the participation rate in 2001-02. For example, in 2001-02, female activity rate for Pakistan was 14.4 percent, with 16.8 percent for rural areas and 10 percent for urban areas. It should be noted that a large majority of rural women are engaged in agricultural activities, which fall within the ambit of non-wage employment.

Estimates show that in 1970-71, a total of 18.5 million population was employed. Since then the percent of the population employed

17 According to the definition used in Labour Surveys, the employed comprise all persons of ten years of age and above who worked at least one hour during the reference period and were either 'paid employed' or 'self employed'.
18 All figures from Economic Survey of Pakistan 2004-05.
increased by 2.4 times to reach the current employed population of 45.2 million. Unemployment, on the other hand, more than doubled in the same time period. Official statistics show that unemployment in 1970-71 was as low as 0.4 million. Increasing more than 8.7 times, the unemployed population in 2003-04 was as high as 3.48 million. The current estimated open unemployment rate was 7.7 percent (9.7 percent urban and 6.7 percent rural) in 2003-04. The open unemployment may, however, not be a correct indicator for assessing the overall unemployment situation because much of the employment in the informal and non-wage sectors is concealed as underemployment.

Under-employment in Pakistan is predominant in rural areas and in the urban informal sector. According to the Labour Force Survey 2003-04, 79.6 percent of underemployed persons are in rural areas, measured in terms of people working less than 35 hours a week. While the present state of unemployment is already a source of concern, the future appears to be even gloomier because of a number of reasons such as rapid rate of population growth, feared reverse migration and probability of the continuation of policies which will reduce the capacity of the economy to employ manpower per unit of output. In view of this situation, there is a strong need for sound policy measures to accelerate the growth of the economy and to diversify it from the point of view of generating employment opportunities on a much wider scale.

7.1.6 Political Economy of Poverty

Investigations of poverty levels, the state of the social sector in health and education, and demographic trends suggest that the various governments of the country have failed to understand or pay serious attention to the complexity of the task at hand. They have been complacent in their approach, satisfied in their erroneous assumptions that macroeconomic stability will also lead to poverty reduction. Of course, poverty has an income dimension and it is not entirely incorrect to assume that an increase in household income can raise the standard of living of that household. However, there is a larger, more entrenched system of social power that decrees the social and upward mobility of a household.

The feudal or landlord culture that prevails in Pakistan’s rural areas defines the extent of development and access to social service for

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the majority of its inhabitants. As examined elsewhere in this book, it is not in the interest of the landed elite to allow the socio-economic empowerment of peasants and the landless. The rural-urban gap identified in the level of human development is a testimony to this fact. It is also not in the interest of the military-bureaucracy nexus to allow grassroots political representation that can challenge existing government resource allocations policies. According to Ishrat Husain, "The ruling elites found it convenient to perpetuate low literacy rates. The lower the proportion of literate people, the lower the probability that the ruling elite could be displaced."22 Religious and ethnic factionalism also limits the enunciation of a truly national agenda for development. It deters ownership of even targeted schemes as they are viewed with suspicion and general mistrust. The highly centralised nature of governance cannot allow efficient and effective delivery of services. Despite the recent decentralisation of 2002 at the local government level, policy and expenditure decisions are made at the centre, leaving only the execution of central command to the districts. Local representatives may have increasing power but fiscal and policy issues still remain the purview of the centre.

Political instability has derailed countless development initiatives, as each successive government discards the policies of its predecessor and starts afresh avowing to right the wrongs of the ousted parties. Unbelievable levels of corruption and rent-seeking afflict all institutions of the country, where those in power are more concerned about filling their own coffers while their term lasts, rather than addressing poverty and reducing the affliction of the masses. Thus, the state, despite the enormous resources at its disposal, has abandoned its social responsibility by failing to take effective steps towards poverty eradication. This state of affairs has led to social mobilisation in the informal sector, resulting in the creation of NGOs pursuing the objectives of social uplift. Generally, NGOs are mistrustful of the government and vice versa. A deep rooted cynicism exists about government, its people, and its structure. NGOs are also viewed with suspicion and often labelled as agents of a "foreign" agenda and viewed as detrimental to national interests. However, the role of NGOs in creating social awareness and bringing to light the issues that afflict the masses cannot be disregarded. They have been working tirelessly to voice the

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concerns of the masses in the absence of truly democratic governments and political parties. Such civil society organisations are major stakeholders in the development and poverty eradication process as they are the ones who truly have a grassroots outreach. These barriers need to be overcome through public-private partnership with the objective of achieving social justice. There is a need to create “apex organisations”, in which the government, donors and NGOs can be represented. Unless they are viewed as partners in the development process, national initiatives cannot be truly representative or even successful. The failure of the government in promoting human development is obvious from the scenario presented above. It is time that the government willingly partners with those who have been showing signs of success, albeit only at the micro-level.

7.2 MACROECONOMIC TRENDS
An examination of macroeconomic trends reveals that high growth rates in Pakistan have not led to poverty alleviation. Macro-economic indicators for the country show a consistent GDP growth rate of 6.8 percent for the 1960s, 4.8 percent for the 1970s, and 6.1 percent for the 1980s, falling to 4.54 percent for the 1990s.23 The real GDP, on the other hand, grew at an amazing 8.4 percent in 2004-05. The Government contends that this has “improved the living standards of the people and thus may help reduce poverty among the lowest segment of the population.”24 However, the social and economic indicators given are a testament to the gap between the seemingly rapid economic growth and human development in the country. Compare Figure 7.2 (Real GDP Growth) with Figure 1 in this respect (Social Sector Spending). Despite the rapid increase in GDP growth from 2000-01 onwards, social sector spending continues to decline. In fact, it has been declining gradually since 1996-97.

The slowdown in economic growth in Pakistan during the 1990s was the key factor in increasing poverty during this period. In the 1990s, growth declined in all sectors and there was much greater volatility in the growth rate, particularly in agriculture. The causes of the slowdown in growth may be divided into two categories, i.e., structural and others. Among the structural causes, the burgeoning debt burden and declining competitiveness of the Pakistan economy in an increasingly

skill-based global economy were the most important ones. While the former was due to economic mismanagement, the latter was because of underinvestment in human development. Increasing debt service requirements resulted in a growing fiscal squeeze, which in turn led to a declining proportion of GDP being spent on development and the social sectors in the 1990s. Falling public investment, together with unsuccessful attempts at macroeconomic stabilisation, also adversely affected private investment. The adverse impact of structural factors was reinforced by other problems such as ethnic and sectarian violence, poor state of law and order, and high degree of economic and political uncertainty because of the many changes in government.

Economic recovery since 2000-01 is visible in the rising GDP growth rates shown in Figure 7.2. After a steady decline in growth during 1998-99 through 2000-01, the economy has witnessed a period of successful recovery and a turnaround. Per capita income in US dollars was estimated to have reached $652 in 2003-04, compared to $501 in 2000-01. This recent evidence of economic recovery has been attributed to macroeconomic adjustment mainly driven by a rise in private savings. Favourable

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external factors such as post-September 11 developments and greater domestic confidence resulted in a substantial increase in private remittances from abroad and in foreign currency deposits of residents. Consumption, as well as, new investments led accelerated growth in 2003-04. Real private consumption expenditure grew by 8.2 percent in 2003-04, and further by 16.8 percent in 2004-05. The strengthening of domestic demand has given mileage to the economy but has also made it more vulnerable. Growth fuelled by consumer spending creates inflationary pressures in the market and is subject to the level of interest rates. Such patterns of consumption signal the emergence of a middle class with increasing purchasing power considered good for business expansion. However, an examination of the component of growth reveals that this expansion has been mostly in the services sector, from 2.4 percent in 2001-02 to 4.16 percent in 2004-05, whereas for the same period contribution of agriculture to the GDP growth rate was 0.03 percent to 1.7 percent and the share of industry grew from 0.61 to 2.46. A services-led expansion due to domestic demand may be reversed if business cut backs on their investment and consumers reduce spending due to changes in the otherwise favourable circumstances. On the other hand, an externally driven growth trajectory, based on rising exports, expanding manufacturing, industry and agriculture is sustainable. It generates employment opportunities across different income and social strata and provides macroeconomic stability.

7.3 NATIONAL POLICIES FOR POVERTY REDUCTION

The arrival of the concept of human development triggered a reappraisal of development strategies in countries worldwide. Traditionally, it was assumed that economic growth would automatically lead to poverty alleviation. Economic development was a process of capital accumulation based on a simple relationship between production and capital. The "big push for economic development" led to an oversized government manned by a mammoth public administration machinery that became increasingly unaccountable and indifferent to citizen interests. The early planning model focused on industrial development financing investments and imported inputs, mainly through hefty foreign

27 Ibid.
29 Ibid.
The insurmountable debt servicing burden, rising inflation and unemployment and other macroeconomic imbalances created a crisis situation, with the result that the government looked toward International Financial Institutions (IFIs) for bailout. It was in the late 1970s that Pakistan first committed itself to structural reforms to liberalise its economic policies. The first International Monetary Fund (IMF) structural adjustment programme was signed in 1978-79, followed by a Trust Fund Loan for the period 1979-80 to address the fiscal and payments crisis. In November 1980, a new long-term Extended Fund Facility (EFF) was signed to cover the period 1980-81 to 1982-83. The government accepted a series of sectoral loans for agriculture, industry, energy and the financial sectors. The loans signed subsequently were accompanied by stringent conditionalities as per policies of the IMF, the World Bank (WB) and the Asian Development Bank (ADB). After having signed a structural adjustment agreement for the periods 1987-88 to 1990-91, there was a gap of almost two years. Hence, a standby one year agreement was signed in September 1993 followed by a more extensive agreement in February 1994 and a softer EFF programme with the WB/IMF in October 1997. These programmes were implemented to improve upon the fiscal imbalances, to increase the average savings rate and to promote private sector investment by reforming fiscal policy, foreign trade policy and the financial sector. The conditionalities called for an overall reduction in budgetary deficit, rate of inflation, reduced external current account deficit and civilian external debt-service ratio and a sustained real GDP growth rate of about 5.2 percent to 5.5 percent. Thus, motivated by the crisis, IFI conditionalities have been directing the agenda for reform. The focus was on macroeconomic stabilisation, which resulted a dire neglect of the social sector. "Structural" adjustment was limited to macro-indicators and did not even attempt to address more substantive structural issues of governance structures, openness and competitiveness of the markets, scale back of the role of the government and lack of indigenous research and policy making. Structural adjustment programmes in Pakistan


cannot be termed successful even by its own standards. A historically high rate of GDP growth touched its lowest, at 4.4 percent during 1989-90 to 1994-95. Development expenditure declined and no substantive improvements were witnessed in removing budgetary deficits despite compliance with conditionalities.

With the initiation of the concept of human development on the radars of international development agencies and IFIs, several countries found themselves reorienting their planning and development programmes to incorporate the human element. Whereas, before the social sector uplift was considered an evident consequence of economic development, a new approach for targeted human development social sector investment was now being espoused. This was because of the mixed outcomes of the structural adjustment programmes and concern that they have not been successful in removing many of the structural weaknesses, in ensuring sustainable growth and in arresting further marginalisation of the poor. Such a situation also added to the calls for structural adjustment with a human face.

In the 1990s, the human condition in Pakistan had deteriorated to an alarming level as the institutional structure of governance decayed rapidly. In response to the relative failure of social sector development, and as an intervention to mitigate the criticism of the structural adjustment programmes, the government of Pakistan, at the prompting of the World Bank, launched an extensive eight year (1992-2001) Social Action Programme (SAP) to address the imbalances of the earlier years. The programme was initiated to improve the social condition of the masses. Included as part of the Eighth Plan (1993-98), SAP I was implemented for the period 1993-1996. In the second phase, SAP II was implemented in the period 1998-2003. The federal and provincial governments, with the cooperation of donors, with the WB in the forefront, reallocated some of their public expenditures for key social services, namely primary education for girls, basic health (rural areas), clean water, sanitation and population planning. The SAP identified poor planning and budgeting, bureaucratic delays and red tape, deficient capacity at the delivery level, inadequate and unreliable supplies of key inputs and excessively centralised management of dispersed front line services, which could be more effectively run through decentralised systems with flatter organisational pyramids.\textsuperscript{32} The cornerstone of the SAP framework was a more decentralised structure.

\textsuperscript{32} Cited in Akbar Zaidi, Issues in Pakistan's Economy, OUP, 1999.
to clarify responsibilities for implementation of programmes in each of the sectors and in all four provinces. There was emphasis on participatory development and creating a sense of ownership in the communities for improvement in social service delivery. The increase in public spending on health and education for the period 1993-1996 may be attributed to SAP and also a rise in GNP (See Figure 7.1). However, this was also the programme's weakness since it relied solely on accelerated development funding without any obvious source of revenue for financing downstream operations and maintenance expenditures. SAPs were not tuned to long-term results and sustainability. A review of SAP Pakistan concluded that the programme fell far short of its targets, especially in the thrust areas of elementary education, gender inequality and provision of basic health units. Key social indicators remained very low. During the two phases of the programme, a total of approximately $9 billion was spent, with 80 percent being contributed by the government. The cost of the failure of the programme extended to the interest-laden debt servicing payments which the Government of Pakistan had to make in the next several years.

Ironically, the entire development structure of Pakistan seems to rely on loans and conditionalities of the donors. Non-compliance with IMF and WB conditionalities can crumble and cripple further progress. It should be noted that the overall increase in the social sector allocation of the government can be termed as a mere compensation through an increase in use charges and imposition of sales taxes for revenue enhancement and supply response policies of increasing producer prices, all to comply with the conditionalities imposed by donors. IFIs and international donor agencies put little emphasis on social progress compared to overall GDP growth as a measure of success. Figure 7.3 shows that the social sector (defined to include education, health, nutrition, and population policy) had a miniscule share in World Bank lending to Pakistan, until recently (and even in the 1990s this was still only 22 percent of lending). This situation probably reflects some combination of low demand from the Pakistani government and the donors' emphasis on promoting and directly supporting manufacturing and agriculture. In all eventualities, foreign aid and government social programmes are, by far, not a success story.

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In an attempt to ameliorate the situation, the Poverty Reduction Strategy Paper (PRSP) approach was launched by the WB and IMF in 1999. The PRSP rests on four key pillars. Accelerated and broad-based economic growth while maintaining macroeconomic stability; improving governance; investing in human capital; and targeted programmes with emphasis on social exclusion. This approach recognises that poverty is a complex and multi-dimensional phenomenon that extends beyond the notion of income and encompasses social, economic and political exclusion. The PRSP is linked to the Poverty Reduction Growth Facility (PRGF). The IMF established the PRGF to “make the objectives of poverty reduction and growth more central to lending operations in its poorest member countries.”

Pakistan formalised its PRSP called “Accelerating Economic Growth and Reducing Poverty: The Road Ahead” in December 2003. The growth strategy in essence is not very different from previous policies of the government espoused by IFIs and international donor agencies. The PRSP recognises that economic growth has to play a

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strategic role as the most effective and sustainable means of reducing poverty. The emphasis is on "opening up of the economy through stable set of macroeconomic policies in the areas of privatisation, trade liberalisation, banking and financial sector, labour markets, regulatory environment to take advantage of opportunities unleashed by evolving global trade regime while pursuing technological transformation in agricultural and industrial sectors...."  

The scope of the PRSP encompasses public sector management, access to social services, expansion of infrastructure and provision of social safety nets. Despite the assertion that the PRSP is a country-owned and country-led strategy, the theoretical underpinnings of the growth model are the same in each country. The hypothesis is that economic growth and stable macroeconomic policy will have a positive social impact. As mentioned earlier, this is not a sufficient condition for poverty reduction. What is missing from the debate centring around poverty reduction strategies is the social content of macroeconomic policy. This means it fails to consider the 'balance of social power', which determines the choice of policy, but focuses on the impact of programmes on poverty. Determination of growth policies are devoid of participation from all stakeholders, especially the poor and socially excluded communities most adversely affected by these policies. The participatory aspect of the PRSP process is interpreted more as a consultative process, presenting predetermined policies for purposes of information sharing and eventual approval. Little or no changes have been made to the proposed strategy even after what the IMF/WB and the government claim to have made at a thorough participatory process. An open and participatory dialogue about the poverty reduction process can provide the government knowledge of the impact of existing poverty reduction programmes, increase citizens' voice and deepen democracy in the country. It has also been noted that there is often a gap between the PRSP's stated priorities and actual budget allocation to priority areas.

The most recent development initiative of the government is outlined in the draft Medium Term Development Framework (MTDF) 2005-2010. One of the main objectives as outlined in MTDF is

38 "PRSP: Are the World Bank and IMF delivering," CIDSE.
“establishing a just and sustainable economic system for alleviating poverty and achieving Millennium Development Goals (MDGs).” An integrated approach has been adopted to address macroeconomic development, human and technological resource development and attainment of the MDGs targeted for 2015. Elements of pro-poor growth cited in the MTDF include the tripling of the size of the Public Sector Development Programme (PSDP) to $10 billion, rising to 7 percent of GDP. One third of the PSDP planned for social sectors and one-half for infrastructure. Other elements address levels of investment from government revenues, increase in export volume, and restriction of inflation rate to 5-6 percent per annum. Yet again, what is absent from the MTDF is a consideration of existing socio-economic and political conditions in the country. There is no mention of lessons learnt from the past or conscious effort to understand why previous efforts have not been successful. Unless there is a critical review of what went wrong in the past, we cannot ensure the success of these programmes either. Such a growth-enhancing strategy can then impact on the poor in a positive way. Simultaneously, there have to be directed pro-poor policies as well. The experience of IMF and WB policies should be a strong warning against strait-jacketed policies that do not account for the ground realities. Pakistan does not need a packaged solution. It has to go the difficult route of grappling with its problems, taking a participatory approach to community development to deal with its poor governance structures, or marginalising social structures that exclude women and minorities instead of optioning merely to correct its balance of payments crises or fiscal deficits. The benefits of economic growth are dependent on improving institutions and enhancing social services. Only growth that is cognisant of the needs of the poor and marginalised in society and is motivated by concerns of equity more than efficiency will be able to meet the challenges posed by poverty.

7.4 CONCLUSION AND RECOMMENDATIONS
We have examined the state of health, education, demographic trends and level of unemployment in the country. The dismal state of affairs does not augur well for the common person who has to bear the brunt of failed initiatives, supposedly intended for his/her benefit. Absence of any consideration of the poor and the marginalised in society in policies

adopted exacerbates their predicament. The government remains impervious to these afflictions and continues to tote the link of the IFIs and international donor agencies of a poverty reduction strategy led by macroeconomic growth and stability. Such policies that present themselves as the panacea for all of Pakistan’s problems can be insidious their effects. The results of SAP and other initiatives are before us. We suggest that social mobilisation should be the theme for all poverty alleviation measures and programmes. The Government of Pakistan must take the lead role in combating poverty, including all the stakeholders in its planning. Engaging communities and civil society organisations is essential for community development. However, the current structure and climate of governance does not lend itself to mobilising all the communities in fighting poverty. Governments can help by providing resources and creating a loose coalition with the objective of eradicating poverty. It is important to keep tabs on poverty levels and income disparities to gauge performance. We can benefit from the experience of other developing countries and try to tailor and replicate successful initiatives. Till the time the government recognises its responsibility to spearhead such efforts and shuns the concept of development as handouts by donor agencies, it will continue to meet with failure, expending scarce resources in the process. The devolved local government system possesses enormous potential that should be harnessed for efficient delivery of social services. If resources and executing authority is decentralised to the local level, it will become more responsive and accountable to the needs of citizens. The commitment for human development has to be indigenous, sincere and consistent.
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