



PAKISTAN

Interim Poverty Reduction Strategy Paper (I-PRSP)

Jointly prepared by
Policy Wing, Finance Division
Poverty Reduction Cell, Planning Commission
Government of Pakistan

November 2001

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION	3
CHAPTER 2: POVERTY IN PAKISTAN	6
2.1. Macroeconomic and social vulnerability	7
CHAPTER 3: PRSP DIALOGUE	11
CHAPTER 4: POVERTY REDUCTION STRATEGY (PRS)	16
4.1. Engendering Growth	16
4.1.1. Stabilization	16
4.1.2. Enabling investment climate	23
4.1.3. Infrastructure	30
4.2. Governance reforms	34
4.2.1. Devolution of power	34
4.2.2. Civil services reforms	36
4.2.3. Access to justice	37
4.2.4. Fiscal and financial transparency	38
4.3. Creating Income Generating Opportunities	39
4.3.1. Asset creation	39
4.3.2. Improving access to micro credit	40
4.4. Improving Human Development	41
4.4.1. Education	41
4.4.2. Health	45
4.4.3. Water supply and sanitation	47
4.4.4. Nutrition	48
4.4.5. Population planning	48
4.4.6. Protecting the vulnerable	49
4.4.7. Environment	51
4.5. Reducing Vulnerability To Shocks	51
4.5.1. Zakat rehabilitation grant	51
4.5.2. Food support program	53
4.5.3. Khushal Pakistan Program	53
4.5.4. NGOs and civil society	55
4.5.5. Other social protection mechanisms	55
CHAPTER 5: MONITORING AND EVALUATION MECHANISMS	56
5.1. Monitoring mechanisms	56
5.2. Evaluation mechanisms	62
5.3. Capacity building for PRSP	62
5.4. Roadmap to full PRSP	63
EPILOGUE - : I-PRSP POST SEPTEMBER 11, 2001	66
ANNEX - I: PROPOSED I-PRSP-MONITORING/TRACKING MATRIX	68
ANNEX - II: DEFINITIONS - OUTPUT AND OUTCOME INDICATORS	71
ANNEX - III: PAKISTAN: I-PRSP EXPENDITURES, 1999/2000 - 2001/2001	72
ANNEX - IV: PAKISTAN: MATRIX OF POLICY MEASURES	74
ANNEX - V: IPRSP CONSOLIDATED EXPENDITURES	88

ONE

INTRODUCTION

1. Pakistan's Interim-Poverty Reduction Strategy Paper (IPRSP) is not a static document of policy actions rather it is a dynamic framework of thought. It is an instrument that attempts to provide an integrated focus to a diverse set of factors that impact poverty. By adopting this framework, the government aims at enhancing understanding of the complementarities and the trade offs that are inherent in the complex task of social and economic policymaking. An appreciation of the conflicting policy tradeoffs and competing resource demands will ultimately instill a better understanding of the challenges faced by the nation and the unprecedented reform efforts being undertaken in response.
2. Pakistan is faced with the twin challenges of reviving growth and reducing poverty. This requires rapid economic growth, which is equitable in nature and broad based in its reach. While reducing poverty helps growth, by enabling the poor to participate productively in the economy, yet, growth in itself is not sufficient for poverty reduction. The quality of growth, in terms of its relative impact on various segments of society, determines its impact on poverty. For growth to reduce poverty, it must emanate from sectors that have greater employment generation capability. Therefore, poverty reduction in Pakistan requires rapid growth in agriculture, small and medium industry, and the IT sectors, all of which have strong potential to create jobs and associated self-employment opportunities.
3. It must be realized that many forms of poverty in Pakistan are fairly acute and cannot wait for growth to trickle down before they can be addressed. To address such forms, it is required that targeted policy interventions be undertaken to provide quick relief through short-term employment opportunities and financial assistance. Government of Pakistan, thus, aims at employing a combination of growth promoting policies and directed interventions to attack the problem of poverty as part of its overall poverty reduction strategy.
4. The government realizes that additional income alone, either through jobs or financial assistance, would not eliminate poverty unless the causes of poverty are addressed and eliminated. Therefore, restoring economic growth and improving access to basic needs, such as primary education, preventive health care, and population welfare services, is essential for winning the fight against poverty.
5. The government is committed to reducing the burden of poverty and is therefore assigning great importance to improving public services delivery mechanisms in achieving this goal. Resource constraints are just one of the maladies that ail Pakistan. Weak, ill-organized, and inadequate public services delivery systems, in the past, neutralized best of the plans and huge amounts of resources. The issue of improving governance is central to fighting poverty, and thus cuts across all the elements of Pakistan's poverty reduction strategy.

6. Notwithstanding the debate on poverty data, it is generally believed that poverty in Pakistan is on the rise. Similarly, Pakistan's progress on almost every social indicator e.g. education, health, and nutrition compares poorly with that of other developing countries. Illustrative of the state of social sectors in Pakistan is a weak adult literacy profile, a low life expectancy, and a high maternal mortality rate. Moreover, access to clean drinking water and sanitation is limited. The situation is even worse if gender and regional disparities are taken into account, with social indicators being substantially worse for women, children, and those living in rural areas. Viewed in this backdrop, the challenge of poverty reduction in Pakistan, to say the least, is daunting. Thus, Pakistan's poverty reduction strategy takes into account the economic, social, and governance dimensions. It not only emphasizes policies for economic and social development but also seeks greater involvement of the poor in the formulation of these policies and management of their affairs.

7. The growth strategy proposed in I-PRSP has a positive labor using bias and is export oriented. Within this broader context, public expenditures and institutions provide complementary goods and services, especially those, which enhance human capital of the poor. The poverty reduction strategy takes into account the international dimension of growth and emphasizes the need for opening up the economy to take full advantage of the opportunities unleashed by fast evolving global trade regimes while, at the same time, modernizing the agricultural and industrial sectors to meet the challenges of the highly competitive international environment.

8. The strategy aims at forging broad-based alliances with civil society and the private sector in the quest for eliminating poverty and accelerating growth. The complex and multidimensional nature of poverty in Pakistan thus warrants a poverty reduction strategy that ensures rapid pro-poor economic growth through sound macroeconomic reforms, improved access to social services, broad based governance reforms, and targeted interventions.

Participatory process

9. Since the participation of the target population is critical in formulating the poverty reduction strategy, the government had initiated a comprehensive process of consultations at the district, provincial, and national levels. This entire process was designed to elicit views, share experiences, and understand expectations of the stakeholders for the preparation of the I-PRSP. The I-PRSP has already been posted on the Ministry of Finance website¹. It is hoped that will ushr the beginning of a new process of continuous feedback from all the stakeholders.

Institutional mechanisms for monitoring outcomes

10. The I-PRSP is backed with a strong program of monitoring as well as capacity development, including that to gather and analyze information for impact assessment. The I-PRSP outlines new institutional mechanisms that will be employed for the regular/periodic monitoring and evaluation of poverty reduction expenditures and corresponding outcome indicators at the federal, provincial, and district levels. These institutional arrangements are presently evolving and will be finalized after the round of consultations with provincial government is completed. Key outcome indicators have also been suggested while final benchmarks and targets will be set after consultations with national and provincial statistical agencies, federal line departments, and provincial governments.

¹ www.finance.gov.pk

Resources for implementation

11. Availability of adequate resources for poverty reduction programs is an important consideration in determining the effectiveness of the strategy. In an environment where the main focus of macroeconomic stabilization program – the key to reviving growth – had been towards controlling the fiscal deficit, generating resources for poverty reduction is a formidable task. Therefore, starting with existing actual allocations, the strategy envisages an increase in allocations over the medium term so that the main targets of the plan are accomplished. However, detailed costing of proposed initiatives and a more involved assessment of expenditures will be completed as the process of provincial consultations culminates in provincial PRSPs. These provincial PRSPs will then form the basis of Pakistan's full PRSP. A time line of completion of these steps and finalization of full PRSP has been developed, which would be followed strictly.

Conclusion

12. The I-PRSP developed here demonstrates the need to closely monitor the effectiveness of government policies and track progress on poverty reduction outcomes. For this purpose it is important to combine poverty reduction efforts at the federal, provincial, and district levels and develop localized capacity to monitor progress of PRSP indicators. This will supplement the overall task of poverty reduction by accordingly refocusing government efforts in response to changing local conditions. Therefore, the government will update the PRSP annually with a view to highlight the impact of its policies on poverty reduction and thus gain a better understanding of poverty and its dynamics in Pakistan.

POVERTY IN PAKISTAN

1. Poverty is not merely income deprivation. It is a multidimensional concept, which encompasses economic, political, and social needs that are sine qua non for a meaningful existence. The poor in Pakistan are not only deprived of financial resources, but they also lack access to basic needs such as education, health, clean drinking water, and proper sanitation. Limited access to education, health, and nutrition, undermines their capabilities, limits their ability to secure gainful employment, and results in income poverty and social exclusion; while also making them vulnerable to exogenous shocks. This cycle is further exacerbated when institutions of governance tend to exclude the most vulnerable from the decision-making process and thus feeds into poverty and human deprivation. Some of the characteristics of poverty in Pakistan are highlighted in Box 2.1.

BOX 2.1: STYLIZED FACTS OF POVERTY

An analysis of poverty by socio-economic groups, focusing on key demographic and economic characteristics, reveals the following stylized facts of poverty in Pakistan:

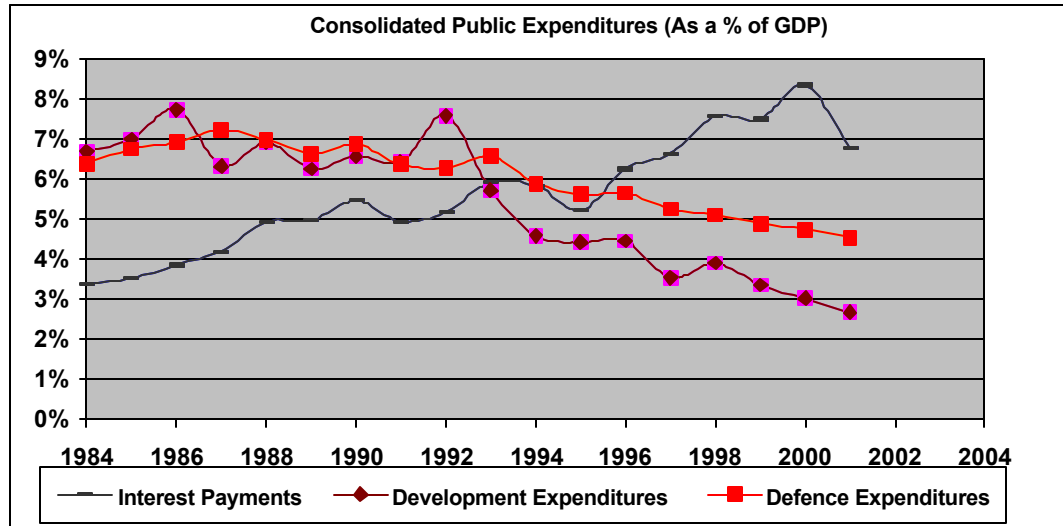
1. Poverty in Pakistan has remained fairly stable during the 1990s, from 29.3% in 1993-94 to 32.2% in 1998-99.
2. Poverty is considerably higher in rural as compared to urban areas. According to calculations by FBS based on PIHS data poverty headcount in 1998-99 was 36.3% and 22.4% for rural and urban areas of Pakistan, respectively. Poverty incidences vary significantly between provinces. NWFP has the highest rural as well as urban poverty followed by Punjab. Balochistan data for 1998-99 shows relatively low poverty; however, poverty in Balochistan is as high as in NWFP as in other years².
3. Poverty is strongly related to lack of basic needs, especially education and cultivable land
4. The poor have a higher dependency ratio, as households with a large number of children, and single earning member, are more likely to be poor. On average the poor have almost five household members less than 18 years of age, while the number for the non-poor is three. Average number of births by a poor woman (married and of age 15-49) is almost five, compared to four for a non-poor woman.
5. More than one third of the poor households are headed by aged persons who are dependent on transfer incomes, such as pensions and other forms of social support.
6. Education is the most important factor that distinguishes the poor from the non-poor. The percentage of literate household heads is 27 in poor households while for non-poor households it is 52.
7. The poor are also characterized by relatively low access to health related infrastructure, like sanitation. While 76% of the poor live in households with no toilet with flush, compared to 53% of the non-poor. The poor are also less likely to have access to electricity and gas – 60% and 10% of the poor live in households with electricity and gas connections, compared to 75% and 24% of the non-poor, respectively.
8. Relatively poor communities also seem to have less access to health facilities and immunization coverage. 45% of the children in poor households aged one to five years have been fully immunized as against 58% in non-poor households.
9. Poverty is (relatively) higher when head of the households are unskilled agricultural workers, engaged in services, transport, production, and sales occupation.
10. The non-poor own 0.84 acres of cultivable land per capita, while the poor own only 0.27 acres per capita. In addition the poor are less able to diversify their agricultural production and are thus more susceptible to economic shocks.

² Balochistan occupies a vast territory, but has low population density that makes it difficult for a survey to be representative. Seasonal fluctuations in consumption may also raise doubts about Balochistan's data for 1998-99.

2.1. MACROECONOMIC AND SOCIAL VULNERABILITY

2. Over the recent decades economic growth in Pakistan has followed a downward trend with real GDP growth falling from over 6 percent per annum in the 1980s to around 4 percent during the late 1990s. A sharp rise in interest payments on public debt and a commensurate fall in development expenditures, over the same period, lie behind this sluggish performance (Figure 2.1). This imbalance had been the result of persistent fiscal and current account deficits and failed efforts towards structural adjustment that has resulted in development spending bearing the brunt of public expenditure cuts.

Figure 2.1



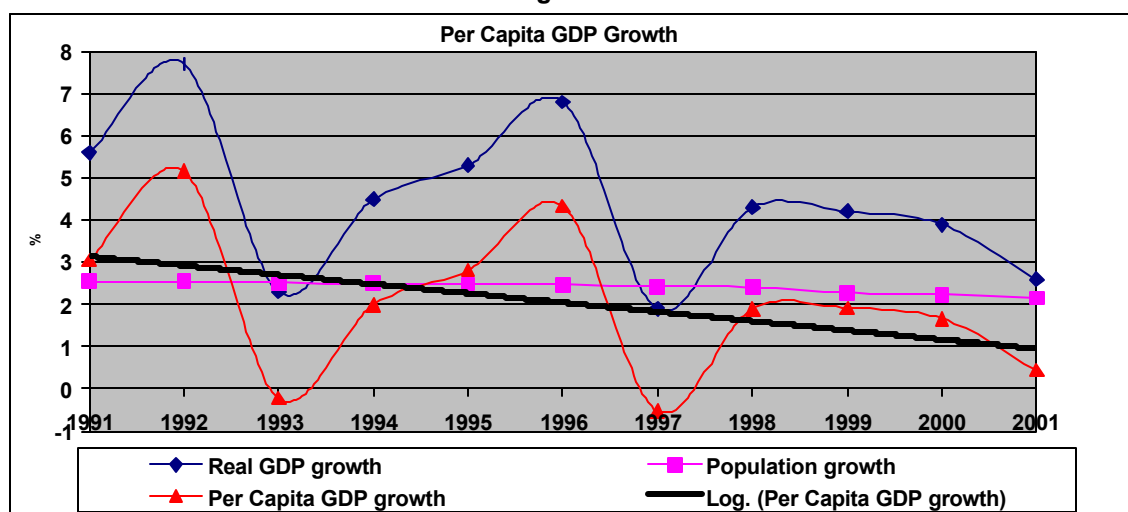
Source: Economic Survey 1990-91, 1994-95, & 2000-01.

Note: Lower average Treasury bill yields (around 8%) and fewer encashment of domestic debt (NSS) instruments are responsible for considerably lower interest payments during 2000-01.

3. In addition to a poor fiscal position, during the 1990s, Pakistan witnessed a gradual worsening in its governance profile, which impaired the government's ability to deliver essential goods and services to the poor. Furthermore, double-digit inflation and slowing industrial growth had a detrimental impact on incomes and employment. As a result human vulnerability has been on the rise, which is partly a reflection of declining economic growth and partly a manifestation of inequitable distribution of the benefits of growth.

4. Thus, macroeconomic imbalances, resulting in reduced development expenditures and higher debt service payments, and governance failures, in terms of deterioration in the government's ability to channel limited resources effectively towards pro poor activities, resulted in a rise in the incidence of poverty in Pakistan. During the period 1991-2001, boom and bust cycles of real GDP growth, precipitated by agricultural growth cycles, also had a significant impact in terms of increasing vulnerability as per capita real GDP growth followed a declining trend (Figure 2.2).

Figure 2.2



Source: Economic Survey 2000-01

5. While it is true that the extent and depth of poverty measured through different approaches varies depending upon the indices used and definitions employed, however there is considerable conformity in terms of the trends they reveal. According to the latest Federal Bureau of Statistics (FBS) study³, after declining in the 1980s, poverty remained fairly stable during the 1990s and broadly followed per capita GDP growth trends (Table 2.1).

Table 2.1: Poverty during the 1990s

Poverty Index	1992-93 HIES	1993-94 HIES	1996-97 HIES	1998-99 PIHS
Head-count ratio	26.6	29.3	26.3	32.2
Head-count ratio	25.7	28.6	24.0	32.6
Poverty gap	4.5	5.5	4.5	6.9
Poverty gap	4.5	5.4	4.3	7.0
Severity of poverty	1.2	1.5	1.2	2.2
Severity of poverty	1.2	1.5	1.2	2.2

Source: FBS 2001; World Bank 2001.

Note: The FBS (un-shaded lines) study assesses the poverty line by using a calorie based approach while the World Bank (shaded lines) study uses the basic needs approach.

6. These results conform with the notion that the momentum gained in the fight against poverty, during the 1980s, was lost during the 1990s when poverty leveled off; while it rose at the end of the decade when per capita GDP growth became negligible. These results are in line with other studies⁴, using different measurement approaches, which reveal similar behavior in terms of poverty and inequality. Albeit mildly cyclical, these trends highlight an urgent need to develop multidimensional poverty indices, which not only capture individuals' current poverty level but also their vulnerability of slipping into and out of poverty in response to shocks⁵.

7. Notwithstanding these results there remains considerable debate on the consistency, measurement, and methodology of poverty indicators in Pakistan, as Pakistan does not have an official and well-recognized poverty line. However, substantial work is being carried out by DFID conducting the Participatory Poverty

³ Federal Bureau of Statistics. April 2001. Poverty in the 1990s, (Draft).

⁴ E.g. World Bank. March 2001. A Brief Note on Poverty Estimates for Pakistan in the 1990s.

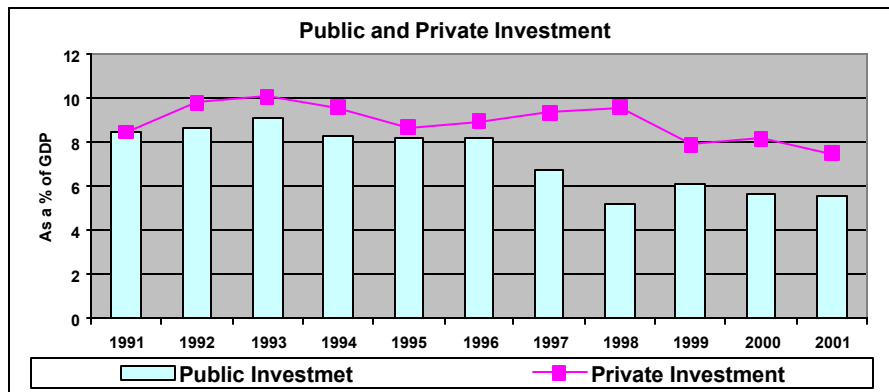
⁵ Hyat, T. 2001. Essays on Poverty, Assets, and Consumption Mobility in Rural Pakistan.

Assessment and World Bank undertaking its own poverty assessment. As part of this entire process extensive discussions with concerned agencies will lead to a finalization of the official poverty line that will indicate the average consumption expenditure necessary to satisfy basic requirements.

8. Crucial to the issue of poverty and growth is the role of real wages and employment generation. In fact, real wages and employment create an important link between economic growth and poverty reduction. This nexus will be explored further with greater technical analysis in the full PRSP. However, it has been witnessed that with economic growth slowing down and population growth rates remaining by and large stagnant at more than 2 per cent per annum, unemployment has been on the rise and is presently around 10 per cent. With the result around 500,000 persons, almost 40 per cent of all new entrants into the labor force, are added to the ranks of the unemployed each year in Pakistan. Therefore, reducing unemployment by stimulating investment is critical, both, for economic revival and poverty alleviation.

9. However, overall investment has come down from over 20% of GDP during 1992-93 to an all time low of 14% of GDP in 2000-01. In fact, over the same period, while public investment has almost halved it has failed to crowd in private investment and in some instances has crowded out private investment, which has fallen by one fourth (Figure 2.3). With the result that new employment opportunities have failed to keep pace with the needs of the rising population. In order to achieve higher investment it is therefore critical that the level of national savings, which play an important role in mitigating risks in the face of volatility, be raised.

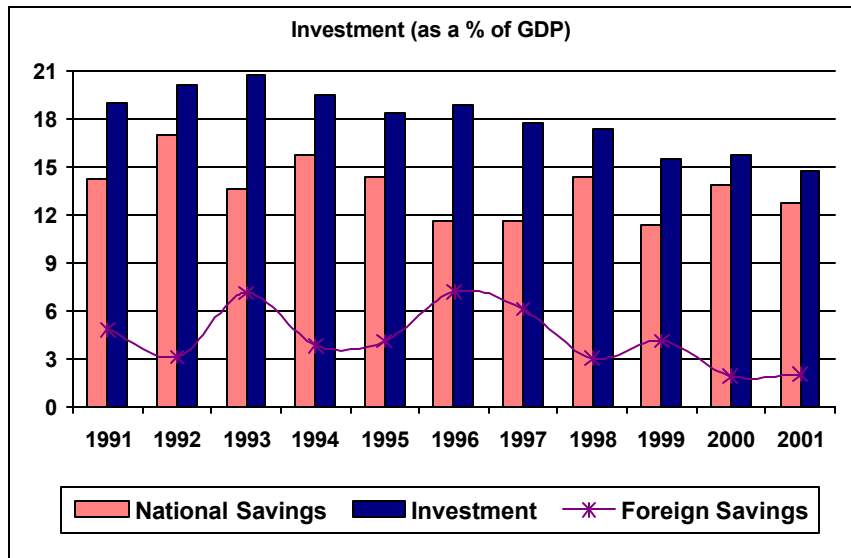
Figure 2.3



Source: Economic Survey 2000-01.

10. However, the country has not been generating adequate savings to finance its (albeit lower) investment needs. Recent reductions in interest rates on domestic debt instruments (e.g. National Savings Schemes) have led to a reduction in interest payments on domestic debt, however that has lowered incentives for fresh household savings in such schemes. The meager national savings rate of 12 per cent of GDP leaves no option but to rely on external resources for financing investment (Figure 2.4).

Figure 2.4



Source: Economic Survey 2000-01

11. It is important to note that there are considerable external resource constraints over the medium term, as the country tries to reduce the current account deficit, which will put additional pressure on investment financed through foreign savings. Additionally, the country is faced with the specter of net resource transfers, thus a part of domestic savings is not available for investment.

12. Hence, the process of increasing domestic savings and reducing reliance on foreign savings will have to be achieved by reducing government dis-saving rates and increasing private savings and investment. To this end the sustainability of the macroeconomic framework will be crucial for increasing national savings, placating investor uncertainty, increasing employment opportunities, reducing poverty, and reviving growth.

13. Pakistan's I-PRSP is mainly geared towards reviving growth through improved efficiency and productivity across all sectors of the economy. The strategy, outlined in Chapter 4, attacks the key determinants of Pakistan's economic and social vulnerability. This strategy is based on achieving high growth that will in turn depend upon attracting higher savings and investment. However, as foreign savings remain constrained, net resource transfers continue, and the government limits public investment due to its role as a facilitator focusing on meeting critical social sector requirements, the projected steady state growth path may not be realized. In that scenario the country will need strong external support from the donor community in terms of exceptional financing and even debt reduction.

THREE

PRSP DIALOGUE

1. Since the participation of the target population is critical in formulating the poverty reduction strategy the government had initiated a comprehensive process of consultations at the district, provincial, and national levels. This process was guided by the government's resolve to elicit views, share experiences, and understand expectations of the stakeholders while formulating the poverty reduction strategy. The process of dialogue was spread over three stages comprising district level consultations, civil society consultations, and dialogue with provincial governments.

2. At the first stage, the process of consultations was initiated to ascertain peoples' perceptions and views on poverty reduction policies, programs and projects. For this purpose four teams comprising federal and provincial government officers visited 10 districts across the country, which was followed by a series of seminars poverty reduction in Islamabad and four provincial capitals. The purpose of consultations and seminars was to share incipient thoughts with district level organizations including grass roots Non-Governmental Organizations (NGOs), Community Based Organizations (CBOs) and Village Organizations (VOs), and obtain their views on how to improve their welfare. The areas covered in the process included:

- On-going poverty reduction programs and projects and what deficiencies in their conception and implementation were felt that may have been a cause of their ineffectiveness;
- Poverty reduction programs/projects and interventions still required and considered most appropriate by the communities;
- Implementation and monitoring mechanisms to ensure that programs and projects undertaken within the PRSP framework will have the desirable outcomes.

3. The process of dialogue is a reality-check – planners for too long have remained detached both from people as well as the place where development work was intended. They have been making choices on behalf of the people when they were ready to make their own choices. Lack of participation in the process of decision making has made people weary of the development plans.

4. During the process of district consultation a proforma was distributed to elicit participants' assessment of causes behind poverty, reasons why the past strategies have not worked and suggestions as to which programs and projects were considered essential for poverty reduction and local development. The participants included NGOs/CBOs, local notables, professionals and focus groups were held to ascertain ground realities. The seminar participants were divided into working groups and were encouraged to identify issues commonly faced by poor, and suggest policies, programs and projects for poverty reduction and social improvement.

5. The responses indicated that it was not only low level of income but also poor access to basic human needs and lack of opportunity that were responsible for vicious poverty that afflicted them. Therefore, a holistic approach was needed to overcome such

multi-dimensional problems of poverty. They were of the view that the government should develop a framework for allocating public resources on the basis of an agreed set of priorities set by the local communities. Additionally, creating a sense of ownership among all the stakeholders was considered essential for the sustainability of poverty reduction programs. In this respect a combination of participatory methods and small-scale sample surveys would prove effective in determining the needs of the poor. Similarly, the participants highlighted skill development and establishment of vocational training centers at the district level as desirable interventions for poverty reduction.

6. Perhaps the most valuable view expressed during these consultations was the concern related to government's ability to deliver on its promises, policies, and strategies. The participants unanimously contended that the government should promise only what it could deliver, and in so doing should focus its attention on creating opportunities for the citizens, crossing all regional, income, gender, religious, and class divisions. These opportunities should relate to their children having access to teachers who can teach them, doctors who can treat them; jobs that can give them a decent living with dignity and respect. They were critical of the government's ability to utilize public resources effectively, especially in the social sectors and viewed decentralization of resources and governance as critical for their empowerment.

7. Moreover, the participants identified the development of agriculture with supporting facilities as the prime instrument for poverty reduction. The main problems in the agricultural sector, as identified by the participants, were shortage of water, farm to market roads, electricity and absence of a proper price support mechanism to protect poor farmers against volatility in commodity prices. Moreover, effects of the recent drought on livelihoods of a vast majority of households in Sindh and Balochistan were also highlighted. The participants of the seminars suggested that the government should play its role by encouraging development of minor crops, vegetables, fisheries, livestock, poultry and orchards through the timely provision of inputs as that would generate additional income and provide employment to a large number of poor in the country. These initiatives would also encourage associated employment opportunities in the rural areas and lead to rural development. The participants also highlighted their ignorance of many public initiatives aimed at poverty reduction e.g. provision of micro credit etc.

8. The participants criticized the poor quality of education and public health facilities and urged that they should be consulted in terms of the selection of school and hospital sites. They highlighted the high frequency of absenteeism amongst local teachers and doctors and the non-availability of other supporting facilities. They were critical of the fact that doctors and teachers were regularly drawing their pays and other remunerations and were not responsive to frequent community complaints regarding their performance. Therefore, many people preferred to send their children to private schools and pay higher fees than send them to public schools. Community's participation in the management of health and education facilities was considered essential for improving their performance and effectiveness.

9. These seminars highlighted the fact that poverty reduction efforts needed commitment at all levels of society. For this purpose it was necessary that all stakeholders, including the government, civil society, community organizations, individuals etc. should be associated in these efforts. Similarly, they should be involved in monitoring mechanisms that were put in place to track and monitor these policies. This would be crucial for building a sense of ownership in the strategies aimed at poverty reduction.

10. The following are the summary recommendation of these consultations. They include:

3.1. Recommendations of district seminar participants

- Government should focus its activities towards a few critical areas mainly poverty reduction through employment generation.
- Government should not only act as a facilitator and but actively engaged in developing economic and social infrastructure, particularly water, roads, schools, hospitals, training and skill development facilities.
- Agriculture sector should be developed through the timely availability of critical inputs.
- The government should protect poor farmers from volatility in prices of agricultural produce
- Development of farm to market roads should be given the utmost priority
- The government and NGOs involvement should educate the locals how to make best use of micro-credit facilities
- The government should disseminate information about its poverty reduction initiatives and how the poor can benefit from the government's policies and programs.
- School and hospital staff should be recruited from amongst local residents. The communities should be involved in the selection process.
- District level capacity building is necessary for effective implementation of government policies and programs.
- Substantial changes are required in the present system of governance and resource allocation
- Continue this process of local consultations to build ownership and gain support of all stakeholders
- Government should constitute monitoring and evaluation teams at the district level to inspect the schemes and keep strict watch on the progress/accounts of the funds provided by the government. All the stakeholders should be included in the monitoring teams.

11. During the second phase of consultations, broad-based dialogue was held with the civil society organizations to ascertain their perceptions on poverty reduction policies. In this respect, the First National Workshop on poverty reduction was organized in Islamabad, which was attended by a large number of delegates from all over the country. This was followed by four Provincial Workshops and a High Level Forum held in Islamabad and four provincial capitals organized with the support of provincial governments and the Asian Development Bank. Among the representatives were participants from federal and provincial governments, community development practitioners and agencies, district representatives, members of farming community and a variety of professionals. Representatives from multilateral agencies and donor countries also attended these Workshops.

12. The seminar encouraged broad public participation in poverty reduction efforts and evoked ownership at the level of national NGOs and CBOs. After the plenary session, that outlined the objectives of the Workshop, participants were divided in several sub-groups where each sub-group was assigned a major theme being addressed in the PRSP. These themes included role of growth in poverty reduction, effectiveness of access to basic services, such as health, education and population planning, in reducing poverty, micro credit as a tool of poverty reduction and good governance. The recommendations of the sub-group were then discussed threadbare in the closing session. A detailed communiqué was then issued and necessary messages incorporated in the PRSP.

13. Workshops on the pattern of National Workshops were also held in all the provincial capitals in close collaboration with the Asian Development Bank. They echoed similar views and concerns that were expressed in the district and national level consultations.

14. Finally, a more intense and business-like consultation is underway between the federal and provincial governments led by the federal Finance Minister. This process has three objectives, namely to:

- Build provincial ownership,
- Develop a monitoring framework for PRSP targets in each provincial government,
- Encourage provincial governments to develop their own sub-PRSPs and use them as the primary framework for future planning and, finally,
- Induct provincial governments to undertake more intensive district level consultations with the involvement of newly elected district governments.

15. So far this process has been completed in two provinces, Balochistan and Sindh. These consultations have not only built greater ownership among the provincial governments but have also elicited input from them in terms of developing a nationally consistent monitoring and evaluation mechanism for tracking expenditures, monitoring policies, and assessing impact on the (agreed) final set of I-PRSP outcome indicators. Most importantly, this round of dialogue has underscored the point that there are essential differences in the nature of poverty across different provinces and that a single approach will not be adequate, rather allowances will have to be made for peculiarities varying contexts presented by each province [See Box-3.1]. Consultations with other provinces will be completed as part of the work toward PRSP.

Box-3.1: I-PRSP provincial dialogue

The I-PRSP consultative process has been a rich learning experience for the government, for taking stock of its priorities and refocusing them in accordance with the voices of the people. Though, it is has been a unique process in government, however the momentum of this two-way exchange will be maintained.

Consultations with the government of Balochistan highlighted the construction of access roads for its thinly scattered population, as the principle instrument for poverty reduction; for lack of access was the single largest impediment for poverty reduction in the province. Far-flung areas not linked with roads or bridges, were more prone to problems of absenteeism amongst doctors and teachers than those connected with the road network. Thus no access to basic human needs can be efficiently programmed unless these programs can reach people. Without proper access people could not send their children to schools, or take them to public health facilities when in need. Moreover, livestock raised by a large segment of the population, was actually the principal safety net in Balochistan. In times of exogenous shocks, as during the recent drought, livestock was the first line of defense to sustain households. The drought had wiped out around half of the livestock population in the province; therefore the government was focusing on programs for the renewal of this important instrument of poverty reduction.

It was highlighted that drought had also resulted in the loss of precious water resources, as continued use led to low water tables in many parts of the province and depleted vegetation for livestock grazing. Therefore, the government's second area of focus was construction of small check dams. Furthermore, the provincial government viewed developing mineral resources as a priority; thereby exploiting Balochistan's comparative advantage to provide gainful employment to its citizens.

Similarly, dialogue with the Sindh government highlighted the vulnerability of the province to climatic changes resulting in extreme weather conditions like drought and cyclones, and the intrusion of valuable cultivable land by rising sea levels. Second, in contrast to Balochistan, agriculture was the mainstay of Sindh's economy and hence the well being of a large number of people was associated with the fortunes of this sector. However, water shortages on the one hand and deterioration of land on account of water-logging and salinity on the other, were damaging cultivable land in the province. Third, governance especially in the social sectors was a key priority of the government and innovative measures are being taken with the help of local communities, especially in education and health sectors, which are showing encouraging results.

This entire consultative dialogue has added a new dimension to the government's understanding of poverty across the country. This understanding is reflected in the evolving I-PRSP and its monitoring framework, which now encompasses an extended list of expenditures (inputs) that will be protected and outcomes that will be monitored, over the medium term.

POVERTY REDUCTION STRATEGY

1. Keeping in view the factors responsible for slowing growth and rising poverty the government has formulated a comprehensive economic revival program aimed at reviving economic growth and social development. In the same vein the government will follow a multi-pronged approach by implementing a comprehensive poverty reduction strategy (PRS), which is outlined in this chapter. The core principles of the strategy include engendering growth, implementing broad based governance reforms, improving social sector outcomes, and reducing vulnerability to shocks.

4.1. ENGENDERING GROWTH

4.1.1. Stabilization

2. Reinvigorating growth by correcting macroeconomic imbalances and stabilizing the economy has been made the central pillar of the government's economic revival program as announced by the Chief Executive in his address to the nation on December 15, 1999. The government has adopted a sound macroeconomic framework aimed at both stabilizing the economy and stimulating growth. It comprises five building blocks, namely tax reforms, expenditure management, prudent monetary policy, external adjustment, and debt management.

3. The macroeconomic framework proposes growth targets that require active fiscal adjustment through a combination of revenue enhancement and expenditure control to significantly reduce the overall fiscal deficit. Similarly, it sets targets for exports, imports, and the current account for ensuring balance of payments stability.

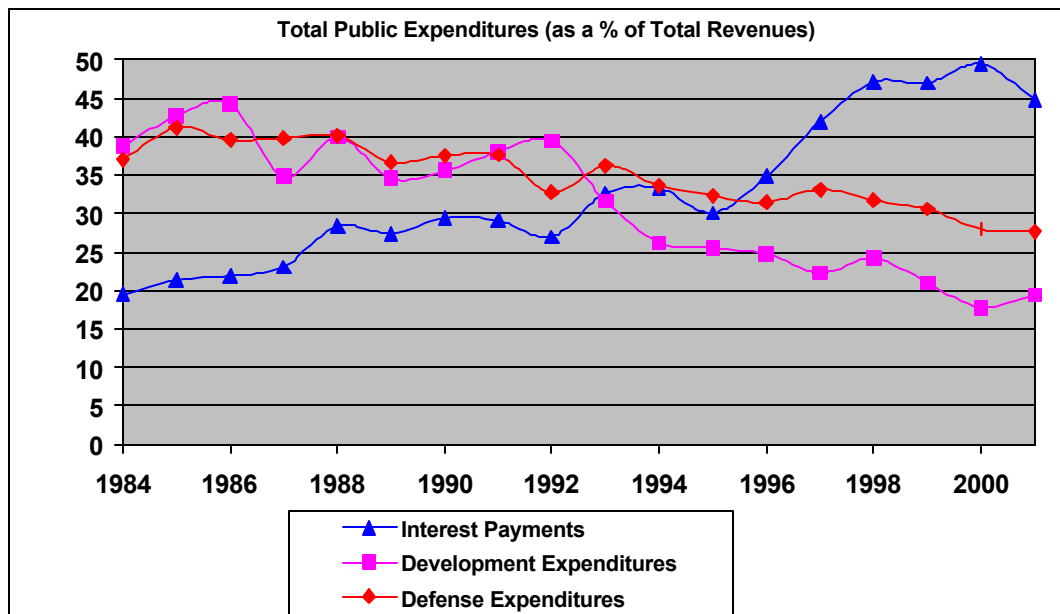
4. The results from 2000-01 signal initial success in initiatives aimed at addressing Pakistan's macroeconomic imbalances. This is evident from the reduction in fiscal deficit from 6.5% to 5.5%, of GDP, and a 41% reduction in the current account deficit. Similarly, inflation that was targeted at 6% remained around 4.4%, while industrial activity and exports registered an increase over the previous year, at 8% and 7%, respectively.

5. Over the next year the government aims at further consolidating the fiscal profile. Similarly, GDP growth has been targeted at around 4% while inflation at 5%. This direction will be maintained over the medium term and the fiscal and current account deficits will be brought down. This year a number of measures are taken to further improve the enabling environment, which will improve investors' confidence, as a result, investment will rise over the medium term to 16.5% of GDP, and real GDP growth to 5.2%, by 2003-4.

6. **Tax Reforms:** One of the main reasons behind Pakistan's persistent fiscal imbalances has been a weak tax effort, at around 13 per cent of GDP, which has severely compressed the fiscal space needed for initiating poverty reduction initiatives. This area needs immediate attention through deep-rooted structural reforms, as total revenues barely cover even critical expenditures. In fact, Pakistan's unsustainable debt burden is a result of funding expenditures through borrowings, without ensuring a comparable increase in repayment capacity in terms of increased revenues. These

trends became especially acute during the latter half of the 1990s (Figure 4.1). With these trends, the success of the macroeconomic framework would not be possible without a significant improvement in CBR's tax collection efforts.

Figure 4.1



Sources: Economic Survey 1990-91 & 2000-01.

7. The stagnant tax to GDP ratio, in Pakistan, is a result of an overly complex tax regime, narrow tax base, weak tax administration, and a widespread culture of corruption and tax evasion. To change this situation a large number of reforms have been undertaken, which resulted in increased tax collection by over 10%, during 1999-00. In this respect the pivotal role has been played by the tax survey and registration exercise. As a result of this effort CBR is now equipped with a massive database that would enhance effectiveness in tax assessment. It has collected profiles of 600,000 taxpayers, while an additional 134,000 income taxpayers have been added to the tax net, which represents a 7.4% rise in the number of taxpayers. Similarly, the number of sales tax payers has increased by almost 40%, from 75,538 taxpayers to 104,602

8. A major initiative in tax reforms is the promulgation of a new Income Tax Ordinance (ITO) 2001, which has been formulated after extensive consultation with all the stakeholders. The ordinance allows for universal self-assessment, uniform tax rates, removal of non-adjustable withholding taxes, elimination of exemptions and detailed audit through a parametric selection process. Further strengthening of income tax collection will be instituted through improved record keeping requirements, strengthened audit capacity at CBR, and adoption of self-assessment as the main assessment method.

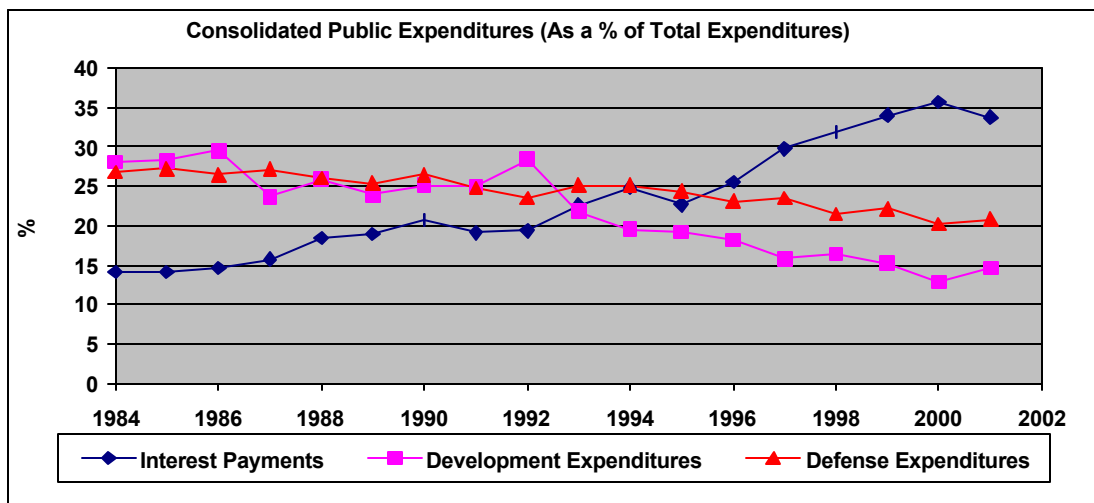
9. Moreover, the recommendations made by the Task Force on Reforms in Tax Administration have also been received, which the government has decided to broadly implement. These measures will lead to radical simplification in tax processes, intensive use of technology in tax assessment-virtually eliminating contact between taxpayer and collector-reorganization of CBR and restructuring of terms and conditions of service of revenue officials. Furthermore, the reforms will also promote a taxpayer-friendly environment, induction of skilled tax professionals, and a fair, efficient, and accountable tax system.

10. Following additional measures, mostly adopted, will have a positive impact on the tax-to-GDP ratio:

- Reduction in multiplicity of taxes with the elimination of wealth tax already instituted.
- Broadening the tax base, particularly of General Sales Tax (GST), and reinforcement of documentation of the economy through tax surveys.
- Promotion of private sector investment through self-assessment schemes anchored on compulsory maintenance of accounts, provision of parametric audit annually, and complete audit once in five years.
- Taxation of Income from agriculture along the same lines as income from other sources.
- Appointment of Tax Ombudsman to decide complaints against tax authorities.
- Elimination of all whitener schemes.
- Encouraging provincial governments to simplify tax regimes, improve the ratio of provincial taxes and levy user charges for all services;
- The share of direct taxes and sales taxes will be increased in the overall mix.

11. **Expenditure management:** A notable feature of Pakistan's fiscal performance since late 1980s is the rising share of current expenditure, mainly on account of phenomenal increases in debt servicing. Since this the period during which Pakistan has attempted to follow several adjustment programs, mainly aimed at reducing fiscal deficit, the larger burden of adjustment has been shouldered by development expenditure, which has continually declined during this period. The trends in expenditure pattern are depicted in Figure 4.2:

Figure 4.2



Source: Economic Survey 1990-91 & 2000-01.

12. Given the above state of fiscal affairs, the government, on the one hand, is reducing its size and making it consistent with its role of a regulator and facilitator while, on the other, it is undertaking major reforms to expand the space for private initiative and efficient functioning of markets. Taking an unprecedented step in the 2001-02 budget, government has frozen defence and civil administration expenditures; while the National Economic Council, chaired by the Chief Executive, has approved a development plan of Rs.130 billion, which shows an increase of 30% over the previous year. This plan has been made in the context of a 10-year development perspective that aims at meeting critical shortages in country's physical and social infrastructure, which is limiting the growth potential of the country. Over the medium term the government aims at further changing and rationalizing the composition of expenditures by reducing current expenditures and increasing development expenditures.

13. In terms of expenditure management and control a Medium Term Budget Framework (MTBF) has been prepared that includes a revised budget calendar with upfront approval of broad sectoral expenditure allocations. A Fiscal Monitoring Committee (FMC) has been established to oversee preparation and publication of updated quarterly data on consolidated expenditures verified by the Accountant General (AGPR)⁶. The FMC has started submitting quarterly reports, which are regularly placed on the Website of the Ministry of Finance. Similarly, Provincial Fiscal Reconciliation Committees have been established to improve the quality of provincial expenditure data. Moreover, a new system of financial controls and budgeting has been instituted at the federal level to enhance expenditure controls. This will improve the quality of fiscal planning and expenditure control.

14. Public Accounts Committees have been established both at the Federal and Provincial levels, whose proceedings are opened for Press. This is a major step in promoting transparency in public expenditure management. Additionally, starting this year the government has begun to publish information on tax expenditures and contingent liabilities. In order to regulate and guide the process of public procurement, legislative effort is being undertaken to standardize procedures and simplify rules and regulations governing procurement activities. In this regard, a new agency called Pakistan Public Procurement Authority has been established and will soon be operational. In yet another historic move, the government has separated the audit and accounting functions and is undertaking a series of reforms to radically enhance the functional capacities of the two organizations.

15. The government has decided to underpin fiscal adjustment by strengthening the integrity of the budget process and improving public expenditure management and control. Some additional measures in this regard are as follows:

- Sectoral budget submissions to include joint consideration of recurrent and capital expenditures.
- Establishment of expenditure reconciliation processes in all provinces. Provinces to produce quarterly reports and submit to the MOF that are fully reconciled by AG/departmental accounts.

⁶ The Ministry of Finance website (www.finance.gov.pk) is regularly posting data on expenditures that is fully reconciled among the concerned departments, Accountant General and State Bank of Pakistan.

- Presidential approval of “Revised Principles, Methods, and Forms of Accounts” of the federation and provinces.
- Provision of legal backing to MTBF and other public financial management reforms through promulgation of Financial Management Act is under consideration.
- Preparation of annual financial reports prescribed under the “Revised Principles” by the Auditor General.
- To promote fiscal consolidation the government is considering promulgation of a fiscal responsibility law that would limit government’s access to borrowing for financing expenditures. Such a law would be instrumental in ensuring continuity of fiscal policy reforms being carried out by the government.

16. **Prudent monetary policy:** During the first half of the 1990s monetary policy was a mirror image of fiscal policy and was used to finance fiscal deficits through high rates and directed expansion in monetary aggregates. This period was marred by an overly regulated monetary policy, high interest rates induced by high government demand for credit and strict credit allocations, which had a distortionary effect on private sector decisions related to savings, investment and production.

17. However, with substantial reforms in financial sector management monetary policy is now conducted by the State Bank of Pakistan (SBP) through market-based instruments. SBP has restored financial discipline by liberalizing interest rates, exchange rates, and institutionalizing prudential lending practices. In terms of credit allocations the government is now a residual claimant and the annual credit plan is no longer a binding document but an indicative tool for channeling resources to under-provided sectors like agriculture.

18. The State Bank has strengthened its supervisory role and improved transparency in financial dealings through effective enforcement of prudential regulations and financial disclosure standards. Additionally, the State Bank of Pakistan is being restructured with a view to separating its core central banking functions (monetary policy and supervision) from its non-core functions (currency circulation, securities issues, treasury functions); and transferring them to a subsidiary that is being established under the SBP Banking Services Corporation Ordinance, 2001, likely to be promulgated shortly.

19. In order to provide a market-based rate of return for investors, SBP has successfully launched long-term Pakistan Investment Bonds (PIBs), tradable on the secondary market, which would provide benchmarks (yield curve) for setting returns on national saving schemes. So far the rate of return on Defence Saving Certificates has been linked to PIBs, while other instruments would be linked to rates of equivalent maturity.

20. SBP has also institutionalized a competitive, flexible, and market based freely floating exchange rate and removed all trading bands in the inter-bank market. The State Bank of Pakistan (SBP) also removed restrictions on repatriation of profits and capital, while it has decided to approach the issue of capital account liberalization after the reserve position is stabilized.

21. One of the major reasons behind the build up of domestic debt burden during the latter half of the 1990s was the rise in real borrowing costs. With this in mind the present government after taking over pursued a relatively easy monetary policy, which in line with both the declining inflationary trends and desired fiscal adjustment. In addition to lowering treasury bill yields the government also reduced interest rates on national savings schemes (NSS), a major source of government's domestic borrowing, and banned institutional investment in NSS instruments. Since July 2000, however, there has been a tightening in its stance, with the result that primary auction rates on six-month treasury bills have risen from 7.2% in July 2000 to 12.9% during June 2001. This has been done with a view of providing exchange rate stability⁷.

22. **External adjustment:** Pakistan's current account has remained under pressure throughout the 1990s owing mainly to stagnation in exports and workers' remittances. The government is committed to trade liberalization and its macroeconomic framework aims at increasing exports at around 10 per cent and imports at a little over 6 per cent, per annum, over the medium-term.

23. Worker's remittances after remaining stable at around \$1.2 billion between 1995-98, declined significantly to \$0.9 billion during 1998-99, due to the diversion of worker's remittances from official to other channels, which was due to the exceptional rise in kerb market premiums in the wake of economic sanctions. With a view to channeling remittances through normal banking channels, which are presently leaked out of the system through largely unregulated money changers business and smuggling, SBP is adopting a number of steps that will lead to increased documentation and reporting of money changers' activities, in the short run. Later they will be encouraged to form themselves into exchange companies. A comprehensive strategy has also been outlined to encourage non-resident Pakistanis to send remittances through official channels, which will also serve to break the nexus between Hundi and smuggling. This process will be further strengthened by a gradual integration of the kerb market into the mainstream interbank market. Government also plans to further tighten the banking code to discourage money-laundering activities.

24. The government aims at widening the export base through revival of industrial activity and strong institutional supply side measures. A comprehensive export development strategy to generate employment opportunities, complementing the poverty reduction strategy, has been formulated. In keeping with the government's policy of trade liberalization and removal of anti-export bias the government has rationalized the existing tariff structure to reduce duty on a range of imported inputs for domestic industry. Two key drivers used for this purpose are the reduction in the maximum rate of duty from 35% to 30% and reduction in the number of duty slabs from 5 to 4. The new slabs will thus be 30%, 20%, 10% and 5%. Except for some essential imports and previous government commitments, all imports will be subject to a minimum tariff rate of 5%. Similarly, the number of items on the negative (banned) import list has been reduced to 44, while those on the restricted list have been reduced to 51. The maximum rate of duty will be further reduced to 25% next year. This simplification will significantly improve valuation, clearance and general administration of customs tariff. The government has reduced duties on 4000 items of customs manual, which would stimulate domestic production and international trade.

⁷ In the post 11 September scenario, exchange rate has stabilized considerably and accordingly interest rates have been reduced.

25. The government has also promulgated a number of laws to bring them in conformity with its obligations under the WTO regime. These include anti-dumping and countervailing measures; patents, copyright, and design laws. In future the government will be resorting to anti-dumping duties and countervailing measures, in accordance with the spirit of the new legislation, rather than using tariffs for this purpose. Furthermore, the new law has entrusted cases of anti-dumping to the National Tariff Commission, which is an independent entity that holds public hearings before giving its recommendations to the government.

26. To give boost to exports, government has negotiated a \$150 million Trade Enhancement Facility with the Asian Development Bank, which is specifically meant for SME exporters. This will be available concurrently with the existing export finance scheme, which has been rationalized and its emphasis shifted towards pre-shipment financing, value-added exports, and improved targeting towards first time, small, and medium sized exporters. In addition, a private sector export finance guarantee company called the Pakistan Export Finance Guarantee Agency (PEFGA) is being set up to provide a comprehensive range of export trade finance guarantees to banks giving pre-shipment and trade financing to local exporters.

27. Notwithstanding the measures adopted to promote exports, a major reason for Pakistan's stagnant export earnings is the fall in unit values for Pakistan's exports. This has resulted in lower export earnings despite greater export quantities. For several reasons it was not possible for exporters to adjust immediately to the worsening of Pakistan's terms of trade. First, Pakistan's export base is not diversified and is concentrated in relatively few low value-added products. The percentage share of value-added exports has ranged between 56-67% of total exports. Second, limited export markets, even though Pakistan has trade relations with a number of countries and has missions in more than 75 countries, the majority of Pakistan's exports go to a few countries. In fact, 60% of total exports during the first six months of the last fiscal year went to 10 countries alone. Third, spill over effect of devaluation on the overall cost structure has also hampered growth in export production. This is because the rise in the cost of tradable inputs and an unusual increase in utility charges have neutralized the effect of exchange rate devaluation. At the same time, unit values of Pakistan's major imports – most notable oil and its petroleum products – have also gone up thereby exerting additional pressure on the current account.

28. Keeping these exogenous factors in mind Export Promotion Bureau is developing a medium term program for encouraging exports of non-traditional value added goods from the country. In this respect a Horticulture Export Board has been established to promote integrated development, through various stages of production and processing of vegetables, fruits, and flowers for the purpose of exports, where country has remarkable comparative advantage. The Board is a non-government effort, which will be spearheaded by various stakeholders in the respective sub-sectors representing the value-chain. The government has also decided to introduce corporate agriculture on professional lines to increase exportable surplus in the agricultural sector. Ministry of Commerce is also working on the export of wheat and has already been able to secure commitments for the export of 615,000 tons.

29. Similarly import liberalization measures have been adopted in the agricultural and petroleum sector, both of which were hitherto highly regulated. Government intervention in agricultural markets has been considerably reduced and all agricultural products are now on the open list for import and export. The private sector has been freely allowed to import and market fuel oil on the basis of market determined prices.

Diesel oil has been given limited freedom while it will be gradually liberalized. Concurrently, a plan has been devised for the supply of gas to power plants to facilitate their conversion from fuel oil to gas, thereby reducing reliance on imported fuel. Similarly, the local cement industry faces high upfront fuel costs. In order to facilitate their conversion to coal, which is widely available in the country, the government has given incentives for imported plant and equipment for coal firing units.

30. These initiatives will result in an improvement in the trade balance over the medium-term. However, exogenous risks remain which may result in worsening the external resource balance position. Exports may fail to register targeted growth over the short term, as was the case this year, either due to a global slump in demand for Pakistan's exports brought about by a sluggish US economy or due to further erosion in unit values. Similarly, imports may rise at a pace faster than that envisioned in the macroeconomic framework due to higher international oil prices, higher unit values of other imports or tariff reductions. In that case the trade balance may worsen even further and international support may be required for correcting this imbalance and protecting the poor from negative spill over effects.

31. **Debt management:** During the 1990s Pakistan's fiscal deficit averaged around 7%, while the current account deficit in the balance of payments was around 5%, of GDP. These twin deficits have resulted in an explosive accumulation of public debt, which increased by almost four times from Rs. 800 billion in 1990 to Rs. 2971 billion in 1999; and external debt, which almost doubled from \$22 billion in 1990 to \$43 billion in 1998. Consequently, by 1998-99, 73% of total revenues and 40% of foreign exchange earnings were consumed by debt servicing payments. Pakistan is thus caught in a vicious circle of high debt payments, which are leading to stagnation in (human and physical capital) investment and growth, and low investment and growth in turn, are limiting the capacity to service debt and reduce the debt burden. The government thus believes that without managing debt and social sector expenditures, as part of an overall macroeconomic strategy, the fight against poverty cannot be won.

32. Given the unsustainable nature of country's debt, the government had therefore constituted a Committee on Debt Reduction and Management, which has submitted its report and is now guiding country's debt management policy. The Committee has recommended a effective debt management and monitoring system to be put in place, formulation of medium and long-term debt reduction strategies, and laid down technical guidelines for external and public debt management. In addition, it has recommended institutional and policy actions that will be needed for bringing down the debt burden to manageable levels and eliminating the need for assistance from IMF in the medium term. It has also highlighted the need for maintaining relationship with the IMF in order to obtain \$6 billion in exceptional assistance and around \$4 billion in additional debt rescheduling from the Paris Club, which will be essential for restoring debt equilibrium and protecting critical social sector expenditures over the next four years.

33. The government has adopted most of the recommendations of the Committee and has initiated their implementation.

4.1.2. Enabling investment environment

34. Sustained, pro-poor economic growth, based on robust private sector activity and enhanced investment, are the main elements of Pakistan's poverty-reduction strategy. In this respect investment, both domestic and foreign, is the vital link. Therefore, the essence of Pakistan's poverty reduction strategy is to maintain an environment

conducive to trade and investment. Foreign investors have already been allowed participation in industrial projects on 100 per cent equity basis, without any need of securing permission from the Government. Moreover, full repatriation of capital, capital gains, dividends, and profits is allowed. In fact the policy has been further liberalized to open up all sectors of the economy for foreign and domestic investment with particular emphasis on agriculture, manufacturing sector especially SMEs, information and communication technology, oil & gas and other infrastructure sectors.

35. **Agriculture:** Though the agricultural sector accounts for 25 per cent of country's GDP and employs around 45 per cent of its labor force it has not received the importance that it deserved. Traditionally, the agricultural sector was used for transferring surplus to the industrial sector by constantly under-pricing agricultural produce. Ineffective and misplaced agricultural policies in the past had resulted in a high import bill for wheat, edible oil, tea, and other agricultural items, despite the fact that with appropriate policies the sector had the potential to avoid them. Some of the critical factors impeding the development of agriculture sector include water shortages – emanating from deficiencies in storage capacity and poor use of available water – poor marketing channels especially overseas and limited access to credit.

36. The government is freeing up agricultural prices by moving towards market based agricultural prices, while safeguarding the interests of farmers. With a view to allowing farmers to receive international prices for their produce the government has abolished all restrictions on the import and export of all agricultural commodities, including wheat. In fact additional reforms allowing greater role of private sector in the wheat trade have been undertaken. This includes wheat procurement and release procedures that will allow better market prices to farmers. However, at the same time it is important to protect farmers against volatility in prices. In this respect government will continue to follow the policy of announcing support prices for wheat and indicative prices for other crops like sugarcane, cotton, and rice.

37. The most important challenge facing the agricultural sector in Pakistan is the shortage of water, which became especially acute in the face of the recent drought (Box 4.1).

Box 4.1: Macroeconomic impact of drought in Pakistan

Though, Pakistan has witnessed an increase in the frequency of extreme climatic variations due to climate change however, last year's drought was one of the most devastating meteorological phenomenon in recent years. Real GDP growth during 2000-01, at around 2.6%, was adversely affected by the worst drought in the country's history. Though, many parts in Sindh and Baluchistan had been experiencing drought like conditions for over two years, the situation became worse during 2000-01 and engulfed the entire country. The continuing dry spell resulted in a sever shortage of water affecting agricultural output and ending the year with a reversal in the rising trend of agricultural growth. This was the second time in the last decade when value added in agricultural sector registered negative growth at -2.5% as against 6.1% during the previous year. Though, the higher base affect of exceptional agricultural growth witnessed during 1999-00 was also at play during 2000-01, the magnitude of downturn in agricultural output was clearly a reflection of the devastating drought.

In terms of their impact on the balance of payments the cotton, wheat, sugar cane, and rice crops are most important. During 2000-01, production of cotton bales was down by 2.1 million while output for wheat, sugar cane, and rice crops was lower by 4.1, 7.6 and 1.2 million tons, respectively, over the previous year. According to estimates the total balance of payments loss, in terms a lower exportable agricultural surplus and higher agri-imports, would be over one billion dollars.

The impact of drought was also felt on electricity and gas generation sector. Low levels of water in dams translated into lower hydel power generation that had to be partly compensated through higher thermal generation. This meant, on the one hand, lower contribution of electricity generation to overall GDP and, on the other hand, higher fuel imports than otherwise would have been needed. If we take the overall impact of drought into account, real GDP would provisionally have grown by 4.8%, as against 2.6% that was achieved during 2000-01.

38. Furthermore, development budget for 2001-02 envisages a drought support program of Rs.10 billion, which will be used for undertaking projects that would not only mitigate the suffering of those adversely affected by drought but also help them get better prepared for its recurrence in future.

39. A substantial amount of water is lost every year in the system due to low water management efficiency. The Government has embarked on an ambitious water management program to enhance water availability, in fact, the major focus of next year's development plan will be on the water sector, where Rs.4 billion have been allocated to initiate work on some of the new water sector projects. For this purpose, a medium term plan has been prepared which aims at augmenting water resources at a cost of Rs. 86.1 billion. This plan will create additional storage capacity through such projects as Gomalzam and Meerani dams, and new irrigation schemes like Raineer, Thar and Kachi canals and lining of watercourses. These initiatives will provide additional storage capacity of 4.5 million-acre-feet (MAF) of water, bringing over one million acres of land under cultivation and creating thousands of temporary jobs in the process.

40. In addition to augmenting irrigation water resources, water conservation will remain the top priority area. The pursuance of this strategy is critical especially under the circumstances when the completion of new on-line and off-line major water storages will take time. About 8 to 9 MAF of water will be saved from watercourse improvements program by minimizing water losses in the watercourses and applying more evenly through land leveling and improved water application techniques at the farm level.

41. To achieve the afore-mentioned water savings, it has been planned to renovate all of the remaining 90,000 watercourses at comparatively economical costs through specific on farm water management (OFWM) projects and other programs. Since watercourse renovation seems to be the most economic option, therefore planning of OFWM projects and their implementation will be accelerated as part of the I-PRSP process. Water pricing is an essential tool to ensure its efficient use. All new initiatives in the water sector have been modeled to recover the maintenance and restoration costs of water schemes. The existing irrigation charges are being increased to recover maintenance costs. Watercourse schemes require community participation and its contribution in the cost of building a watercourse.

42. Moreover, the government is giving special attention to initiatives that will mitigate water logging and salinity, especially in areas where the water table lies at 0-5 feet depth below the surface. Under on going and new Salinity Control and Reclamation Projects (SCARPs), an area of 2.7 million hectares inclusive of completed projects (having water table depth between 0 and 5 feet) will be reclaimed/restored for agricultural production through rehabilitation and new investments. Moreover, surface drains will be constructed in areas faced with surface runoff resulting from rainfall or excess irrigation (e.g. rice drainage). Efforts will continue to transfer SCARP tube wells from the public to the private sector in order to encourage private sector participation in this program.

43. The Indus Basin Irrigation System (IBIS) is being severely affected due to the accumulation of salts. It is reported that at present, about 33 million tons of salts are annually brought into the IBIS, out of which 24 million tons (73 percent) are being retained or recycled. In response the National Drainage Strategy including preparation of Master Plan to identify various spines for disposal of drainage effluent is being prepared and implemented. The rehabilitation of the Left Bank Outfall Drain and construction of a new Right Bank Outfall Drain (both into the sea) are major initiatives planned for completion in during 2001-04 period.

44. Another critical element of the policy is to accelerate agricultural growth by raising per unit yields and increasing production of high value non-traditional crops like edible oils, olives, tea, spices and medicinal plants. The government is giving great importance to sunflower and canola, for which 2 million acres of existing cultivable area will be brought under cultivation over the next five-year period. This will add 0.5 million tons to the current production of edible oil of 0.6 million tons. The key strategic elements of this policy are indigenous production of hybrid seed, productivity enhancement through improved technologies and collaboration with private sector for development of an efficient edible oil industry. Strategies like contractual arrangements for the guaranteed procurement, revitalization of Oilseeds Development Board, and increased funding through the levy of cess at enhanced rate of 1 per cent on edible oil imports is also being implemented.

45. Moreover, the government is in the process of formulating a policy to encourage corporate agriculture to bring vast tracks of uncultivable land under cultivation. This will not only encourage large investment in the agricultural sector but also create job opportunities for rural inhabitants and exportable surplus. Similarly, as part of overall policy package and deregulation of DAP, MINFAL has encouraged private sector to import DAP.

46. In order to increase the flow of credit to the agricultural sector the role of Agricultural Development Bank is being enhanced. A new management of the Bank and its Board of Directors has been appointed with complete autonomy of operations and management. SBP has directed ADBP to give as much credit to the agricultural sector as can be absorbed by the farming community. This is an unprecedented move aimed at enhancing the flow of credit to the agricultural sector.

47. **Manufacturing sector:** Pakistan's small and medium enterprise (SME) sector holds great potential of generating employment, adapting technology and creating an export-base grounded in the country's true comparative advantage. An integrated approach has been adopted to encourage SMEs and for this purpose Small and Medium Enterprises Development Authority (SMEDA) is actively developing programs for developing managerial, technical, and informational support to SMEs.

48. SMEDA has been reorganized and given the necessary resources to lead the process of supporting the development of SME sector. The focus of the new organization is SME support, including easier documentation with financial institutions, free technical, managerial, and marketing advice through four provincial offices, information on sector briefs, pre-feasibility reports, and access to trade information regarding foreign demand for Pakistani products. On the basis of an extensive study undertaken by SMEDA, regulatory changes are also being effected to allow SMEs the freedom necessary for their efficiency and growth. As a result, a large number of irritants impeding the growth of SME sector are being removed.

49. Small Business Finance Corporation, a dormant and virtually grounded institution is being revitalized and is being given the mandate to provide financial support to the sector. For this purpose, the financing limit of SBFC has been raised from a maximum of Rs.1.5 million to Rs.30 million. Additionally, SBFC and Regional Development Finance Corporation (RDFC) are being merged to form a bank exclusively catering to the needs of SMEs.

50. In addition to SME development, the government has also initiated formulation of export-oriented, open, transparent, and consistent sectoral initiatives aimed at creating a predictable and conducive environment for overall industrial growth. For this purpose, sectoral committees have been constituted after detailed deliberations with all the stakeholders to come up with their recommendations for the textile, chemicals, engineering goods, automobiles, and edible oil sectors. In this respect Textile Vision 2005 has already been developed and a Textile Board has been constituted to implement recommendations of the Textile Vision. This policy is aimed at encouraging the production of value added products in the textile sector while moving up the value chain. It may be noted that value added textiles - garments and made-ups - are labor intensive and thus represent high potential for employment generation. Similarly, a long-term fertilizer policy will be announced shortly.

51. Additionally, in order to streamline administrative procedures and reduce impediments the government is considering appropriate changes relating to the Monopoly Control Authority and make it more effective without diluting growth incentives for businesses. Similarly, the government is reviewing laws relating to Trade Marks and Intellectual Property Rights, industrial relations, workers' compensation, and work conditions to improve the overall environment in the country.

52. **Financial sector:** A well functioning and properly regulated financial system is essential for increasing household savings and harnessing the private sector as the engine of economic growth. AS part of SBP reforms, the banking supervision system has been significantly strengthened. Strict enforcement of Prudential Regulations have led widespread re-capitalization and consequent improvement in the health of the banking system. In addition, the nationalized commercial banks (NCBs) have undertaken a basic restructuring of their staff and operations. Nearly 50% of surplus staff of banks will be separated while more than half of their non-profitable branches will be closed. The NCBs are now in a better position to compete with the private sector banks and are also being readied for eventual privatization.

53. As another important element of financial sector reforms, a fundamental restructuring of DFIs is also underway in line with the global trends towards mergers and acquisitions to enable them to enjoy economies of scale and reduce costs. As part of this process National Development Finance Corporation (NDFC) has been amalgamated with National Bank of Pakistan (NBP), Regional Development Finance Corporation has been merged with Small Business Finance Corporation (SBFC), which in turn is being converted to a private limited banking company. Similarly, the co-operative banking sector is being reorganized and liquidation of the Federal Bank of Cooperatives is underway.

54. A major operating problem faced by NCBs was the high proportion of non-performing loans (NPLs) in their portfolio. To meet this challenge the government has established a Corporate and Industrial Restructuring Corporation (CIRC) to deal exclusively with the problem of NPLs. CIRC is functioning in its operation of cleaning up

banks' balance sheets. It has been established to make provisions for the acquisition, restructuring, rehabilitation, management, disposition, and realization of non-performing assets of state owned banks and financial institutions. Legislative effort has been undertaken to provide operating efficiency to CIRC in dealing with cases under litigation. CIRC has 81 units in its portfolio (around Rs. 10 billion) of which 8 have been sold, 45 have been acquired for sale, and 28 are under evaluation for acquisition.

55. A new law entitled Financial Institutions (Recovery of Finances) Ordinance 2001 has been promulgated, which will strengthen recovery laws and facilitate the process of mortgage foreclosure and expeditious settlement of banking disputes. The law holds the promise of radically transforming dispute resolution mechanism in the financial sector. Similarly, to adhere to current norms of international commercial arbitration the government is considering the ratification of the New York Convention on International Commercial Arbitration. Additionally, a Banking Ombudsman will be appointed to redress the grievances of banks' clients. In order to ensure effective regulation of professional conduct of Chartered Accountants the Chartered Accountants (Amendment) Ordinance, 2001 is under consideration. The freezing of foreign currency deposits in 1998 had dealt a major blow to investors' confidence in the country. To prevent such a repetition a law on the protection of foreign currency accounts, 2001 has also been promulgated.

56. The structure of national savings schemes has also been rationalized and brought in line with the rest of the sector. The Central Directorate of National Savings (CDNS) is being reorganized and a new institution called the National Savings Promotion Authority. The CDNS has been directed to introduce new products to meet the varying needs of savers. In this regard, a pension product is under active preparation to be launched soon.

57. To meet the needs of institutional investors for investing in government securities, a new instrument called Pakistan Investment Bond (PIB) has been launched and several auctions of the bonds have already been held. This instrument serves as the benchmark both for the private securities as well as for national savings schemes.

58. **Capital markets:** Capital markets are an important source of funding investment activities and providing profitable investment opportunities to small savers. Development of an efficient capital market is important for promoting investment, expanding industrial output, and generating employment. The past year has witnessed major developments in the capital market as a result of a series of reform measures taken to promote investor confidence and strengthen capital markets. These are expected, in due course, to yield dividend in the form of increased demand for and supply of capital. Notable reforms undertaken include:

- Effective regulations for risk management of members of stock exchanges;
- Development of capability of the Securities and Exchange Commission (SECP), so that it can play an active role in the development of capital markets;
- Operationalising the National Clearing and Settlement System;
- Launching the T+3 system whereby all transactions will be settled on the third day; introducing a new code of conduct for stockbrokers; raising the

net capital requirement for brokers and defining capital adequacy requirements with enhanced margin requirements;

- Issuing rules against insider trading
- Eliciting public opinion for the purpose of framing and publishing rules to allow new classes of shares
- Promoting the growth of new products such as options, futures and other derivatives that will provide the necessary means to hedge risk and deepen the stock market.
- Preparing special rules to promote private pension funds that will encourage savings and mobilize retail investment in equity markets. A framework for new pension products to be offered by non-bank financial institutions is also being designed by the SECP.
- Developing a framework for the promotion of venture capital business in the stock market. This will meet an important need for the development of the IT sector.
- Issuing information disclosure rules for listed companies that will be finalized after soliciting public opinion.
- Instituting regulatory changes to provide for easy mergers, acquisitions, take-over and liquidation of public listed companies.
- Considering a draft law on take over of listed companies, Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2001.

59. Another area of reform has been the insurance sector. In this regard the outdated Insurance Act 1938 has been repealed and a new Insurance Ordinance, 2000 promulgated that allows easier access to markets, requires a level playing field between public and private sector insurance companies, affords greater flexibility for portfolio management, and encourages an active and involved regulatory oversight by SECP. The department of Insurance has been abolished and all regulatory work has been given to SECP. The Public Sector Insurance corporations have also been placed under the purview of SECP for the purpose of regulatory work and the NIC Act, 1976 has been repealed and the NIC (Reorganization) Ordinance, 2000 promulgated. Similarly, the PIC Act, 2001 has also been repealed and a new PIC (Reorganization) Ordinance, 2000 promulgated.

60. **Privatization:** An indirect expenditure constantly being incurred by the budget is the losses of the public sector corporations. Although, 99 state owned units have been privatized and 23 closed down public sector corporations continue to hemorrhage the federal budget. During 1999-00, the government picked up a total liability of Rs.91.44 billion, equal to more than 3% of GDP, on behalf of these corporations. In addition, major public sector corporations incurred a loss of Rs.33.7 billion in 2000-01. It is through the privatization program that the government aims at encouraging the private sector to play a pivotal role in national development, reducing the hemorrhage to budget on account of

public sector corporation losses, and generating resources both for debt retirement as well as for poverty reduction.

61. The government's reconstituted privatization machinery includes the Ministry of Privatization (MOP) and the Cabinet Committee on Privatization (CCOP). In order to promote transparency in the process of privatization, the Privatization Commission Ordinance, 2000 has been promulgated. It not only allows MOP to execute the privatization process efficiently but also lays guidelines for providing an expeditious mechanism for resolving all disputes related to privatization. It provides special courts with the jurisdiction to hear dispute on privatization matters, thereby facilitating transparency of the whole process.

62. Apart from general provision in law, the stock markets will be used to reactivate the process. The process of privatization in Pakistan is being implemented through public offerings on stock exchanges, sale to strategic investors, and open public auctions. Highly reputed international financial advisors for various transactions have been appointed through a transparent and competitive process⁸.

63. To date around 100 units have been privatized (that include automobile plants, cement manufacturing units, chemical and fertilizer plants, power plants, engineering units, rice mills, various other small to medium sized industrial units, and commercial banks) generating about Rs. 57 billion. Major privatizations are in the pipeline and privatization proceeds may reach Rs: 200 billion over the next 3 years.

64. Key public sector units being offered to strategic investors are nationalized commercial banks (HBL, UBL, NPB and remaining shares of MCB and ABL); restructuring and merger of DFIs and their subsequent privatization; Pakistan Telecommunication Company Limited; 21 public industrial units including fertilizer, heavy and light engineering; energy (LPG business) and power (FESCO and KESC) sector companies. The government has sold the LPG business of Sui Southern Gas distribution company (SSGCL), to a foreign investor, for US \$ 6 million. Sale of remaining government owned shares in Muslim Commercial Bank has been finalized. While, internationally renowned lead managers have been selected for the sale of UBL, PTCL, and oil and gas companies; the process of listing and public offer of 5 per cent government owned shares of National Bank of Pakistan is also underway.

4.1.3. Infrastructure

65. **Communications systems:** The country faces severe shortage of communications infrastructure. The transport sector (aviation, railways, and roads) is a catalyst for generating economic activity and growth. However, the scale of inefficiency in the sector has acted as a drag on the economy. Therefore, drastic measures have now been taken and there has been a complete reorientation of priorities in the sector.

66. In order to infuse efficiency in Pakistan Railway workers strength has been reduced by around 30,000. Other measures have been taken to reduce illegal payments to overtime and piece workers, and pilferage of gas and electricity, which will amount to an annual saving of around Rs. 100 million. Additional measures have been taken to generate funds by auctioning redundant assets, eliminating ghost pensioners and black marketing of tickets, establishing a marketing department, and eliminating loss making

⁸ Ministry of Privatization has set up a comprehensive website www.privatisation.gov.pk to publicize its activities and has also initiated a series of public seminars to keep the general public informed of the process and elicit their views.

stoppages imposed on railways under political pressure. These measures will accrue financial benefits to Pakistan Railways to the tune of Rs. 1 billion. An allocation of Rs.6.3 billion has been made in the development plan 2001-02 for upgrading the railway system through purchase of new locomotives, major addition to the rolling stocks and maintenance equipment, and rehabilitation of track. New investments include those in improvement of conditions of locomotives, coaches, wagons, signaling system, and telecommunications.

67. Similarly, to improve ground transport priority is being given to maintenance and rehabilitation of existing roads network. Integration of remote areas with the national highway network will be made a top priority for improving rural access and farm-to-market roads as part of the Khushal Pakistan Program.

68. Other major projects in the plan include Kohat Tunnel Project, Jacobabad-Sibi-Quetta Highway, Islamabad-Muzaffarabad Highway, D. I. Khan-Qilla Saifullah-Quetta Highway, Bund Road Lahore, Multan-D. G. Khan-Qilla Saifullah, Dualization of Karachi-Thatta-Hyderabad Road, and Mansehra-Naran-Jhalkad Road. Moreover, the role of user chargers for national highway system will be implemented to support these activities. Efforts are also being made to increase holding capacity of liquid and dry cargo at ports. Steps already taken in this regard are establishment of cargo complex at Peshawar airport and secondary runway at Karachi airport, up-gradation of runway and terminal buildings at Lahore, Gilgit, Skardu, and Chitral airports.

69. **Energy sector:** The government is fully committed towards encouraging the use of hydel, coal and gas reserves for power production purposes. Additionally, a comprehensive restructuring plan of Water and Power Development Authority (WAPDA) and Karachi Electricity Supply Corporation (KESC) is already underway, which would reduce systems losses and insulate the federal budget from outlays emanating on account of losses incurred by public sector power companies.

70. In this respect financial restructuring of WAPDA has been initiated. Interim transfer prices between generation, transmission, and distribution companies have been established while considerable progress has been made to transform WAPDA's distribution, transmission, and generation companies into autonomous financially viable entities. For this purpose twelve corporatized entities have been created which include three generation companies (GENCOs), one transmission company (NTDC), and eight distribution companies (DISCOs). Similarly, all newly created DISCOs have submitted license applications to NEPRA and independent accounts for financial year 1999 have been prepared for all the corporatized entities. Progress has also been made on transfer of assets, liabilities, and staff from WAPDA to these entities, and appointment of professional management in distribution and generation companies is in hand. The government has also notified new retail tariffs, approved by NEPRA, for WAPDA and KESC, with automatic adjustment clause for fuel and power purchases. Negotiations regarding tariff rates with all IPPs, including HUBCO have been completed and all outstanding matters have been resolved. Moreover, a detailed program for the privatization of KESC has been approved and financial advisors appointed.

71. The process of creation of competitive markets, with new power system operating rules, is on the anvil, which would usher the process of transition from a single buyer model to a competitive wholesale market. Consensus for construction of new dams, barrages, and powerhouses is also in progress with the concerned stakeholders.

72. **Oil and gas:** The oil and gas sector has earned priority because of the role it can play in the country's development by providing a dependable source of energy, which at present is met at a high foreign exchange cost. Government initiatives in the energy sector have been focused towards de-regulation, liberalization, privatization, and greater utilization of indigenous resources; attracting foreign investment and entering into new alliances with international oil and gas companies. Board of Directors of PSO, SSGCL, SNGPL, ARL have been reconstituted and complete autonomy to run these (presently state owned) organizations along commercial lines has been provided. Government directives and statues that impinged their autonomy and commercial functioning have been removed.

73. Major emphasis has now been shifted towards reorientation of the energy sector from thermal and furnace oil to hydel, gas, and coal. Gas supplies have increased by 62 million-cubic-feed-per day (MMCFD) in year 2000 and the increases of 160 MMCFD are expected in 2001, 690 MMCFD in 2002 and 180 MMCFD in 2003 respectively. The Cabinet has approved the Gas infrastructure development plan of SNGPL and SSGCL, which will allow for further utilization of gas reserves in the country.

74. The government aims at accelerating the exploitation of domestic natural gas through elimination of price distortions by adopting a new pricing framework with rationalization of gas prices for domestic use and encouragement of CNG use. Around 160 CNG stations have been established in the country and another 150 are under construction; while 150,000 vehicles have been converted to CNG and another 150,000 are expected to be converted by 2003. In this respect the government has deregulated the prices of CNG and import of furnace oil and removed it from the primary freight pool. Private sector will be gradually allowed to import other petroleum products as well. For environmental protection, government has banned use of two low grades of motor gasoline, besides keeping a check on adulteration. In a gradual manner, use of leaded gasoline will also be eliminated.

75. The government has also adopted an automatic price adjustment formula for consumer prices of petroleum products, which have been linked with international prices. Oil marketing companies review petroleum prices every two weeks, similarly they revise prices of white product every three months. This represents a major move towards fiscal discipline as the government is committed to only take fixed revenue from the petroleum sector and the, upward or downward, change in prices is transferred to the public.

76. A new investment policy for offshore oil & gas exploration was announced in January 2001, which envisaged additional incentives compared to the normal policy, in the form of lower corporate tax rate from 55% to 40%, exemption from mandatory government participation in the joint venture exploration and better wellhead prices. Government plans to attract foreign investments both in the upstream and downstream sectors. An investment of \$1 billion already stands committed for additional supply of gas, covering both development of discovered fields as well as expansion in the transmission system. Moreover, with the commissioning of the mid-country refinery, PARCO, an additional 5 million tons/annum (100,000 bpd) of petroleum products have been made available, besides expanding the indigenous refinery infrastructure, thereby reducing reliance on imported petroleum products. After commissioning of PARCO refinery the country is now self sufficient in petrol and LPG. In fact, excess quantities of these petroleum products are allowed for exports depending on supply-demand position. Furthermore, work on 817 Km cross-country white oil pipeline is in progress whose commissioning is expected by December 2002. Operationalization of Chashma Power

Project will add another 300 MW of electricity to the National Power Supply Grid. New fields and offshore discoveries in oil and gas sector are being pursued by multinationals.

77. Efficient use of coal reserves is being looked into to replace furnace oil as feedstock for industrial power. A mineral development policy is being designed to fully exploit country's mineral potential. Thar coal will be developed both as a fuel for power generation as well as for other commercial applications such as in the cement industry. Marble and Gems industries will be encouraged near the point of deposits to add value to current low value added products of these industries.

78. The government is committed to rebuilding investors' confidence in the oil and gas sectors and for this purpose has established regulatory authorities in the two sectors. The Gas Regulatory Authority is operational with appropriate legislative changes and will soon be amalgamated with the proposed Petroleum Regulatory Board to form the Oil and Gas Regulatory Authority.

79. **Telecommunications & Information Technology:** Pakistan has one of the lowest (2.5 per cent) tele-density in the world therefore IT usage is also very low. Since the telecommunication sector acts as a vehicle for growth of the Internet and other Information Technology applications, it is important to lay maximum stress on the development and expansion of the telecommunications infrastructure in the country.

80. However, in the recent past Pakistan has made rapid strides in keeping pace with the global Internet revolution. Around 400 cities, towns and villages (covering 80% of Pakistan's population) have access to Internet facility as of June 2001, while another 300 are expected to be brought into the net by the next year. Just one year ago this facility was available at 29 cities only. With 90% telephony in Pakistan already digitalized, due to concerted government efforts there has been a 110% increase in Internet usage in Pakistan over the last 6 months.

81. In order to develop a pool of IT professionals, 18 projects have been launched to produce a large number of IT professionals, ranging from blue collar IT workers to academically skilled professional degree holders. In this respect, COMSATS Institute of Information Technology has already been established as a center of excellence, which will award masters and bachelor degrees in computer science, with a focus on JAVA technology. Additionally, thousands of students in data entry operations and medical transcription are being trained, while training courses of Government officials have also been launched. An e-government project is also being launched to improve the efficiency of public services. The project will generate significant opportunities for local software development and create new export potential in the country. An appropriate legal framework is also being developed to regulate the IT industry, protect intellectual property rights, and promote e-commerce in the country.

82. In order to encourage software exports SBP has allowed software exporters to retain 35% of their export earning in foreign currency accounts, and contracts are now being accepted as collateral for software exports. Pakistan Software Exports Board has been revamped to meet the challenges of the new IT environment with the main focus of providing marketing support to local IT companies. Furthermore, the government is opening marketing offices in Singapore, London and San Francisco to encourage software exports from Pakistan.

83. For effective institutional support, Telecommunication, and Information Technology have been made separate Divisions and placed under Ministry of Science and Technology. Other key initiatives undertaken by government include:

- Reduction in PTCL bandwidth charges by around 98%, since 1998. Within two years, bulk availability of bandwidth increased 20 times.
- Successful launch of Islamabad Software Technology Park, similar projects are being initiated in Lahore and Karachi.
- Free Internet connections to public sector universities.

4.2. Governance reforms

84. Implementing broad based governance reforms are essential ingredients for the sustainability and effectiveness of the macroeconomic framework. In fact, without governance reforms the enormous task of reviving growth and reducing poverty cannot be addressed. Sagging growth and rising poverty are in part a reflection of the failure of governance institutions in Pakistan. In fact, poverty in Pakistan is not merely an outcome of economic ills but a result of misgovernance over past years. Poverty redressal is only possible when economic, political, and social dimensions of governance are addressed by forging a partnership between the government, the private sector, and the civil society.

85. The Chief Executive's Seven Point Agenda, as highlighted by the national reconstruction program, aims at introducing several cross cutting governance reforms that will not only improve transparency and accountability but will also result in more efficient delivery of services and consequently a better life for the poor.

4.2.1. Devolution of power

86. The government is determined to strengthen good governance by increasing transparency and accountability of its administrative operations and capacity. The National Reconstruction Board has announced a comprehensive devolution plan, which devolves powers and responsibilities, including those related to social services, from the federal and provincial levels to elected district level authorities and local councils. This process was completed on August 14th, 2001.

87. In the erstwhile system of local governance, the provinces governed the districts and tehsils directly through their bureaucracy at the division, district, and tehsil levels. The provincial bureaucratic set-ups were designated 'controlling authorities' of local governments that tended to determine local priorities. This systemic disjoint coupled with a lack of horizontal integration and functional coordination between line departments at the division, district, and tehsil levels resulted in mismanagement, exclusion of the poor, and their disempowerment. That is why the government embarked on a plan to meaningfully devolve the powers to the democratically elected local governments. The new system holds great promise to bring about radical improvements in service efficiency in such key social sectors like health and education. The development effort at the local level will be driven by priorities to be set by elected representatives as opposed to bureaucrats sitting at far removed provincial and federal capitals. Devolution of power will, thus, strengthen governance by increasing decentralization, transparency, accountability of administrative operations and people's participation in their local affairs.

88. Decentralization is not an end in itself. It is only a means of enabling citizens' participation, especially that of the most vulnerable, in policy matters. Decentralized systems have the potential to deter authoritarianism and promote democracy, justice, and equity. Shared power and authority will ensure that it is not concentrated in the hands of a few. The devolution plan will create a balance in center-periphery relations, cultivate inter-provincial harmony, and enable sub-regions to find political expression. In fact, it will also help accelerate economic growth, as there is an empirically established correlation between decentralization and per capita GDP growth.

89. Pakistan's Devolution Plan will enhance public sector efficiency through three principle channels. First, the decentralized system will become a surrogate for competition, bringing to the public sector some of the benefits that competition brings to the private sector. Second, individuals who are responsible to the people for the result of their actions, and who have ownership over the outcome, will have stronger incentives to perform. Third, when the cost of providing a service is borne by the local jurisdiction, the service will be provided more efficiently as the locals will demand value for their money. Besides, the overall monitoring and evaluation of PRSP indicators will also be facilitated by the creation of support institutions at the district level.

90. The purpose of the devolution plan is to provide a network of broad-based grass roots institutions that would undertake developmental activities. One of the main aims of the plan would be to facilitate capacity building of institutions at the grass roots level for the provision of social services such as health, education, family planning, sanitation, and clean drinking water. Moreover, such institutions would also undertake their operation, maintenance, and income generation activities.

91. This will enable Local Governments to effect credible development and service delivery at the district, tehsil, and union tier. Each tier will comprise its Nazim, Naib Nazim, elected body, and administrative structures. To involve people more actively in community development, grassroots organisations like the Village Councils and Citizen Community Boards will be introduced. These schemes would provide for monitoring the functioning and delivery of services by the citizens and other representatives. The devolution plan also addresses crucial issues of public peace and security as the law enforcement system has been reconstituted.

92. There are persisting as well as evolving trends in Pakistan that make effective decentralization and devolution of power an urgent priority. The ability of the state to effectively deliver quality services to the citizens is very limited. For example, rural hospitals and dispensaries lack staff and facilities, and do not have effective systems of supervision over the dispensation of publicly provided medicines. The hygienic conditions of even some of the best hospitals are inadequate. The staff is poorly motivated and badly managed. Neglect and malpractices are commonplace with very little legal recourse available to the victims. Conditions in education, social welfare, environmental conservation, and population welfare programs are broadly similar. Citizens' participation in government systems has diminished to an extent that they often remain passive by-standers in the systems that are supposed to serve their needs. The Devolution Plan will enable a broader and more equitable sharing of power and authority that in turn will assist in diffusing the control of a small group of local elites. By offering a stake in governance, decentralization will help bridge the gap between the state and citizens.

93. As the elected tier of local government takes office at the local level, a two-pronged strategy has been adopted for providing adequate financial resources to ensure

their proper functioning. First, district budgets have been prepared in a framework of fiscal devolution, which would operate through the mechanism of a provincial finance award. This will provide adequate resources to new governments to meet their obligations of providing basic services to the people. Second, a lump sum provision of Rs.3 billion has been provided this year to meet the transition costs of setting up basic infrastructure of the new governments, wherever needed.

94. In this regard the decentralization of budget making to the district levels is being done in a phased manner. In the first stage, which covers financial year 2001-02, the budget has been prepared at the provincial level because of the fact that elected district governments did not exist at the time of budget formulation. A budget document for each district covering both the current and development allocations has been prepared, while the provincial governments are still paying salaries. However, the part of the budget dealing with contingencies, operations, and maintenance components of the current budget as well as the development allocations for subjects falling within the purview of district governments have been transferred to them. District governments, however, have the freedom to make inter and intra sectoral re-appropriation, with the approval of their elected councils. In the second and third phase, district governments will make their own budgets. However, it has been clearly specified that over-draft facility with the State Bank of Pakistan will not be available to the districts.

4.2.2. Civil services reforms

95. The PRSP process will require a civil service with enhanced professionalism and service orientation amongst all the line departments. For this purpose the government has adopted a four-pronged strategy aimed at giving more autonomy to the Federal Public Services Commission (FPSC), training of government officials, government right-sizing, and improving remunerations of government officials.

96. In the first instance, the Federal Public Service Commission Ordinance has been amended to enhance the Commission's independence and responsibilities for recruitment. Abuses in recruitment, are being redressed and those hired without the necessary skills are being removed from service. The Civil Service Act has been amended to improve performance and reduce corruption, thereby enabling the government to retire civil servants who are found to be inefficient and have completed 25 years of service. Similarly, a Removal from Service (Special Powers) Ordinance has been issued to expeditiously remove officers found to be corrupt from the service. In Pakistan Railways – the federal government's largest employer, implementation of reforms have led to the elimination of over 30,000 positions. The Promotion Board for high-level civil servants now follows systematic procedures and is chaired by the FPSC Chairman (as opposed to a special appointee of the Prime Minister).

97. Additionally, in order to reduce corruption and facilitate the accountability process National Accountability Bureau (NAB) has been established with powers to investigate and prosecute. The total money recovered so far both directly and indirectly by NAB amounts to around Rs. 50 billion.

98. In order to improve performance and accountability, powers have been delegated from Establishment Division to the line managers to make decisions on career management and promotions up to grade-19. The Task Force established to assess the training needs of the civil service has completed its report and its recommendations for training and curriculum reform are being finalized for implementation. The public sector educational training infrastructure (Pakistan Administrative Staff College, National

Institutes of Public Administration, and Central Superior Services Academy) for the Civil Services is being restructured to further improve skills.

99. In order to improve delivery of public services the civil service needs to be manned by professionals operating under modern management techniques. In this respect the Committee on Rightsizing and Restructuring has submitted its report, its recommendation include surplus staff readjustment, establishing performance benchmarks to revamp personnel evaluation procedures, and initiating computerization of Human Resource Management processes. Its recommendations are being submitted to the Cabinet for approval. As a result of these reforms civil service structures and systems will be reconstructed at the federal, provincial, and local levels.

100. A Special Committee on Pay and Pension Reforms has finalized its recommendations for implementation of salary and pension reforms that will be implemented in the next two years. In light of the committee's recommendations pays of government officials will be increased in two phases. In the first phase, effective from 1-12-2001, the pay scales of 1994 will be increased by 50%, while in the second phase, the remaining differential vis-à-vis the increase in cost of living will be filled. The committee has also made recommendations for grass roots reforms in the pension system. A new pension scheme called contributory fund scheme is being introduced for new entrants in government service, which together with other reforms will lay the foundations of a more rational and sustainable system of compensation for government servants.

101. The government realizes the critical role that a free media can play in informing the public thereby encouraging accountability of public actions. In this respect, the Freedom of Information Act is on the anvil to not only provide access to the private sector for television and radio broadcasting but also to facilitate public access to official records and information. Similarly, restrictions for radio and TV stations to broadcast news and current affairs programs have been eliminated to create alternative sources of information for accountability and participation.

4.2.3. Access to justice

102. The government recognizes that Judicial and legal reforms are necessary to stimulate economic growth and encourage private investment – both local and foreign. However, the basic problems of judicial administration in Pakistan relate to governance and administration, case management and delay reduction, automation and court formation systems, human resources, and infrastructure.

103. Currently the judiciary in Pakistan lacks a voice to articulate the constraints and problems faced by the judicial system or make recommendations about its reform. Accordingly, the mandate of the Law Commission will be expanded to include the judicial system and it will be renamed as Law and Justice Commission (LJC). LJC will develop policies for core systems (human resource, management information, judicial statistics, etc.) and would take initiatives, advocate improvements and speak on behalf of the judicial branch. To deal with delay in courts and to provide efficient and inexpensive justice with respect to small claims and offences, the Government has established Small Causes Courts. The following new initiatives will be also being considered for implementation. They include:

- A comprehensive judicial reforms program, encompassing improvements in policy making for a more efficient and citizen oriented judicial and legal sector that promotes access to justice
- Strengthening of judicial independence by complete separation of the judiciary from the executive and ensuring that mandates of the judiciary are adequately funded,
- Ensuring efficient and inexpensive justice,
- Legal empowerment of the poor and vulnerable, and improvements in judicial governance and human resource development, is being framed in coordination with Pakistan's developing partners.

104. Additionally, under extensive police reforms proposed by the government, the police is being depoliticized. Provisions to prevent political interference in the conduct of the police department have been made through the enactment of the 2001 Police Ordinance. Among the various elements provided for in the legislation, is the setting up of Public Safety Commissions at the federal, provincial and district levels to ensure civilian control and to institutionalize the accountability of Pakistan's police force. Criminal Justice Coordination Committees (CJCCs) at the district level will also be established. An independent complaint authority against police excesses will be set up comprising civil society representation.

105. The new Police Ordinance mandates a study to determine the precise needs in terms of financial and human resources. In addition, the preparation of annual budget will begin at the lowest level of police department – to improve both the overall efficiency and participation. Pay will be rationalized along with other benefits according to the risks in the nature of duty. The police services will be relieved of the duty of acting as prosecutors in arraignment hearings and other initial proceedings.

4.2.4. Fiscal and financial transparency

106. One of the pre-conditions for achieving broad based, sustainable and pro-poor economic growth is better economic governance. In order to improve governance in such economic activities as banking, finance, aviation, telecommunications, power, oil, gas etc. the government has instituted strong regulatory mechanisms by independent agencies, whose members have security of tenure without being answerable to any executive authority.

107. Moreover, as mentioned earlier, easy access to information is critical for eliminating corruption and improving economic governance, while enabling greater participation of all stakeholders. Public access to information on landholdings, projects, government decisions, and any other relevant area of public interest is vital; therefore, appropriate legal cover will be given to access public information.

108. Financial decentralization will make more resources available to elected members and functionaries. Though the modus operandi for this is being worked out however fiscal decentralization will require a strengthening of the budgeting and auditing functions at all levels so that leakages from the system are plugged. The government has adopted a comprehensive strategy for improving public accounting and auditing functions by separating audit from accounts, adopting a modern chart of accounts under

accepted international standards, and modernization of overall accounting systems through computerization.

4.3. CREATING INCOME GENERATING OPPORTUNITIES

109. While sound macroeconomic policies are a sine qua non for ensuring poverty reduction, however, these policies may not automatically translate into an improvement in the lives of the poor. Therefore, one of the core principles of Pakistan's poverty reduction strategy is to empower the people and create greater opportunities for increasing real incomes by improving access to productive assets, mainly housing, land, and credit.

4.3.1. Asset creation

110. **Housing for the poor:** Housing is a fundamental human need as it provides physical, economic, and social security to the poor. However, depressed economic growth, rising population, and rapid urbanization has resulted in an increased demand for housing infrastructure. The present backlog of housing units is more than 4 million in the country with the result millions are forced to live in Katchi Abadis or under-serviced slum settlements. Estimates for urban population living in Katchi Abadis range from 35-50%.

111. Government policy regarding katchi Abadis aims at regularization these settlements through the provision of basic services. In this connection, the framework announced by the government, calls for the granting of proprietary rights to residents of Katchi Abadis, which were in occupation up to 23rd March 1985. New Katchi Abadis established after 1985 would be regularized on a case-by-case basis by district governments. Occupants of Katchi Abadis in urban areas making full payment of development charges in lump sum within a period of three months would get 50% concession on the said charges; while no charges will be recovered in respect of the land in Katchi Abadis under the occupation of widows, orphans and disabled persons.

112. The government is further developing a systematic and comprehensive strategy based upon the principles of human dignity and respect for improving service delivery systems in existing Katchi Abadis, low/under-serviced settlements, and areas requiring urban renewal and upgrading.

113. To ameliorate the living conditions of the rural poor the government has decided to distribute 'shamlat' land around villages free of cost to the homeless. Furthermore, under the government's housing policy it has also been decided that the Ministry of Housing and Works in coordination with the provincial governments would develop a package for improving living conditions in Kachi Abadis and slum settlements. State Bank and SECP will jointly evolve a new regulatory framework for housing finance companies to encourage further investment in this industry.

114. **Land for poor farmers:** Access to cultivable land has a positive impact on the food and nutritional requirements of poor households. Though significant tracts of land were distributed as a result of land reforms during 1959, 1972, and 1977, however in the absence of follow-up support systems in terms of infrastructure (link roads, irrigation), micro credit facilities, and other institutional support, these reforms failed to bring about significant improvements in the living conditions of farmers who benefited from this redistribution.

115. Pakistan's Poverty Reduction Strategy proposes fundamental changes in rural land holdings to address the issue of rural poverty through the accelerated distribution of state owned land to small farmers. For this purpose the distribution of about three million acres of available land will be fully supported with the provision of infrastructure, technical packages for grains and other crops, and effective application of fertilizer and other inputs (Table 4.1). Micro credit windows will be provided from Agricultural Development Bank of Pakistan, Khushali Bank, and other institutions. In this respect priority will be given to women so they can equally benefit from distribution of state land and supportive packages.

Table 4.1: Distribution of state land

Province	Total Land allotted Up till June 15, 2001 (Acres)	Total No. of beneficiaries	Land available for allotment As of June 15, 2001 (Acres)
Punjab	3,236	288	68,272
Sindh	5,505,807	519,887	771,167
NWFP	9,202	2,994	544,508
Baluchistan	81,264	5,661	1,418,110
TOTAL	5,599,509	528,830	2,802,057

Source: Federal Land Commission; and Provincial Revenue Boards

116. During 2000-01, 82,932 acres of land were distributed among 9,137 haris in Sindh, while another 9,860 acres of land was distributed among 464 haris in Baluchistan. This process will be further extended to ensure proper cultivation of such land and the ADBP will be co-opted to design special package for providing credit to these farmers. Work has also been initiated on proposed amendments of the land reforms law in light of the Supreme Appellate Bench judgment announced in 1989, to make it compatible with Islamic injunctions.

4.3.2. Improving access to micro credit

117. Access to credit is the surest way of empowering the poor and improving their income generating opportunities. However, due to the lack of collateral and weak asset base it is very difficult for the poor to get credit from public and private financial institutions, in spite of the fact that small borrowers exhibit a lower credit risk than larger borrowers. The already mentioned asset creating interventions would improve the economic profile of the poor and make them more credit worthy on account of increased collateral availability. However, international experience has shown that micro-credit can be an important instrument in improving the income generating capabilities of the poor. The Pakistan Poverty Alleviation Fund (PPAF), Agricultural Development Bank of Pakistan (ADBP), First Women Bank (FWB), the National Rural Support Program (NRSP), and the government are involved in credit allocation to small enterprises.

118. PPAF was set-up with an endowment of \$100 million, as a wholesale lender to NGOs engaged in providing micro financing. Until 1 June 2001, it had provided total assistance of Rs.1.2 billion to 33 NGO in all parts of the country, for onward lending to the poor. In this respect, Rs. 507 million had been disbursed to over 50,000 borrowers representing twelve times the increase in disbursement and seven times the increase in borrowers, over the previous year. These disbursements represent an average loan size of Rs. 9,050 per individual. Based on this experience it is expected that the total credit component of the fund (US\$ 45 million) would be fully utilized by the end of 2003. Additionally, PPAF has made disbursements to the tune of Rs. 252 million towards 796 community physical infrastructure (CPI) projects, mostly for clean drinking water supply

and irrigation purposes, which are community identified, locally managed and locally run. PPAF has maintained its focus on severely affected drought areas, while maintaining equity in provincial distribution of funds.

119. To supplement their work the Government has now established the 'Khushali Bank' or 'Micro Finance Bank' for the provision of micro credit to poor communities. In this regard Khushali Bank is already supporting the activities of NGOs and Rural Support Programs (RSPs), which are already dealing with micro-credit. The Bank commenced its business from a remote village of D.G. Khan, where the community had taken the lead in identifying credit need, and is now present in all the four provinces. Capital of the bank has been contributed by a number of banks, both public and private including foreign banks. By end-December 2001, the bank would establish branches in 30 districts of the country and provide loans to 50,000 households with a total credit expansion of Rs.500 million. Aiming at fast growth, the bank will cover all districts by the end of fifth year with a client base of 600,000 and loan portfolio of Rs.7.6 billion.

4.4. IMPROVING HUMAN DEVELOPMENT

120. The affects of sluggish economic growth are clearly reflected in Pakistan's performance in the social sectors. As already highlighted in Chapter 2, macroeconomic imbalances of the nineties cut into development expenditures, with the result that a poor resource position coupled with a weakened governance profile rendered poverty levels at best stagnant.

121. A weakened social profile is detrimental for growth as human development is essential for attracting investment and generating the capacity for future sustainable growth. However, Pakistan's progress on almost every social indicator e.g. education, health, and nutrition compares poorly with that of other developing countries. Illustrative of the state of social sectors in Pakistan is a weak adult literacy profile, a low life expectancy, and a high maternal mortality rate. Moreover, access to clean drinking water and sanitation is limited.

122. In order to address this situation the government has prepared comprehensive human development strategies aimed at the effective utilization of available resources through improved institutional mechanisms. In devising these strategies the government has given particular attention to three factors. First, these policies have been developed through a comprehensive bottom up consultative dialogue, which ensures that they are demand driven and locally owned. Second, instead of going for additionalities the government's human development priorities are focused on building on what is already on the ground. Third, all of these strategies put special emphasis on cultivating public private partnerships for improving human development outcomes. These factors were missing in the context of Social Action Program (SAP), which was based on piecemeal supply driven approaches that suffered, both, from over design and lack of local ownership.

4.4.1. Education

123. A comprehensive package of educational reforms with medium term targets Education Sector Reforms (ESR) Action Plan 2001-04 has been finalized through a consultative process with over 600 partners. It is a homegrown initiative, led by the President, Federal and Provincial Ministers for Education and Finance. ESR has linked with four concurrent macro level initiatives, which include the Devolution and Local

Government Plan 2000, the Interim-Poverty Reduction Strategy Paper 2001-04, SAP II restructuring, and the Task Force on Human Development.

124. The ESR is based on a long-term framework linked to Education For All goals up to 2015, with a three-year action plan for 2001-2004. Education entitlements for poverty alleviation and public-private partnerships are two critical underpinnings of the ESR Action Plan. The main features include macro level reforms in planning, procedures, resource mobilization and utilization; sector wide approaches for reinforcement of linkages between all sub-sectors within the macro level framework; strategies and milestones for implementation; integration with the I-PRSP, institutional reforms at all tiers of government engaged in planning and service delivery for quality education; and a vocational technical education stream at secondary education level.

125. Three strategic thrust areas of the ESR Action Plan are:

- ◆ **100% Literacy through:**
 - Universal Primary Education (UPE) both formal and non-formal systems
 - Adult Literacy Movement (15 years and above)
- ◆ **Quality for sustaining 100% literacy through:**
 - Professional development of teachers and managers
 - Continuous curriculum reform
 - Exam reform and assessment systems, &
- ◆ **Technical /Vocational education through:**
 - Area specific skill programs in existing secondary schools
 - Setting up of one dedicated polytechnic at Tehsil level
 - Second shift in existing polytechnics, especially for women

126. Higher education has been fully endorsed as an important area, which must work collaboratively with the Ministry of Science and Technology, and private sector for optimum outreach, shift to science and technology and quality.

127. **Education For All (EFA) :** 80% of the ESR covers six goals of Education For All spanning, universal primary education and quality EFA by 2015, reducing illiteracy by 50 percent with a focus on reducing the gender gap by 2015, eliminating gender disparities in primary and secondary education by 2005; life skills and learning opportunities for youth and adults; and early childhood education. The targeted groups for EFA goals belong to disadvantaged communities with minimal opportunities. These groups are highly vulnerable, without access to learning facilities, or public sector facilities, which are functioning at sub-optimal levels.

128. Recognizing a close nexus between poverty and illiteracy, extending entitlements through ESR is a major challenge. The ordinance for compulsory primary education will thus address socio-economic problems of poor students and social dropouts as a mutual responsibility of state and society. An incentive package has been developed to meet the educational needs of poor students such as free textbooks, uniforms, stipends, nutrition and vouchers. Stipends for students and nutrition support for girls and mothers (Tawana Pakistan) are fully supported within the social safety net strategy of the government. Resources allocated for literacy targets will be leveraged by the Task Force on Human Development. The Task Force will fully support the UPE component in its district-based programme. Ministry of Education has extended substantive establishment and personnel support to the Task Force endorsing the integrated strategy combining,

literacy, health and micro-credit for creating entitlements as a comprehensive programme for poverty reduction.

129. ESR and EFA action plans have been laid out within a sustainable and well-integrated sectoral framework, linked to national poverty elimination strategies. This has been achieved through a process of collaborative planning between the Ministry of Finance, Planning Commission, and the Ministry for Education; thereby integrating education targets with the country's poverty reduction strategies.

130. **Technical Stream:** An innovative element of ESR is the introduction of technical education stream at the secondary school level. This plan aims at introducing a skill development stream in the ninth and tenth grades, parallel to the existing science and arts group, in 1200 existing secondary schools and 60 new model technical high schools. Training will be imparted in trades selected in consultation with local industry, thereby creating employment linkages. The program will be supplemented through the provision of micro-credit to encourage self-employment. A programme for reinvigorating polytechnics at tehsil level and initiating second shifts in existing polytechnics is also being devised with a particular focus on opportunities for women. This component of ESR specifically targets the youth.

131. **Public-Private Partnerships (PPP):** Recognizing immense contributions of the private sector and NGOs as illustrated in the recent private sector educational survey (FBS: 2001), the ESR is anchored in development of partnerships between the private sector, civil society organizations (CSOs) and the public sector. PPPs are critical to reaching the goals of access and quality at all levels of education creating possibilities for both voice and choice.

132. Restructuring of the Education Foundations to attain maximum autonomy for private sector outreach is underway. In addition private sector, Madaris and NGO institutions are to be integrated in EMIS (Education Management Information System) at national and provincial levels and a special cell is to be established at the Ministry of Education to facilitate support extended by expatriate Pakistanis. Similarly, other incentives have been awarded to support private initiatives in public sector such as up gradation of public sector schools through community public partnerships (CPP); adopt a school programme; initiation of exam boards in the private sector; collaboration with private sector institutions for teacher training; and multiple textbooks through private publishers.

133. **Quality for Sustaining Access:** A major set back for education development has been under-investment in quality resulting in poor supply of services. A comprehensive approach for quality improvement has been adopted, which includes teacher up-gradation and training, curriculum and exam reform. Other Innovative programs have been initiated with ESR allocations in FY 01-02 in the areas of:

134. **National Education Assessment System (NEAS):** In order to evaluate and assess learning achievements of students at primary (class I-V) and elementary (class VIII) levels, National Assessment System will be introduced in collaboration with provinces. NEAS will set up minimum standards for performance to provide feedback for enhancing quality of education through improvement/revision in curricula, textbooks, teacher education and training and examinations.

135. **Video Textbook-Libraries:** Video-textbooks and libraries are to be developed which will be easily accessible to students especially in rural areas, improving the

standard of secondary education, especially science and math education on account of shortage of teachers in these subjects. Information Communication Technologies (ICTs) for basic education and reaching the un-reached will be explored fully for reaching ESR and basic education targets.

136. Linkages with private sector and distance training teacher training

institutions: for upgrading basic teacher certification from 10+1 to 10+3 and eventually graduate level. Testing and refresher courses for teachers to ensure competencies as an ongoing programme during vacations has already been initiated with vigor in all provinces.

137. Resource centers: Resource centers at tehsil and district levels are to be set up for providing decentralized information and capacity building opportunities to teachers, managers and communities.

138. Quality cannot be achieved without appropriate management and supervision or physical environment conducive to learning. ESR emphasizes rehabilitation of public sector buildings as a major portion of resources required are specifically for innumerable run down and over 18,030 shelter-less buildings. Khushal Pakistan Program within I-PRSP also supports this component to achieve quality and access. However, better co-ordination is required for reflecting resource utilization and impact.

139. Lack of supervision and monitoring has led to a major breakdown in quality. Enhancing non-salary budgets is critical to ensure mobility for supervision and timely support of rural and urban public sector facilities. The challenge remains of changing planning templates within the departments of education, finance and planning to make compulsory budgetary provisions for essential services.

140. Improved service delivery in the education sector is linked to local level planning and district based governance mechanisms. The Ministry of Education has consulted proactively with the National Reconstruction Bureau (NRB) and held several technical group meetings in all provinces to streamline new administrative arrangements to address: compulsory primary education; district-based planning; school governance through legally mandated PTAs and Citizen's Community Boards; resources for education; special education; literacy vs. education; and rationalization of existing staff. The federal Education Ministry is being restructured to align itself to the new realities of district and provincial systems under devolution. Under ESR an innovative programme for good governance and capacity building at district level has been included for improved local level decision-making.

141. Provincial initiatives: As most of the education budgets are utilized at the provincial level, provincial governments have established a new system of fiscal transfers to properly reflect district level needs and reward good performance by districts, on the basis of agreed set of outcomes. In this respect Balochistan government is allocating half of the development budget on the basis of district population, while the other half on the basis of district area. They have also identified improvements in participation rate, dropout rates, literacy rates, enrolment in vocational schools, and quality of education as factors that will determine allocation of additional funds. Balochistan government has set up committee to formulate the criteria and modalities for this additional allocation. Punjab government is allocating resources, other than salaries and other staff expenses, on the basis of twenty-six socio-economic indicators established by the Punjab Economic Research Institute (PERI). A provincial finance

committee has also been established under the chairmanship of the provincial finance minister that will formalize future funding arrangements to the districts by end 2001.

142. In order to improve teacher performance evaluation procedures have been revamped. In this respect, Punjab government has replaced the Annual Confidential Reports by a more function specific Annual Performance Evaluation. This is in line with the functional set up of district governments and will lead to improved in classroom supervision and teaching. Moreover, a system of monitoring of teachers' performance has been put in place through community/PTA involvement. This system has proved effective in NWFP where the services of several teachers have been terminated due to persistent absenteeism. Punjab government has targeted this issue through monthly surprise checks by administrative officers and through inspection reports on pre-determined proformas. These results are consolidated at the provincial level and the reports are then used as basis for initiating proceedings against delinquent staff. At the same time the provincial government is rewarding teachers showing good performance and last year it spent Rs. 80 million on teachers' incentive programs. In Balochistan, the provincial government has enhanced the frequency of supervisory visits in schools to check absenteeism. It has also responded to travel impediments on account of large distances by providing vehicles to the departments. It is also conducting a survey to assess where hostels are required for housing female teachers. Furthermore, the provincial government has activated more than four thousand PTAs, while it is allocating funds for training to PTSMCs.

143. In order to assess student achievements the National Educational Assessment System is being formulated, which will assess the learning abilities of students in grade 5 and 8. The Balochistan government has already established provincial educational assessment centers to carry out this assessment. Additionally, procedures for establishing private schools have been streamlined in the province. Balochistan government has also approached other provinces for learning from their experience of offering government school buildings to NGOs and the private sector. In this respect Punjab has been particularly successful where 3,400 schools have been upgraded with the help of NGOs and private entrepreneurs, which are using these premises for afternoon classes free of rent/other charges. Similarly, intermediate computer studies have also been introduced through private sector parties in all government colleges. In this case as well accommodation is provided free of cost to private parties, in government schools/colleges, for conducting computer classes after official working hours. NWFP government has engaged four private firms for the provision of computer education in thirty-nine schools, while it has agreed in principle to offer public school buildings to the private sector for starting afternoon classes.

4.4.2. Health

144. Improvements in health outcomes are an important determinant of economic growth as better human health leads to increased productivity, improved learning ability, and reduced population growth rate. Though, coverage has improved over recent years however little progress has been made in terms of providing quality health care to the vast majority of the population. The health status of the nation after 53 years of independence is characterized by a high population growth rate, high incidence of low birth weight babies and maternal mortality. While communicable, infectious, and parasitic diseases remain a severe burden; malaria and tuberculosis (TB) continue to be potential threats.

145. Although, consolidated public health expenditures rose from Rs. 13 billion in 1995-96 to over Rs. 17 billion in 2000-01, however that still represents a reduction from 0.63 % of

GDP in 1995-96 to 0.50 % of GDP in 2000-01. Additionally a major share of these expenditures is focused towards tertiary health care facilities. With the result that primary and secondary tiers especially in the rural areas have been neglected. Moreover, serious institutional/governance deficiencies also mar the health sector. Lack of capacity in district health offices in terms of human and financial resources impinges on their ability to effectively cater to the needs of the local population. Similarly, a shortage of equipment and staff at Basic Health Units (BHUs)/ Rural Health Centers (RHCs) especially lady doctors, nurses, lady health workers, laboratory equipment, drugs, drugs continue to plague the health system.

146. With this situation in view the overall vision of the government's medium term health strategy is focused towards raising public sector health expenditures through a keen focus on preventive and control programs, especially in the area of communicable and infectious diseases, reproductive health, child health, and nutrient deficiencies. The government has formulated a comprehensive strategy with focused areas of intervention designed to improve health outcomes by focusing public expenditures towards primary and secondary tiers. This new approach provides a clear shift from curative to preventive health care and focuses on disadvantaged, weaker sections of society especially those belonging to the rural areas. It aims at promoting gender equity through targeted interventions like promotion of lady health workers (LHWs) and improvements in maternal health care. Additional programs include adoption of DOTS strategy against TB; RBM approach in combating malaria; measures for preventing the spread of Hepatitis B, HIV, and AIDS through immunization and public health campaigns; and institutionalizing federal-provincial partnership in the war against disease.

147. In this respect short term measures in the health sector include the reorganization of district health offices to make them locally managed community based establishments, consolidation of existing primary health-care network in rural areas, improvement in hospital administration and their financial management, and the proper regulation of the private sector. While longer-term interventions include redefining the role of federal and provincial governments by giving more responsibility to the district governments, and inculcating an element of cost recovery for services rendered while focusing subsidies only to the poor through Zakat.

148. Additional steps for improvement in health outcomes include:

- Strengthening of primary health-care (PHC) with necessary back up support in rural areas, where these outlets will function as focal points for PHC components/Family Planning Services. Similarly, Urban Health Centers will be established that will focus on reaching the urban poor, especially women.
- Training and re-training of medical staff through support to PHDCs/DHDC's established under Health Care/Family Health Project.
- Provision of emergency obstetric care facilities through the establishment of "Women Friendly Hospitals" in 20 districts under the Women Health Project.
- Instituting public-private partnership by transferring unutilized/underutilized health facilities up to the secondary health-care level to NGOs, local bodies, and the private sector.
- Granting administrative autonomy to teaching hospitals.

- Establishing health boards and village health committees.

149. **Provincial initiatives:** In light of the devolution program the government has taken a number of steps to ensure that public health delivery mechanisms work efficiently at the district levels. In this respect a new system of fiscal transfers has been implemented to ensure that district specific requirements are kept in view while making transfers, and districts showing good performance on health outcomes are rewarded accordingly. In this respect Balochistan government has set aside special awards for district administrators, vaccination supervisors, and superintendents for showing overall coverage of 85% in their respective areas. These systems have been developed while ensuring adequate and timely release of operating budgets to the districts.

150. At the same time provincial governments have identified districts that have been performing poorly in terms of EPI coverage. These districts will be provided technical assistance for increasing immunization coverage. Sindh government has already identified twelve districts that need special attention in this regard.

151. The provincial governments have also initiated a new program for Hepatitis B immunization. Sindh and Balochistan have already initiated the program in two districts each, while the remaining districts will be included from July 2002. For this purpose training of master trainers for immunization against Hepatitis B has been conducted at the provincial level.

152. In order to promote the inclusion of private sector and NGOs in the delivery of health services provincial governments are prioritizing a list of non-functional health facilities that are to be operationalized by NGOs, CBOs, public private partnership, and the department themselves. Government of Sindh has already established a committee for preparation of the policy and terms of reference for public-private partnership.

4.4.3. Water Supply and Sanitation

153. Poor access to water supply and sanitation are often associated with poor health outcomes. At present only 63 per cent of the country's population has access to safe drinking water (83 per cent in urban areas while 53 per cent in rural areas), whereas proper sanitation facilities are available to only 39 per cent of the total population (59 per cent in urban areas while 27 per cent in rural areas). While, capabilities of departments involved in the planning, management and monitoring of these services have not been strengthened, severe resource constraints have also marred progress in this area.

154. Consolidated (federal and provincial) expenditures on water supply and sanitation have actually decreased over the last five years, both in nominal terms and as a per cent of GDP. Consolidated public expenditures on water supply and sanitation (public health engineering) have come down from Rs. 6.3 billion in 1995-96, at 0.30 % of GDP, to Rs. 4.5 billion in 2000-01, 0.13 % of GDP. As a result extension in public water supply and sanitation facilities have failed to keep pace with the growing needs of the rising population.

155. However, the government aims at reversing this declining resource trend by refocusing attention on these services. Construction of water supply and sanitation schemes is already receiving the utmost importance under the Khushal Pakistan Program. Additionally, special attention will be given to capacity development in terms of design, management, and selection of development schemes at the local levels. In this

respect special attention will be given to the institutional strengthening of the Local Government and Rural Development Departments.

4.4.4. Nutrition

156. Malnutrition and other nutritional deficiencies affect a large number of women and children. According to estimates, the total number of malnourished children in Pakistan was around 8 million, during 1999-00, with iron and anemia deficiency being most prevalent. In fact, one third of pregnant women in Pakistan are malnourished; and give birth to low birth weight babies (25 per cent of all live births), which are up to 10 times more likely to die as infants than other babies. Malnutrition is also one of the contributing factors behind the high mortality rates among mothers and infants in Pakistan.

157. The government is taking a number of steps to correct this situation. The National Nutrition Program has been strengthened especially its components of breast-feeding, fortification, and provision of Vitamin A, iron and iodine. A project for the improvement of nutrition through Primary Health Care and Nutrition Education/Public Awareness Program costing Rs. 302.00 million has been approved. While, another 26 million children have been provided with vitamin A during the National Immunization Days. Moreover, iron supplements are regularly provided by LHWs under the National Programme for Family Planning & Primary Health Care.

158. Additionally, inclusion of proper nutrition training in primary health care has been initiated with a view to improving the nutritional status of the poor. Education Sector Reforms (ESR) also proposes to initiate early childhood education with a multi-sectoral approach aimed at improving health and nutritional outcomes in the country.

4.4.5. Population Planning

159. Between 1991-01, population growth rates came down from 3 per cent per annum to around 2.2 per cent. The awareness of at least one method of family planning is around 97 per cent, while contraceptive prevalence rate is 28 per cent. However, the current total fertility rate (4.8) is still one of the highest in Asia. Antenatal care is resorted to by only 27 per cent of the women and about 76 per cent deliveries take place at home. This situation can best be addressed through mass awareness campaigns and enhanced availability of skilled service providers at the grassroots level. This will entail training of Family Health Workers (FHWs) as midwives and upgradation of Family Welfare Centers (FWCs) into Family Development Centers (FDCs).

160. The service delivery infrastructure of the population program operates through 1,658 Family Welfare Centers, 131 Mobile Service Units, and 106 Reproductive Health Centers and 12,000 Village Based Family Planning Workers (VBFPWs) providing reproductive health and family planning services to both urban and rural population in the country. The 12,000 VBFPWs of Ministry of Population Welfare (MoPW) and 43,000 Lady Health Workers (LHWs) of the Ministry of Health have been unified as one cadre of 55,000 Family Health Workers (FHWs) and will be brought together technically at par with each other for the provision of PHC/RH services at the grassroots level. The number of FHWs will be further increased to 68,000 over the medium term. These workers will be trained further in a phased manner to provide midwifery services at the community level. This entire program will be backed by independent media and advocacy campaign for social marketing and NGO involvement.

161. Restructuring of the PHC program at the federal, provincial, and the district levels will transform the system into a people-centered and results-oriented initiative. Also, good governance reforms underway in the population and health sectors are based on the ICPD holistic approach that prescribes integration of family planning and reproductive health with the primary health care framework. These will be decentralized to the provinces, which will result in the transfer of fiscal and administrative control over finances, planning, and decision-making, to local levels. Similarly, transfer of powers to districts under the new devolution structure would improve efficiency at the grassroots outreach services.

162. In view of the universal level of awareness that has already been achieved, emphasis will now be focused on creating demand for family planning services through inter-personal communication (IPC) and advocacy. Frontline workers will be trained in communication and counseling skills with special reference to IPC. The opinion leaders (viz. religious leaders, traditional healers, etc.) will be sensitized through special advocacy campaigns for community involvement in rural health and family planning issues. Moreover, special workshops have been arranged for the sensitization of elected councilors on population welfare issues.

163. **NATIONAL PROGRAM FOR FAMILY PLANNING AND PRIMARY HEALTH CARE:** National Program for Family Planning and Primary Health Care (FP&PHC) was launched in 1994 to introduce primary health care services including reproductive health care services to the community at its doorsteps. For this purpose around 44,000 Lady Health Workers (LHWs) were recruited in 122 districts across the country, including Federally Administered Tribal Areas (FATA)/ Azad Jammu and Kashmir (AJK)/ Northern Areas (NAs) and extensively trained; another 13,000 LHWs will be hired in 2001 thus raising their number to around 58,000. These LHWs provide family planning services; maternal and child immunization services; ORS, Vitamin-A, and iron supplementation; and treatment for minor ailments. These LHWs are a vital link between the community and public health facilities. They provide primary health services like prenatal care, postnatal care, education regarding STDs, child health care and family planning services as part of reproductive health care, treatment of minor ailments and referral of high-risk cases to health facilities. There is strong evidence that this program is succeeding in the delivery of PHC at the community level.

164. However, independent, evaluations have identified areas needing further strengthening. In this respect the main program strategies include improvement in the quality of services, expansion of coverage, strengthening of supervision, better management, and further strengthening of family planning and reproductive health components of the program. There will be integration of all primary health care services to provide comprehensive health care to the population. In this respect steps will be taken to implement a reproductive health program and integrate it into the PHC system.

4.4.6. Protecting the vulnerable

165. As discussed earlier, the government's human development strategies focus especially on improving social outcomes for women and children. In addition, targeted interventions, such as Pakistan Bait-ul-Mal (PBM), Zakat, and Zakat Foundation are involved in providing assistance to poor and indigent women and children through various schemes. These include assistance through the Food Support Program, individual financial assistance, medical assistance and educational stipends. Besides, PBM is also running dastkari (handicraft) schools with the aim of inculcating skill development among women.

166. Additionally, the government has taken a number of steps to ensure their economic and political empowerment by targeting the sources of their social and economic vulnerability.

167. **Women:** In order to eliminate all forms of discrimination against women a Permanent Commission on the Status of Women has been set up. The Commission has been assigned the task of examining existing policies, programs, and legislation concerning women and has recommended a number of measures for instituting women development and gender equality. Additionally:

- Focal points have been designated in all Ministries/Divisions at the Federal level to safeguard women's interests and ensure gender mainstreaming in their respective policies, plans and programs.
- A National Plan of Action (NPA) for women has been prepared through a consultative process. The prime focus of this plan is on education, reproductive health, family planning, economic empowerment, and domestic violence.
- Skill Development Councils have been established at major Districts for providing training in non-traditional skills.
- Access to micro credit facilities have been instituted through First Women Bank and Khushali Bank.
- Crisis centers have been set up for victims of domestic violence with provisions for medical and legal help.

168. **The disabled:** Special education centers established both in the public and private sectors do not have proper equipment, trained teachers and transport facilities. The strengthening, upgradation and revitalization of these centers will be accorded high priority over the medium term. The rehabilitation of disabled children largely depends upon the vocational training and development of skills relevant to their disability. Vocational training centers including sheltered workshops will therefore be established for disabled persons at divisional level. The existing vocational training centers established by the Technical Education Departments/Manpower and Labor Division will also be utilized. The Directorate General of Special Education has set up 45 special education centers throughout the country, which are benefiting around 4000 disabled children. Clearly, their outreach needs to be enhanced so that more handicapped children can benefit from their expertise.

169. The Special Education Training Program started in collaboration with Punjab University, Karachi University, and Allama Iqbal Open University is providing additional inputs to strengthen in-service training programs started through the National Institute of Special Education. Integrated education is the latest approach for mainstreaming the disabled both to minimize expenses and help them adjust to normal life. The program for integrated education for the disabled, in 5000 normal schools, will be introduced in each province. Ordinary schools would have the provision of necessary infrastructure in the form of special education teachers, equipment, and books, visiting doctors for assessment, diagnosis and treatment and an administrative mechanism for implementation of the integrated education program.

170. In order to provide the disabled with technical training and gainful employment their quotas as per the Special Education/Social Welfare Law will also be strictly enforced.

171. **Child labor:** Child Labor is another issue where State intervention has become necessary in the context of the rights of the child. In this respect a review of existing legislation concerning the rights and welfare of children by the National Commission for Child Welfare and Development has been initiated. Similarly, the amended Ordinance on Juvenile Justice has also been promulgated.

172. Ministry of Social Welfare has, through the Pakistan Bait ul Maal, established 51 Child Labor Schools where child workers are given suitable education leading to their rehabilitation. The Ministry of Women Development would encourage replication of this model and this activity is being detailed with the Ministry of Labor under the approved Reduction of Child Labor Policy.

173. National Commission for Child Welfare and Development (NCCWD) is also working with respective provincial committees and NGOs for child welfare and development. It is working with Save the Children to prepare a plan of action to combat child abuse and the commercial sexual exploitation of children.

4.4.7. Environment

174. National Conservation Strategy (NCS) is the broad national environment policy of Pakistan, within which, National Environment Action Plan (NEAP) has also been approved. The government has formulated a comprehensive strategy to develop provincial capacity for implementing environmental protection laws and monitoring their effectiveness. A proposal to strengthen their capacity and improving their effectiveness has been prepared for presentation to Pakistan Environmental Protection Council (PEPC). Once approved, Finance Division will be asked to provide financial support for its implementation.

175. The government has also made considerable progress on the enactment of legislation for the protection and conservation of the environment. The Environmental Protection Act, 1997 has now been promulgated, which provides a comprehensive framework for conservation of wildlife habitats and biodiversity; compensation for damages/losses caused by a polluter, thus internalizing the externality; establishment of environmental tribunals and magistrates; initiation of environmental assessment; and promotion of public education and awareness of environmental issues.

4.5. REDUCING VULNERABILITY TO SHOCKS

4.5.1. Zakat rehabilitation grant

176. A key instrument for social rehabilitation and reducing vulnerability to exogenous shocks is the revamped system of Zakat and Ushr. The Zakat and Ushr Ordinance (1980) mandates that 2.5 per cent of the value of all declared, fixed financial assets (i.e. savings accounts/certificates and financial assets for fixed term) for those possessing nisaab (the specified limit) are to be automatically deducted at source at the beginning of the month of Ramadan. The system of collection and disbursement of Zakat, overseen by respective Zakat Committees, has been recently reorganized to improve their efficacy. While the institutional framework for implementation, monitoring, and evaluation

of this social intervention is being strengthened, relief to beneficiaries in the form of subsistence grants were raised last year from a monthly transfer of Rs. 300 to Rs. 500.

177. Zakat has thus emerged as the government's central program or social safety instrument. However, its potential and scope in fighting poverty is yet to be fully realized. At present, annual Zakat collection is around Rs.5 billion. About 2 million beneficiaries received assistance from the Zakat fund. The Zakat Fund, which is made up of a portion of savings achieved each year has risen to over Rs.24 billion. It is envisaged that an additional 1.5 million beneficiaries will be added to the list of Zakat recipients.

178. Contrary to previous dedicated emphasis on grants and stipends, the revitalized Zakat system will provide funds to Mustahiqeen (beneficiaries) not only to fulfill basic needs but also to permanently rehabilitate them, by assisting them in the establishment of small-scale commercial projects or other means of living suitable to their qualifications, skills profile, and local conditions, thereby allowing them to achieve self-reliance (Table 4.2). Rehabilitation schemes have been prepared which are aimed at about 1.5 million new beneficiaries, who will be provided Rs. 10,000 to Rs. 50,000 each for starting up small businesses/trades. In the next year the rehabilitation scheme will be expanded upto Rs. 5 billion.

Table 4.2: Zakat Allocations (2000-01)

Policy	Instrument	Allocation (Rs. Millions)
Rs. 500 pm, provided to each beneficiary through local Zakat Councils	Guzara (subsistence) allowance	3,400
Rs. 50 – Rs. 583 pm, provided to beneficiary students (primary to post graduate level)	Educational stipends	630
Rs. 100 – Rs. 500 pm, provided to beneficiary students of religious schools (Deeni Madaris)	Educational stipends	280
Free medical and surgical treatment provided to beneficiaries in Districts and Tehsil headquarter hospitals and over 70 National health institutions	Health stipends	210
One time grant upto Rs. 5000 for those struck off from the list of beneficiaries	Social welfare grant	140
o One time grant of Rs. 3000 and stipend of Rs. 500 pm, for beneficiary students of vocational institutions	Vocational assistance	
One time grant, to beneficiary girls, of Rs. 10,000 for marriage	Marriage assistance	140
Assistance for families affected by natural calamities such as floods, cyclones, drought etc.	Emergency relief	300
Provision of Rs. 10,000 – Rs. 50,000 to each beneficiary, out of Zakat Funds, for starting up small scale business or trade amongst 44 specified categories	Zakat Rehabilitation grants	2,000

Source: Ministry of Religious Affairs, Zakat & Ushr

179. With Provincial, District, and Local Zakat and Ushr Committees determining the needs of Mustahiqeen in their respective areas as well as area-wise priorities for allocation of funds, Local Councils will administer rehabilitation packages. The Mustahiq candidate must submit a written application, on the prescribed form, to the Local Zakat Committee, containing a proposal for grant utilization, as well as indicating need. Local Committees may sanction grants of upto Rs. 10,000; and must forward applications with their own recommendations to District Committees, for approval of Rehabilitation grants greater than Rs. 10,000 and up to Rs. 50,000. On approval of cases, the District Zakat and Ushr Committee may release the grant to the concerned Local Zakat Committee for disbursement.

180. Mustahiq beneficiaries must provide written undertakings to the effect that funds received will be utilized exclusively for the purposes for which they have been granted. The Government, for the smooth functioning of the Rehabilitation Scheme, is developing a consolidated monitoring and institutional framework to coordinate interaction between the Committees, and ensure accountability of beneficiaries.

181. District Rehabilitation Monitoring Committees, and their Tehsil and Local counterparts, will be responsible for effective monitoring of the Schemes at their respective levels. Committees at each level shall undertake field visits and report on the functioning of the Schemes, with responsibility for reporting irregularities to District Committees.

182. Government Coordination and Review Committees will comprise Chief Administrator of Zakat, Members of Provincial Zakat Council and Additional Secretary, Zakat and Ushr, at the Provincial Level. Provincial Chief Administrators will be members of the Central Coordination and Review Committee, under the Chairmanship of the Secretary, Ministry of Religious Affairs, Zakat and Ushr. Central and Provincial Committees shall meet at least once during a quarter, to review progress and implementation of the Scheme.

183. Funds allocated by the Central Zakat Council for the Rehabilitation Schemes are to be in addition to the usual 4 percent allocated under this category in the previous system. Disbursement of the existing 4 percent will, therefore, continue in accordance with the Zakat Disbursement Procedures. Funds approved by the Central Zakat Council are to be disbursed by provincial quota, approved by the Council after which, Provincial Councils will remit funds to the district level. Accounts for all transactions and flow of funds under the Rehabilitation Scheme are to be maintained by the Local Zakat Committee and Provincial Zakat Council and audited by the Auditor General of Pakistan.

4.5.2. Food support program

184. The Food Support Program for the poorest sections of the population has also been revitalized and funds for the program have been set aside. The program is designed to mitigate the impact of increase in wheat prices. Its coverage extends to 1.2 million poorest households with monthly income of up to Rs. 2000. Cash support of Rs. 2000 is provided to them through biannual installments. An allocation of Rs.2.5 billion during the year was spent on this program from the federal budget. The program was implemented at the district level through the help of district officials. A system of means testing at the local level has been adopted for identification of beneficiaries by linking the program with the Zakat system where records of Mustahiqeen are developed through extensive participation. For the fiscal year 2001-02 allocation for this program has been increased by 16% (Rs.400 million) to Rs.2.9 billion.

185. In addition to the food support program, Pakistan Bait ul Maal provided support to destitute people that totaled Rs.327 million for a number of purposes including medical support, fund for bonded labor, students' stipends, community education and dialysis support.

4.5.3. Khushal Pakistan Program-(Poverty Alleviation Program)

186. Due to its transitory nature the Khushal Pakistan Program is a social intervention aimed at generating economic activity through public works in the country. A sum of Rs.11.5 billion has been released under the Khushal Pakistan Program (Poverty

Alleviation Program) to the districts through provincial governments; while the schemes under the program have been identified and selected at the district level through active community participation. This program has created numerous employment opportunities and is providing essential infrastructure in rural and low-income urban areas. The program has generated considerable economic activity including employment opportunities for 2 million persons. It has resulted in the construction of 2055 farm to market roads, 1145 water supply schemes, 118 spurs and 2746 repair and operationalization of schools. Under the IT component of the program, Rs.1 billion has been released for rural based vocational training in computers. Khushal Pakistan Program will receive an allocation of Rs.7.5 billion during 2001-02, which has been adjusted in accordance with the rate of utilization experienced last year. With the functioning of district governments under the devolution program, the Khushal Pakistan Program will gain further importance and local ownership.

187. The cost of the schemes selected under Khushal Pakistan Program has been kept between Rs 0.05 million to Rs 5.00 million per scheme, in rural areas and Rs 0.05 million and Rs 8.00 million in urban areas. The following criteria have been followed while identifying and analyzing projects for the program:

- The project should be capable of integration with earlier infrastructure, for instance trunk sewers, roads etc.
- The management and implementation of the projects will be in partnership with the communities. In case of rural roads local councils will take over the projects on completion.
- In each district the local Deputy Commissioner (DC) will select 25 per cent of the projects in marginalized areas. He will identify areas, in consultation with local NGOs and civil society, where there is a lack of sufficient basic infrastructure and majority of inhabitants belong to low-income groups.
- In cases where existing schemes require major expenditures for rehabilitation, work may be undertaken under the program, provided that the total cost of such rehabilitation work will not be more than 25 per cent of the allocation for a district.
- The projects will not be of a cost of less than Rs 1 million to prevent a thin spread of funds except in the case of rehabilitation of drinking water supply.
- Khushal Pakistan program will be utilized for productive purposes and will not be provided for administrative expenditures.

188. Communities will continue to identify projects and implement them under a participatory approach in the Khushal Pakistan Programme. Table 4.3 gives details of Khushal Pakistan Programme expenditure and employment potential.

Table 4.3: Khushal Pakistan Programme (2000-01)

	BUDGET ALLOCATIONS (Rs. BILLION)		EXPENDITURE UP TO March 2001 (RS. BILLION)	PERSONS EMPLOYED (NUMBER) UP TO March 2001
	1999-00	2000-01		
Punjab	1.82	9.40	2.5	158,351
Sindh	0.74	3.78	0.44	14,779
NWFP	0.60	3.11	0.29	12,059
Balochistan	0.34	1.76	0.4	135,179
ICT/AJK/FATA/NA	-	1.15		35,656
TOTAL:	3.50	19.20	4.03	356,024

Source: Planning Commission

4.5.4. NGOs and civil society

189. In recent years, the NGO sector has risen to meet the growing demand for social services. Interventions include empowerment through participatory development at the grassroots level towards raising consciousness about rights and responsibilities, capacity building, and poverty reduction. At the provincial and national level, NGO's are also contributors to policy formulation, planning, and research.

190. The Government appreciates the contribution that the NGO sector can play in social development and providing help to the vulnerable. This is reflected by the institutionalized support to NGOs through a range of government ministries including the Ministry of Women Development, Social Welfare and Special Education that is the focal point for NGOs. It also provides financial support through the National Council for Social Welfare and the National Zakat Foundation and similar bodies in Provincial Governments. The Poverty Reduction Strategy recognizes the significant role that NGOs can play in social service delivery, advocacy, and empowerment.

4.5.5. Other social protection mechanisms

191. Pakistan's social security system bypasses a large section of the population, especially in terms of provision of pensions and/or old-age benefits. Although, government employees and their dependents are entitled to pension and medical support however, only a small fraction of private employers provide such support through Employees Old-age Benefits Institution (EOBI) and associated Provincial Social Security Institutions. The federal government regulates and administers EOBI, which along with provincial institutions provides invalidity support, pensions, and medical care.

192. Registered industrial establishment and/or commercial establishments are covered under the Employees Old-Age Benefit Institution (EOBI) scheme. It is funded by employer contributions equal to 5% of the wages and corresponding Federal contributions. The number of registered establishments under the EOBI scheme was 42,000, while 183,000 beneficiaries received Rs 0.8 billion from the scheme, during 1999-00 (Table 4.4). Since January 2001 the rate of minimum pension has been revised from Rs. 425 per month to Rs. 630 per month.

Table 4.4: EOBI Payments and Beneficiaries (1999-00)

	DISBURSEMENT OF PENSION		Number of Beneficiaries
	(Million Rs.)	% share	(Numbers)
Payment of Old-age Pension	685.4	78.0	1,30,015
Payment of Survivors Pension	176.8	20.1	46,122
Payment of Invalidity Pension	7.2	0.8	4,107
Payment of Old Age Grant	9.4	1.1	2,743
TOTAL:	878.8	100.0	1,82,987

Source: Planning Commission

193. Another similar initiative for worker's welfare is the Social Security Scheme, which covers establishments employing 5 or more workers and provides medical care and cash benefits to covered workers and their dependants. Workers are entitled cash benefits in the event of sickness, injury during work, maternity, and disability whereas dependants are entitled survivors' pension and death grants. Workers drawing wages up to Rs. 3,000 per month or Rs. 120 per day and employed in registered establishment are covered under the scheme. The main source of funds for the Social Security contribution is through employers' contribution. During 1999-00, the Punjab Employees Social Security Institution (PESSI) and Sindh Employees Social Security Institution (SESSI) paid Rs. 1.0 billion and Rs. 0.4 billion to around 0.5 million and 0.2 million beneficiaries and their dependents, respectively. The Workers Welfare Fund is also providing social security support to workers and their families.

MONITORING AND EVALUATION MECHANISMS

1. The success of Pakistan's I-PRSP will depend upon the institutionalization of implementation mechanisms that not only track poverty related expenditures but also monitor key intermediate success drivers (or catalysts) and outcomes.

5.1. MONITORING MECHANISMS

2. In monitoring progress of the I-PRSP indicators the federal government will limit its role to that of a facilitator by providing technical and financial assistance to departments and agencies involved in information collection and analysis. In this entire process Finance Division will provide overall lead and act as a facilitator in terms of capacity building and support. It will ensure that proper institutional arrangements are put in place for overseeing implementation right from expenditure monitoring to outcome analysis and then feeding this information into overall policy formulation.

3. As a first step a list of I-PRSP expenditures (inputs) has been developed with participation of provincial governments. The timely availability of these resources will be crucial for achieving the desired growth and poverty reduction objectives. These expenditures are in line with the government's macroeconomic framework and will be protected and tracked over the medium term. Table 5.1 and Table 5.2 give details of critical resources that would be realized for improving human development, implementing broad based governance reforms, protecting the vulnerable against shocks, and building institutional capacity for implementing reforms outlined earlier.

Table 5.1: I-PRSP Budgetary Expenditures (2001-04)

IPRSP Expenditures	ACTUALS		Budget Estimates		PROJECTIONS (based on 2000-01 actual expenditures)					
	2000-01		2001-02		2001-02		2002-03		2003-04	
	Rs. Millions	As a % of GDP	Rs. Millions	As a % of GDP	Rs. Millions	As a % of GDP	Rs. Millions	As a % of GDP	Rs. Millions	As a % of GDP
Development	23,021	0.7	35,292	0.9	34,552	0.9	45,395	1.1	63,623	1.4
Current	96,284	2.8	115,391	3.0	101,816	2.7	113,407	2.7	120,799	2.6
TOTAL	119,305	3.4	150,683	4.0	136,368	3.6	158,802	3.8	184,422	4.0
A. Community Services										
Roads, Highways, & Bridges	7,148	0.2	6,593	0.2	8,871	0.2	10,213	0.2	11,702	0.3
Water Supply & Sanitation	4,499	0.1	5,799	0.2	5,519	0.1	6,326	0.2	7,216	0.2
B. Social Services										
Education	56,362	1.6	69,475	1.8	63,166	1.7	72,605	1.7	83,046	1.8
Health	17,494	0.5	22,728	0.6	19,275	0.5	21,098	0.5	22,960	0.5
Population Planning	1,552	0.0	1,837	0.0	2,116	0.1	25,21	0.1	2,983	0.1
Social security & other Welfare	1,568	0.0	3,864	0.1	1,681	0.0	1,816	0.0	1,949	0.0
Natural Calamities and other Disasters	912	0.0	185	0.0	964	0.0	1,035	0.0	1,103	0.0
C. Economic Services and Others										
Irrigation	8,157	0.2	16,041	0.4	9,372	0.2	14,576	0.3	21,387	0.5
Land Reclamation	1,401	0.0	1,743	0.0	1,481	0.0	1,590	0.0	1,694	0.0
Rural Development	11,976	0.3	9,312	0.2	15,214	0.4	17,674	0.4	20,426	0.4
Food Subsidies	8,236	0.2	13,106	0.3	8,709	0.2	9,348	0.2	9,957	0.2
TOTAL (A+B+C)	119,305	3.4	150,683	4.0	136,368	3.6	158,802	3.8	184,422	4.0

Source: MOF estimates

Table 5.2: I-PRSP Expenditures

	PROJECTIONS							
	2000-01		2001-02		2002-03		2003-04	
	(Bill. Rs)	% GDP	(Bill. Rs)	% GDP	(Bill. Rs)	% GDP	(Bill. Rs)	% GDP
I. Development	23.021	0.7	34.552	0.9	45.395	1.1	63.623	1.4
II. Current	96.284	2.8	101.816	2.7	113.802	2.7	120.799	2.6
TOTAL (I + II)	119.305	3.4	136.368	3.6	158.802	3.8	184.422	4.0
TARGETED TRANSFERS (PUBLIC SECTOR)								
Zakat	6.8	0.2	7.5	0.2	12.4	0.3	14.4	0.3
Food Support Program	2.3	0.1	3.8	0.1	4.1	0.1	2.3	0.0
Social Security (EOBI)	1.5	0.0	1.8	0.0	2.0	0.0	2.2	0.0
Health Insurance and Workers Welfare Fund	2.5	0.1	3.8	0.1	4.1	0.1	4.0	0.1
Housing Finance	0.3	0.0	0.4	0.0	0.5	0.0	0.6	0.0
Total Targeted Transfers	13.4	0.4	17.2	0.4	23.2	0.5	23.5	0.4
PRIVATE SECTOR (INDICATIVE)								
Zakat	13.6	0.4	15.0	0.4	16.5	0.4	18.6	0.5
Non-Zakat Money (Gifts, Assistance etc)	17.1	0.5	18.8	0.5	20.7	0.5	23.9	0.5
Volunteering	30.7	0.9	33.8	0.9	37.2	0.9	39.9	0.9
Remittances from outside	30.7	0.9	33.8	0.9	37.2	0.9	41.1	0.9
TOTAL PRIVATE SECTOR	92.1	2.7	101.3	2.7	111.7	2.7	123.5	2.8

Source: MOF estimates; and Planning Commission 2001

Note: Food Support Program is a budgetary initiative.

4. For the purpose of expenditure tracking a comprehensive effort is underway to devise mechanisms for regular tracking of poverty related expenditures at the federal, provincial, and district levels. Data on district level expenditures will be possible once district level accounting systems and processes are in place. The government expects to target district level expenditure monitoring by next fiscal year. However, quarterly reporting of reconciled I-PRSP data on the federal and provincial levels will be possible with a time lag of three months. The Controller General of Accounts will ensure that this data is made available to Finance Division for quarterly tracking. For this purpose a list of I-PRSP expenditures alongwith functional classifications has been developed with provincial consultations. This list will be further expanded in terms of coverage as the government moves towards the full PRSP.

5. Annex III presents a proforma for the quarterly tracking of anti poverty expenditures, which will be put in place as part of the I-PRSP process; while Annex V provides a time series of some key I-PRSP related budgetary expenditures at the federal and provincial levels over the period 1995-96 and 2000-01.

6. This expenditure tracking exercise has been linked with the achievement of certain key IPRSP (outcome) targets (Table 5.3). A list of measurement definitions has also been provided in Annex II. These Indicators and targets will be rationalized, along with consistent measurement methodologies, benchmarks, and sources in consultation with provincial governments and concerned departments/agencies in the full PRSP. Federal Bureau of Statistics (FBS), Educational Management Information System (EMIS), provincial EMIS, Health Management Information System (HIMS), National Institute of Population Studies (NIPS) and other federal and provincial departments, led by the Planning Commission, will be involved in this process.

Table 5.3: I-PRSP–Monitoring Targets

Macroeconomic Targets		2000-01	2001-02	2002-03	2003-04	
Real GDP Growth		2.7	3.7	5.0	5.2	
Inflation		4.4	5.0	5.0	5.0	
(As a % of GDP)						
Budget balance (excluding grants)		5.2	5.3	4.1	3.2	
Total Revenue		15.7	16.5	17.3	17.6	
Development Expenditure		2.7	3.4	3.6	3.9	
Total Expenditure		21.0	21.9	21.4	20.8	
IPRSP Expenditures		3.4	3.6	3.8	4.0	
Source: Ministry of Finance						
Education Sector Goals		Projections on 2000-01 benchmark				
		1998-99 PIHS	2000-01 EFA	2001-02	2002-03	2003-04
Gross primary enrolment rate		71	89	93	96	100
Male		80	106	110	115	119
Female		61	68	71	74	76
Gross middle enrolment rate		40	59	62	65	68
Male		48	73	77	80	83
Female		32	44	47	49	50
Literacy rate (10 years and above)		45	51	53	56	59
Male		59	63	65	68	70
Female		31	38	41	45	49
dropout rates (primary)		13	48	46	43	41
Male		-	43	41	39	37
Female		-	52	50	47	44
of functional public schools		-	134,415	137,103	139,845	142,642
teachers of functional school (%)		-	97.2	97.9	99.3	100
ism of teachers		Provincial governments have developed processes to check absenteeism. Systems will be developed in consultation with provincial governments to monitor progress.				
Source: Pakistan Integrated Household Survey (PIHS) 1998-99, FBS; Education for all, National Plan of Action MOE, 2001; National Education Management Information System (NEMIS)						
Note 1: There is a significant difference between the FBS and MOE data on gross enrolment & student dropout rates. For the purpose of the IPRSP, MOE data has been used for (medium term) target setting, as this data had been employed for the purpose of target setting in the context of education sector reforms. However, an attempt will be made in the full PRSP to bridge the divergence, in the two sources, in terms of measurement methodology, data sets, and definitions.						
Note 2: overall national and provincial targets consistent with urban-rural dis-aggregation will be outlined in the full prsp.						
Health Sector Targets		Projections on 2000-01 benchmark				
		1998-99 PIHS	2000-01 PRHFPS	2001-02	2002-03	2003-04
Infant mortality rate (per 1,000 births)		89	85 (90)	80	72	65
Child mortality rate (per 1,000)		-	20			17
Births attended by trained personnel (%)		19	23 (20)	22	24	25
Immunization coverage of children (%)		49	(67.5)	77.5	82.5	85
Coverage of prenatal care (%)		31	43	45	47	50
Utilization rate of first level care facilities (BHU/RHC)		Source identified. Information will be made available in Full PRSP				
Population covered by LHWs (%)		-	(32)	41	70	90
Source: PIHS 1998-99, FBS; Pakistan Reproductive Health and Family Planning Survey (PRHFPS), NIPS 2000-01; Ministry of health (MOH)						
Note 1: overall national and provincial targets consistent with urban-rural dis-aggregation will be outlined in the full prsp.						
Note 2: figures in parenthesis from MOH. (Where applicable) these have been used as benchmarks						
Note: Outcome indicators are in boldface, while output/intermediate indicators are non-bold.						

Table 5.3: I-PRSP–Monitoring Targets (Cont.)

Population Welfare Targets	Projections on 2000-01 benchmark				
	1998-99 PIHS	2000-01 PRHFPS	2001-02	2002-03	2003-04
Population Growth Rate	-	2.2*	2.1	1.9	1.8
Total Fertility Rate	4.5	4.8	4.5	4.3	4.1
Contraceptive Prevalence Rate (%)	17	28	32	35	39
Source: PIHS 1998-99, FBS; Pakistan Reproductive Health and Family Planning Survey (PRHFPS), NIPS 2000-01; *Ministry of Population Welfare Note 1: overall national and provincial targets consistent with urban-rural dis-aggregation will be outlined in the full prsp.					
Water Supply & Sanitation Targets	Projections on 2000-01 benchmark				
	1998-99 PIHS	2000-01	2001-02	2002-03	2003-04
Population with access to drinking water (%)	-	63	64	66	68
Urban	-	83	84	85	87
Rural	-	53	54	55	57
Population with access to sanitation (%)	-	39	40	42	44
Urban	-	59	61	63	65
Rural	-	27	28	30	32
Source: Planning Commission, 2001					
Housing	Projections on 2000-01 benchmark				
	2000-01	2001-02	2002-03	2003-04	
Number of Katchi Abadis (slum settlements) regularized	Source identified. Information will be made available in Full PRSP				
Number of additional low cost housing units constructed (within specified time period)	Source identified. Information will be made available in Full PRSP				
Number of houses within Katchi Abadis (slum settlements) regularized	Source identified. Information will be made available in Full PRSP				
Source: Ministry of environment, local government, & rural development					
Rural Development	Projections on 2000-01 benchmark				
	1998-99	2000-01	2001-02	2002-03	2003-04
All weather secondary farm -to-market roads (KM)					
Punjab	-	380	190	150	180
Sindh	-	180	100	220	290
NWFP	-	170	100	80	190
Balochistan	-	140	123	50	125
Additional temporary employment generated through Khushal Pakistan Program	-	356,024			
Source: Ministry of environment, local government, & rural development; PIHS 1998-99, FBS					
Food Support Program	Projections on 2000-01 benchmark				
	2000-01	2001-02	2002-03	2003-04	
Number of beneficiaries – Punjab	624,680	Source identified. Information will be made available in Full PRSP			
Number of beneficiaries – Sindh	259,960	Source identified. Information will be made available in Full PRSP			
Number of beneficiaries – NWFP	219,220	Source identified. Information will be made available in Full PRSP			
Number of beneficiaries – Balochistan	45,590	Source identified. Information will be made available in Full PRSP			
Number of beneficiaries – Islamabad	63,050	Source identified. Information will be made available in Full PRSP			
Total beneficiaries	1,212,500	1,200,000	1,200,000	1,200,000	1,200,000
Impact in reducing variability of consumption of the poorest households, in response to wheat price increases	Baseline does not exist. FBS will require technical assistance to generate this information.				
Source: Pakistan Bait-ul-Maal; PIHS 1998-99, FBS; Planning commission					

Note: Outcome indicators are in boldface, while output/intermediate indicators are non-bold.

Table 5.3: I-PRSP–Monitoring Targets (Cont.)

Zakat	Projections on 2000-01 benchmark				
	2000-01 Beneficiaries	2000-01 (Rs. M)	2001-02 (Rs. M)	2002-03 (Rs. M)	2003-04 (Rs. M)
Total Disbursements	1,894,407	2371.0	2820	2910	2910
Punjab	1,241,914	1542.8	1606	1657.3	1657.3
Sindh	458,676	675.1	663.5	684.7	684.7
NWFP	87,138	106.5	388.6	401	401
Balochistan	106,679	40.7	144.1	148.7	148.7
Islamabad Capital Territory	-	5.9	17.8	18.3	18.3
Total Disbursements - Guzara Allowance (60% of total disbursement)	106,768	1,422.6	1692.1	1746	1746
Punjab	890,849	925.7	963.6	994.4	994.4
Sindh	326,651	405	398.1	410.8	410.8
NWFP	51,507	63.9	233.2	240.6	240.6
Balochistan	55,261	24.5	86.5	89.2	89.2
Islamabad Capital Territory	-	3.5	10.7	11	11
Total Disbursements - Education Stipends (18% of total disbursement)	354,254	426.8	507.4	523.9	523.9
Punjab	196,051	277.7	289	298.3	298.3
Sindh	107,438	121.5	119.4	123.3	123.3
NWFP	27,249	19.2	69.9	72.2	72.2
Balochistan	23,516	7.4	25.9	26.8	26.8
Islamabad Capital Territory	-	1.0	3.2	3.3	3.3
Total Disbursements - Religious Students (8% of total disbursement)	56,604	189.7	225.6	232.9	232.9
Punjab	32,524	123.4	128.5	132.6	132.6
Sindh	8,460	54	53.1	54.8	54.8
NWFP	4,749	8.5	31.1	32.1	32.1
Balochistan	10,871	3.3	11.5	11.9	11.9
Islamabad Capital Territory	-	0.5	1.4	1.5	1.5
Total Disbursements - Health Care (6%)	115,649	142.1	169.3	174.6	174.6
Punjab	92,486	92.6	96.4	99.4	99.4
Sindh	7,646	40.5	39.8	41.1	41.1
NWFP	2,760	6.4	23.3	24.1	24.1
Balochistan	12,757	2.3	8.7	8.9	8.9
Islamabad Capital Territory	-	0.3	1.1	1.1	1.1
Total Disbursements – Social Welfare (4%)	20,013	94.8	112.7	116.4	116.4
Punjab	12,994	61.7	64.2	66.3	66.3
Sindh	3,426	27.0	26.5	27.4	27.4
NWFP	703	4.3	15.5	16.0	16.0
Balochistan	2,890	1.63	5.8	6.0	6.0
Islamabad Capital Territory	-	0.23	0.7	0.7	0.7
Total Disbursements –Marriage assistance (4%)	23,619	94.8	112.7	116.4	116.4
Punjab	17,010	61.7	64.2	66.3	66.3
Sindh	5,055	27.0	26.5	27.4	27.4
NWFP	170	4.3	15.5	16.0	16.0
Balochistan	1,384	1.63	5.8	6.0	6.0
Islamabad Capital Territory	-	0.23	0.7	0.7	0.7
Total Disbursements – Rehabilitation Grants		1744	5000	5000	5000
Punjab		1139	2847.5	2847.5	2847.5
Sindh		470	1176.5	1176.5	1176.5
NWFP		32.8	689	689	689
Balochistan		102.2	255.5	255.5	255.5
Islamabad Capital Territory			31	31	31
National Level Health Institutions		103.8	370	370	370
Emergency Relief		61	300	300	300
Northern Areas		-	20	20	20
GRAND TOTAL		4279.8	8510	8600	8600
Impact in reducing consumption variability of poorest households, in response to shocks	Baseline does not exist. FBS will require technical assistance to generate this information.				

Source: Ministry of Zakat, Ushr, & religious affairs

Note: Outcome indicators are in boldface, while output/intermediate indicators are non-bold.

Table 5.3: I-PRSP–Monitoring Targets (Cont.)

Micro-Credit	Projections on 2000-01 benchmark			
	2000-01	2001-02	2002-03	2003-04
PAKISTAN POVERTY ALLEVIATION FUND				
Micro credit disbursements (Rs. Millions)				
Sindh	49	138	160	177
Punjab	220	216	370	416
Balochistan	11	11	20	23
NWFP	49	165	173	186
AJK	10	11	14	16
NAs	132	75	126	131
Total	471	617	864	950
Number of borrowers				
Sindh	4,835	14,113	16,837	19,218
Punjab	17,290	17,525	30,890	35,784
Balochistan	789	825	1,492	1,825
NWFP	3,429	11,947	12,944	14,343
AJK	798	907	1,173	1,399
NA	9,119	11,199	19,469	20,743
Total	46,260	56,517	82,805	93,313
Districts with micro-finance coverage				
Sindh	7	9	11	12
Punjab	10	12	14	16
Balochistan	4	6	7	8
NWFP	11	13	15	17
AJK	4	5	5	5
NAs	5	5	5	5
Total	41	50	57	63
Number of Community infrastructure projects	1,902	2,600	3,800	5,000
Number of capacity development trainings	200	220	200	150
Repayments rates	90-95	90-95	90-95	90-95
Lending cost (Rs. Millions)	6-8%	6-8%	6-8%	6-8%
KHUSHALI BANK				
Micro credit disbursements (Rs. Millions)				
Sindh	70	426	753	1,249
Punjab	140	851	1,506	2,498
Balochistan	23	142	251	416
NWFP	62	378	669	1,110
AJK	16	95	167	278
Total Disbursement	312	1,892	3,346	5,550
Number of borrowers				
Sindh	4,680	27,465	41,825	66,600
Punjab	9,360	54,929	83,650	133,200
Balochistan	1,560	9,155	13,942	22,200
NWFP	4,160	24,413	37,178	59,200
AJK	1,040	6,103	9,294	14,800
Total Borrowers (End-Of-Period)	20,800	122,065	185,889	296,000
Districts with micro-finance coverage				
Sindh	13	15	16	18
Punjab	8	12	18	22
Balochistan	5	8	8	9
NWFP	3	4	6	9
AJK	1	1	2	2
Districts covered	30	40	50	60
Number of Community infrastructure projects	225	450	675	900
Number of capacity development trainings	1,598	5,316	6,331	8,727
Repayments rates (Assumes 4% loan loss provisioning)	96	96	96	96
Lending cost (Rs. Millions)	7*	50	105	215
Source: Khushali Bank and PPAF				
* Excluding interest expense on deposits				

Note: Outcome indicators are in boldface, while output/intermediate indicators are non-bold.

Table 5.3: I-PRSP–Monitoring Targets (Cont.)

Poverty reduction targets	Projections on 2000-01 benchmark				
	1998-99 PIHS	2000-01 PC	2001-02	2002-03	2003-04
Head Count Ratio (% -caloric approach)	32.2	30.0	29.0	27.2	25.3
Urban	22.4	28.6	26.9	26.2	24.3
Rural	36.3	30.3	29.6	27.8	25.9

Source: PIHS 1998-99, FBS; Planning Commission (PC)
 Note 1: overall national and provincial targets consistent with urban-rural dis-aggregation will be outlined in the full prsp.

Note: Outcome indicators are in boldface, while output/intermediate indicators are non-bold.

7. In this regard a (tentative) I-PRSP monitoring matrix has been prepared (Annex I), which will be finalized when provincial consultations have been completed. The Annex has three components ranging from expenditure tracking, output mapping, and outcome monitoring. For instance in the case education, the efficacy of expenditures incurred on teacher training will immediately be seen in terms of the, intermediate/output indicator, proportion of trained teachers; while its relatively long term impact would be visible in terms of better enrolment and lower repetition rates. However, it must be mentioned that at this stage all input indicators do not have corresponding monitorable output/intermediate and outcome indicators.

8. As part of the provincial consultations, nationally consistent measurement methodology will be developed in order to prepare poverty lines, which are consistent over time and space. For this purpose data collected by the Federal Bureau of Statistics (FBS) through Pakistan Integrated Household Surveys (PIHS) will be utilized. PIHS, is however, not designed for analysis at the district level, and this shortcoming will be addressed through increased technical capacity at the provincial level. Additionally, other sources of data will be identified and their capacity for meeting district level data requirements strengthened, so that intermediate/output indicators (success drivers) can be tracked.

5.2. EVALUATION MECHANISMS

9. In terms of evaluating progress on the final I-PRSP indicators, provinces will identify focal points within their respective Planning and Development Departments. These monitoring units will track progress, in close coordination with district governments, on intermediate and outcome indicators and report periodic progress to the national I-PRSP monitoring and evaluation unit, the Centre for Research on Poverty Reduction and Income Distribution (CRPRID), at the Planning Commission.

10. CRPRID will collect and evaluate all information relating to inputs (expenditures), output/ intermediate and outcome indicators from the provincial monitoring units, FBS, and other concerned departments. The CRPRID will be involved in developing and institutionalizing the system for poverty monitoring at the national, provincial, and district levels; and analyzing impact of poverty reduction policies on the poor. It will also be responsible for producing analytical progress reports on the final I-PRSP indicators on periodic basis. To ensure the success of this system the process of data reporting (of final I-PRSP indicators) to CRPRID will have to be strengthened and streamlined.

5.3. CAPACITY BUILDING FOR PRSP

11. Evidently, instituting a comprehensive mechanism for preparation and monitoring of PRSP will call for creation of significant capacities at various government levels and in

different departments. Four key areas where this need is particularly pressing are PRSP preparation (dialogue with civil society, poverty assessment), monitoring (data collection, impact assessment), statistics (covering all PRSP indicators) and special studies and surveys (deeper and continuous analysis of poverty profile in selected areas). These needs cut across all governments, federal, provincial and district.

12. The costs involved in creating these capacities will cover temporary recruitment, procurement of office equipment, provision of advisory services and hiring of consultants to undertake special studies. Detailed estimates for these costs are being worked out but it is roughly estimated that a technical assistance to the tune of \$50 million over three years will be required to fully cater for these needs across all governments.

5.4. ROADMAP TO FULL PRSP

9. The most important ingredient in the finalization and success of Pakistan's I-PRSP is the comprehensive participation of provinces in the PRSP process. In order to pool poverty reduction efforts at the federal, provincial, and district levels, and to ensure success of desired objectives, provincial participation has been sought in the formulation of Pakistan's full PRSP. This will lead to greater ownership among the provinces and culminate in the preparation of provincial PRSPs. The provincial PRSPs will be based on the economic and social profile of the provinces and will not only highlight anti poverty policy initiatives so far undertaken but also articulate further actions/projects that will need to be carried out to achieve PRSP targets.

10. This process will be the precursor of the detailed costing exercise, which will be completed by the time the full PRSP is completed. During this period Pakistan will also become part of the Social Impact Assessment project being initiated by the World Bank that will highlight the social impact of structural policies and guide public policy. Additionally, by that stage key PRSP indicators will be finalized with proper identification of sources, benchmarks, and poverty reduction targets in consultation with provincial governments, Federal Bureau of Statistics (FBS), and all other key departments/agencies.

Time line for full PRSP	
• Complete provincial consultations with Punjab and NWFP governments	• January 2002
• District level consultations led by provincial governments	• March 2002
• Elected nazims should be encouraged to make medium term District Development Programs in line with the macroeconomic framework	• Before finalization of 2002-03 Budget
• District Development Programs would be the precursor of the costing exercise, which will feed into the formulation of provincial PRSPs	• June 2002)
• Full PRSP to be concluded by the elected government	• After October 2002

11. Meeting the resources required for reaching the PRSP targets would be a daunting task in the presence of huge debt servicing payments. The costing exercise will reveal the extent of donors' support that will be needed to supplement government efforts at reviving the economy and reducing poverty. It will also highlight the need for significant exceptional assistance for generating the requisite resources to support the PRSP process, the core principles of which have already been highlighted in Chapter 4.

12. It is, however, envisioned that the full PRSP will be finalized when the elected government takes over after national and provincial elections to be held latest by October 2002. During this period participation of the newly elected district governments will be sought in the formulation of provincial PRSPs so that Pakistan's full PRSP is reflective of the views and concerns of all sections of society and Pakistan's development process is made even more inclusionary.

EPILOGUE

I-PRSP Post September 11, 2001

1. Events in the aftermath of 11th September 2001 terrorist attacks have cast a shadow of uncertainty on medium term prospects for economic growth. The emerging situation is posing new challenges for the economy of Pakistan. The global economic slow-down, in general, and its role as a front-line state, in particular, will have serious implications for the stability of Pakistan's macroeconomic framework. Unless addressed, these challenges have the potential to significantly undermine the reform efforts outlined in the I-PRSP.
2. Given the uncertainty regarding the period needed to restore normalcy, it is extremely difficult to estimate precisely the impact of post-September 11 events. Notwithstanding this uncertainty, an attempt is made to identify the key sources through which the disruptive effects are likely to be faced and their potential size. The following sources are straightforward:
 - Unanticipated expenditures on account of increased defense and law enforcing requirements;
 - Massive inflow of refugees and consequent burden to arrange for their food and living;
 - A slow-down in exports' demand (there are instances of cancellation of export orders as well as non-renewal of completed orders) and a consequent reduction in export level alongside a slow-down in imports (likely to be less than exports reduction) due to reduced production of exportables is anticipated. These developments will worsen the current account deficit thereby raising overall financing requirements. In addition, the budgeted inflows on account of privatization (\$500 million) and private foreign investment (\$300 million) are likely to be seriously affected.
 - On the fiscal side, slow-down in imports will have significant implications for customs duties and sales tax receipts. The overall position of revenues would be further undermined if the global slow-down spills over to a slow-down in domestic production.
3. Clearly, these developments have the potential to unravel the macroeconomic framework. Both the balance of payments and the budget are being affected. Apart from the likelihood of instability in the macro framework, without filling the widened gaps, pressures will mount to cut expenditures including those aimed at poverty reduction, thus putting at risk the objectives of the I-PRSP. Accordingly, the poverty reduction efforts will be seriously undermined.
4. To prevent this, it is imperative that broad-based support is provided to Pakistan by the international coalition to meet the exigencies of the changed scenario. The following countervailing measures would be required to mitigate the situation:

- The additional expenditures (defense and law enforcement) have to be met through appropriate grants to the budget so that existing allocations are protected, particularly those in poverty related areas;
- The burden of additional refugees has to be met from outside the budgetary framework, from contributions from the international community. However, to avert the possibility of a major slow-down in Pakistan's economy, a provision for local procurement of food and grains from Pakistan (with a surplus wheat crop) is critically needed;
- To stem the decline in exports, freer access to G-7 markets of Pakistani exports, especially textiles, is imperative;

A combination of additional fiscal space (through a relatively relaxed deficit target) and significant relief in the debt burden (through deeper concessions in the Paris Club and bilateral write-offs) will be required to sustain the revenue losses and ensure the viability of the medium term macroeconomic framework.

ANNEX - I

Proposed I-PRSP Tracking/Monitoring Matrix

Input Indicators	Output/ Intermediate Indicators	Outcome Indicators
BUDGETARY POVERTY RELATED EXPENDITURES AND OUTCOMES		
I. Assets Creation and Infrastructure-Related Expenditure		
Housing <ul style="list-style-type: none"> Expenditure on low cost housing (as a % of total expenditure). Rural Development <ul style="list-style-type: none"> Expenditure on rural development (from normal departmental budgets) as a percent of total expenditure. Expenditure from Khushal Pakistan Program (by functional/sectoral classification, if possible). Expenditure on highways, roads, and bridges⁹ as a percent of total expenditure <p><i>Source:</i> Ministry of Finance <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Number of additional low cost housing Kilometers of farm -to-market roads by quality category. Additional (temporary) employment generated through small civil works schemes, especially under KPP. <p><i>Source:</i> Ministry of Housing and Works <i>Frequency:</i> Annual/ bi-annually <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Poverty Head Count Ratio <p><i>Source:</i> PIHS/ HIES Survey, FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, prov. & district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>
II. Expenditure on Social Services		
Education <ul style="list-style-type: none"> Education exp. (as a % of total exp. and GDP) Primary education exp. (as a % of total edu. exp.) Secondary education exp. (as a % of total edu. exp.) Exp. on general universities/ colleges/institutes education (as a % of total edu. exp.) Exp. on professional/ technical universities/ colleges/ institutes (as a % of total edu. exp.) Exp. on teacher & vocational training <p><i>Source:</i> Ministry of Finance <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Number of functional schools % of trained teachers (primary levels) Absenteeism of teachers <p><i>Source:</i> EMIS, Ministry of Education <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Qualitative community surveys will be conducted</p>	<ul style="list-style-type: none"> Gross enrollment rates (primary and middle schools) Student dropout rates (primary level) <p>(All these by exp./income deciles, rural/urban, male/female and provincial desegregation)</p> <p><i>Source:</i> PIHS Survey; FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, prov., & district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>

⁹ Expenditure on highways, roads, and bridges has been represented here as a proxy input indicator, though all of this expenditure is not directed towards rural roads.

ANNEX – I (Cont.)

Input Indicators	Output/ Intermediate Indicators	Outcome Indicators
<p>Health</p> <ul style="list-style-type: none"> Health exp. (as a % of total and GDP) General hospitals & clinics exp. (as a % of total health exp.) Mother & child exp. (as a % of total health exp.) <p><i>Source:</i> Ministry of Finance <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Utilization rate of First Level Care Facilities (BHUs/RHCs) Proportion of population covered by LHWs (lady health workers) Immunization coverage of children (% between ages 12-23 months who are fully immunized) Coverage of pre-natal care % of births attended by trained personnel (doctors, nurses, LHV) (rural/ urban) <p><i>Source:</i> HIMS; Ministry of Health; Ministry of Population Welfare; and PIHS Survey, FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Qualitative community surveys will be conducted;</p>	<ul style="list-style-type: none"> Infant mortality rates Child mortality rates <p>(All these by exp./ income deciles, rural/urban, male/female and provincial disaggregating)</p> <p><i>Source:</i> PIHS Survey, FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>
<p>Population Welfare</p> <ul style="list-style-type: none"> Population welfare exp. (as a % of total exp. and GDP) <p><i>Source:</i> Ministry of Finance <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Contraceptive prevalence rate (among women of age 15-49) <p><i>Source:</i> Pakistan Reproductive Health and Family Planning Survey (PRHFPS); Ministry of Population Welfare <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Qualitative community surveys will be conducted; Capability for developing district level indicators will have to be developed</p>	<ul style="list-style-type: none"> Total fertility rate (among women of age 15-49). Population growth rate <p><i>Source:</i> PIHS Survey, FBS; Pakistan Reproductive Health and Family Planning Survey (PRHFPS), Ministry of Population Welfare <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Capability for developing district level indicators will be developed</p>
<p>Water supply and sanitation</p> <ul style="list-style-type: none"> Exp. on water supply and sanitation (as a % of total exp.) <p><i>Source:</i> Ministry of Finance <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<p><i>Source:</i> Planning Commission <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Qualitative community surveys will also be conducted</p>	<ul style="list-style-type: none"> % of population with access to safe water and sanitation <p>(Disaggregated by rural/ urban, provinces, income/exp deciles)</p> <p><i>Source:</i> PIHS Survey, FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>
III. Expenditure on Safety Nets		
<p>Food Support Program</p> <ul style="list-style-type: none"> Food Support Program disbursement (as a % of total exp.) <p><i>Source:</i> Pakistan Bait-ul-Maal <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Number of beneficiaries by province (rural/urban) <p><i>Source:</i> Pakistan Bait-ul-Maal <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Impact in reducing variability of consumption of the poorest households, in response to food (wheat) price increases. <p><i>Source:</i> PIHS Survey, FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>

ANNEX – I (Cont.)

Input Indicators	Output/ Intermediate Indicators	Outcome Indicators
NON-BUDGETARY POVERTY RELATED EXPENDITURES AND OUTCOMES		
I. Assets Creation and Infrastructure-Related Expenditure		
Housing <ul style="list-style-type: none"> Number of katchi Abadis (slum settlements) regularized Land <ul style="list-style-type: none"> Number of acres of available state land distributed <p><i>Source:</i> Ministry of Housing & Works; Ministry of Environment, local government, & rural development; and Federal Land Commission <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Number of houses within katchi Abadis regularized <p><i>Source:</i> Ministry of Housing and Works; Ministry of Environment, local government, & rural development <i>Frequency:</i> Annual/ bi-annually <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> % of rural households with different land holdings <p><i>Source:</i> FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>
II. Expenditure on Safety Nets		
Zakat <ul style="list-style-type: none"> Zakat disbursement (as a % of total exp.) Rehabilitation grants as a % of Zakat allocations <p><i>Source:</i> Ministry of Religious Affairs, Zakat & Ushr <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Number of beneficiaries by type of assistance by province <p><i>Source:</i> Ministry of Religious Affairs, Zakat & Ushr <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Impact in reducing variability of consumption of the poorest households, in response to shocks e.g. food (wheat) price increases. <p><i>Source:</i> PIHS Survey, FBS <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district <i>Note:</i> Capability for developing district level indicators will be developed at FBS</p>
Credit <ul style="list-style-type: none"> Micro-credit disbursements (as a % of total exp.) <ul style="list-style-type: none"> PPAF Khushali Bank Program <p><i>Source:</i> Ministry of Finance, PPAF & Khushali Bank <i>Frequency:</i> Quarterly <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Number of borrowers and size of credit Districts, within each province, with micro-credit coverage Number and composition of small infrastructure projects and trainings supported by micro-credit. <p><i>Source:</i> PPAF, ADBP, & Khushali Bank <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>	<ul style="list-style-type: none"> Repayment rates Lending costs <p><i>Source:</i> PPAF, ADBP, & Khushali Bank <i>Frequency:</i> Annual <i>Disaggregation:</i> Federal, provincial, and district</p>

Annex – II**Definitions - Outcome and Output indicators**

	Pakistan Integrated Household Survey	Others
Gross primary enrolment rate	The number of children attending primary level classes (1-5) divided by the number of children aged 5-9 years, multiplied by 100. However, enrolment in katchi is excluded.	The number of students enrolled in primary education, regardless of age, divided by the population of the official primary school age group (5-9 years), multiplied by 100. National Education Management Information System (NEMIS)
Gross middle enrolment rate	The number of children attending middle level classes (6-8) divided by the number of children aged 10-12 years, multiplied by 100.	The number of students admitted in grades VI-VIII, divided by the population of 10-12 years age group, multiplied by 100 Pakistan Education Policy, 1998-2010
Literacy rate	Percent of population aged 10 years and older that is literate. Literacy, in turn, is defined as the ability to read a newspaper, write a simple letter, and perform a simple sum.	Percent of population aged 10 years and older that is literate. Literacy is defined as the ability to read a newspaper, and write a simple letter. Ministry of Education (EFA)
Drop-out rate	The cohort here is that of children aged 15-19 years old that have ever attended primary school. Taking this cohort to be 100% the figure shows the % of this cohort who dropped out of school before completing Class 5. Those children in this cohort that are still attending school but have not completed primary school as yet have been excluded here.	Withdrawal of children from school at any stage before completion of primary education (grade 5) divided by the number of students enrolled in primary education level, multiplied by 100. Ministry of Education (EFA)
Number of functional public schools	-	The number of primary plus mosque schools National Education Management Information System (NEMIS)
Infant mortality rate	Proportion of children who die before they reach their first birthday	The probability of dying before the first birthday Pakistan Reproductive Health & Family Planning Survey
Child mortality	-	The probability of dying between the first and fifth birthday, having survived the first year Pakistan Reproductive Health & Family Planning Survey
% of births attended by trained personnel	Percentage of women that were assisted by a doctor, nurse, or LHV's during delivery	Percentage of women whose last delivery took place in a government or private health facility Pakistan Reproductive Health & Family Planning Survey
Immunization coverage of children	Percentage of children between ages 12-23 months, fully immunized against BCG, DPT-1, DPT-2, DPT-3, Polio-1, Polio-2, Polio-3, & Measles. This number is based on recall and record.	
Coverage of pre-natal care	Percent of pregnant women visiting health facilities for pre-natal consultation	
Contraceptive prevalence rate	Total number of women in the relevant category currently using family planning, expressed as a percent of all currently married women in the 15-49 years, the relevant category	
% Of population with access to safe water	-	Planning Commission
% Of population with access to sanitation	-	Planning Commission
Food support program - number of beneficiaries	-	Number of beneficiaries who have "drawn amount" from the food support program Pakistan Bait-ul-Maal
Head Count Ratio (% - caloric approach)	The ratio counts the number of poor below the poverty line estimated on the basis of calorie-based approach. The calorie approach assumes that there is a defined caloric intake (2,550 calories per day) that is essential. The ratio estimates the level of expenditure - poverty line - required to attain that	

	level of caloric intake.	Planning Commission
--	--------------------------	---------------------

Annex – III

Pakistan: I-PRSP Expenditures, 1999/2000 - 2001/2001					
(Rs. Millions)					
	1999/2000	2000/2001	2001/2002	2000/2001	2001/2002
	Year	Year	Year	Q1	
	Act.	June Prov.	Budget	Prel. Act.	Prov.
Highways roads, & bridges	5,134	7,148	6,593		
Current	1,880	2,990	970		
Development	3,254	4,158	5,623		
Water supply & sanitation	5,553	4,499	5,799		
Current	1,879	2,084	2,123		
Development	3,674	2,415	3,676		
Education	54,002	56,362	69,475		
Current	51,572	54,396	64,913		
Development	2,430	1,966	4,562		
Health	17,342	17,494	22,728		
Current	14,308	15,035	18,718		
Development	3,034	2,459	4,010		
Population planning	3,439	1,552	1,837		
Current	35	48	37		
Development	3,404	1,504	1,800		
Social security and other welfare	2,069	1,568	3,864		
Current	1,985	1,496	3,671		
Development	84	72	193		
Natural calamities	1,243	912	185		
Irrigation	8,274	8,157	16,041		
Current	5,400	5,791	8,241		
Development	2,874	2,366	7,800		
Land reclamation	939	1,401	1,743		
Rural development	6,513	11,976	9,312		
Current	1,260	3,895	1,684		
Development	5,253	8,081	7,628		

Interim - Poverty Reduction Strategy Paper (I - PRSP)

Food Subsidies	9,850	8,236	13,106		
TOTAL	114,358	119,305	150,683		

Note: Further dis-aggregation of Education and Health expenditures will be made available from the first quarter I-PRSP expenditure report for 2001-02.

**Annex - IV
Policy Matrix**

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
A. MACROECONOMIC FRAMEWORK				
<p>FISCAL REFORM</p> <p>Achieve Fiscal Sustainability</p>	<ul style="list-style-type: none"> Measures taken to reduce a projected fiscal deficit to 6.4% of GDP, which included: collection of GST on electricity, price adjustments of petroleum products in line with world prices, and elimination of subsidy for furnace oil and periodic price adjustments. 	<ul style="list-style-type: none"> Reduce the fiscal deficit to about 5.3% of GDP Removal of subsidies on gas and imposition of General Sales Tax on pesticides and fertilizers. Develop a fiscal analysis framework covering general government and non-financial public enterprises in a medium term framework Complete a review of economic costs and quasi-fiscal activities by public enterprises 	<ul style="list-style-type: none"> Reduce the fiscal deficit to about 5.3% of GDP by June 2002 and 3.2% of GDP by June 2004. Implement action plan to eliminate economic costs from public enterprises and address contingent liability issues. 	<ul style="list-style-type: none"> Achieve substantial reduction in the fiscal deficit to about 3.2% of GDP and create sufficient fiscal space for adequate levels of I-PRSP outlays to 4.0% of GDP.
<p>Reform Tax System to improve Efficiency in Resource Allocation and Improve Tax Payer Compliance</p>	<ul style="list-style-type: none"> Launching of tax registration and compliance drive. Introduction of a new agriculture income tax which taxes agriculture income for large farmers Clubbing of agriculture and non-agriculture wealth for tax purposes. Enhanced audit capacity at CBR Elimination of income tax whitener schemes Enhanced collection of tax arrears Income tax applicable to income from foreign currency deposits (FCDs) and special dollar bonds (SDBs) 	<ul style="list-style-type: none"> Implement determined and sustained tax registration and compliance drive. Initiate program to reduce tax exemptions Extend GST to services Extension of GST to all traders above Rs. 5.0 million Introduce agricultural income tax with two exemptions – thresholds and taxation of agri-income as any other income for farms over 50 acres. Introduce acreage-based tax on agriculture and allow the exemption on capital gains tax on shares to expire. Establish a Tax Ombudsman position to address complaints and irregularities in tax collection. Promulgation of new Income Tax Ordinance (ITO) with 2001-02 budget system based on self-assessment minimal exemptions, more equitable rates, and minimum withholding tax. 	<ul style="list-style-type: none"> Allowing minimal tax exemptions, equitable rates, and gradually reduce withholding taxes. Increase audit capacity at CBR. Implementation of CBR Reforms Program Reduce exemptions Expand services subject to GST Move towards an integrated, client-based functional tax administration system. Overcome scarcity of qualified personnel through training, and refresher courses on various aspects of tax administration, implementation, and control. Overhaul the Income Tax Ordinance to system based on self-assessment minimal exemptions, more equitable rates, and minimum withholding taxes Extend GST to agricultural inputs Phase out GST subsidy on electricity to consumers 	<ul style="list-style-type: none"> Improved revenue performance through improved compliance and broadening of the tax base. Reduce tax distortions and enhance equitability of the tax system.

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
Improve Expenditure Management and Composition of Public Spending to Enhance Development Impact	<ul style="list-style-type: none"> • Mid-term adjustments of the Public Sector Development Program (PSDP) improved the quality of the investment program and enhanced its poverty reduction focus. • Establishment of “New system of financial controls and budgeting” at federal level to enhance expenditure control. 	<ul style="list-style-type: none"> • Enhance allocations for high-priority development expenditure with a stronger poverty reduction focus. • Ban overdraft facility of public sector enterprises from the SBP. • Initiate work to develop a Medium Term Expenditure Framework (MTEF) at the Federal and provincial levels. • Establish a centralized debt management unit and develop a computerized, debt management system. • Reduce interest bill and contain defense expenditures. • Develop a debt reduction and management strategy. 	<ul style="list-style-type: none"> • Enhance allocations for high priority development expenditures with stronger poverty reduction focus. • Reduce interest bill and contain defense expenditures. • Develop the Debt Management and Fiscal Accounting System (DMFAS) and link it to PIFRA. • Complete special audit of CDNS • Compile and record a debt management spreadsheet for NSS investments. • Implement MTBF at the federal level with the 2001-02 budget • Provide legal backing to MTBF and other public financial management reforms through promulgation of Financial Management Act. • AG starts annual preparation of financial reports prescribed under the “Revised Principles” 	<ul style="list-style-type: none"> • Improved Budget compliance and fiscal discipline. Improved development and poverty reduction impact of government spending. Expenditure policy linked to policy priorities
Improve Fiscal Relations Between Federal and Provincial Governments, and Among Provincial and Local Governments		<ul style="list-style-type: none"> • Formulate a vision paper for Federal-Provincial-Local Government fiscal relations <u>By March 2001</u> • Initiate public discussion on tax reforms that would grant enhanced taxing authority to provinces the local government and transfer formula for allocating resources from higher to lower level of government • Establishment of Provincial Fiscal Reconciliation Committees to improve quality of provincial expenditure data. 	<ul style="list-style-type: none"> • Initiate implementation of tax reform at the local government level in conjunction with launching of development plan • Initiate public discussion on tax reforms that would grant enhanced taxing authority to the provincial governments and a review of the transfer formula for the 2002 NFC Award • Implementation of new NFC award and tax reform that will grant additional tax revenues to the provincial governments 	<ul style="list-style-type: none"> • Reduce imbalance between spending and tax responsibilities across levels of government to reasonable levels
Industrial Reforms	<ul style="list-style-type: none"> • Develop an industrial policy for boosting exports. • Promote small and medium sized industry. • Develop a specialized organization for revival of sick 	<ul style="list-style-type: none"> • Clarify the role of SMEDA in sectoral studies both in terms of industrial promotional as well as regulatory roles. 	<ul style="list-style-type: none"> • Achieving increased value addition in Textiles. 	

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
	<p>industrial units.</p> <ul style="list-style-type: none"> Develop WTO consistent laws. 			
Savings and Investments		<ul style="list-style-type: none"> Introduce Pakistan Investment Bonds that serve as a benchmark for debt instruments. 	<ul style="list-style-type: none"> Increase the ratio of fixed Investment to GDP to 15%; public sector Investment would rise to 6% and private sector investment would rise to 9%, by 2003-04. Raise national savings to 14.9%, of GDP, while bringing foreign savings to 1.9%, by 2003-04. This would enhance capacity utilization and efficiency of capital, and reduce ICOR. 	
		<ul style="list-style-type: none"> Restructure and revitalize Agriculture Development Bank Pakistan (ADBP) and extend its outreach. Develop markets for non-traditional agriculture products like horticulture and fruits. Encourage livestock development and milk production as a farm-based industry. Revive on-farm water management programs and the process of lining, and de-silting of watercourses Provide institutional and credit support to Fisheries for value addition in exports. Establish remunerative prices for farmers by setting procurement prices in line with international prices. Increase wheat (issue) price and reduce current wheat subsidies by 50%. 	<ul style="list-style-type: none"> Close operations of Rice and Cotton Export Corporations and restricting the role of Trading Corporation of Pakistan (TCP). 	
B. EXTERNAL SECTOR				
EXTERNAL SECTOR Redress Imbalances in the balance of payments	<ul style="list-style-type: none"> Reduction in the current account deficit (before official transfers) to 2.2% of GDP compared to 3.8% of GDP for 1998-99 	<ul style="list-style-type: none"> Reduction in current account deficit to about 1.9% of GDP Increase exports through a more flexible exchange rate and removal of administrative impediments 	<ul style="list-style-type: none"> Maintain the current account deficit at about 2.2% of GDP by 2002-03 and 1.9% of GDP by 2003-04 Increase the ratio of exports to GDP 	<ul style="list-style-type: none"> Improve the sustainability of the BOPs through stronger export performance. Reduce recurrent

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
				need for large exceptional financing
Achieve an export growth rate of around 10%, while keeping the growth rate of imports at 6%, and keeping the exchange rate fully competitive				
Promote a Flexible Exchange Rate Policy		<ul style="list-style-type: none"> Convert Rupee Dollar regime to free float 		<ul style="list-style-type: none"> Ensure export competitiveness and achievement of export and reserve targets
Revise Foreign Currency Deposit policy	<ul style="list-style-type: none"> Remove restrictions on remittances of profits, dividends, interest, and repatriation of capital by foreign investors 	<ul style="list-style-type: none"> Elimination of requirement that banks place with the SBP new FCDs that have not been lent domestically 		<ul style="list-style-type: none"> Eliminate SBPs holdings on new FCD schemes to free their use by the financial system
Improve Export Performance by Reducing Anti-Export Bias of Trade Policy	<ul style="list-style-type: none"> Elimination of unit value of exports norms for agriculture products Liberalization of raw cotton exports 	<ul style="list-style-type: none"> Eliminate differential application of excise duties on imported and domestically produced goods to bring the maximum nominal effective tariff to 35% Completion of trade policy review and announcement of plans to further reduce tariffs, exemptions, and slabs to levels comparable to those prevailing in fast growing export oriented economies Liberalization of exports of all agricultural products, except wheat, by elimination of annual administrative approval requirements Complete a study on establishing future markets for main agricultural commodities 	<p><u>By July 2001</u></p> <ul style="list-style-type: none"> Eliminate all remaining differential applications of excise duties on imported and domestically produced goods Reduce the maximum tariff to 30%, and, reduce the number of slabs according to policy announcements Liberalization of wheat imports and exports, elimination of subsidies to wheat, and free movement of wheat across the country Further reduce maximum tariff and number of slabs, according to policy announcement 	<ul style="list-style-type: none"> Establish a trade policy in line with that in successful export oriented economies in Asia. Reduce distortions and anti-export bias of trade regime. Increase in rate of growth of exports
Improve Export performance by adopting Sound Institutional Framework for Trade	<ul style="list-style-type: none"> Initiate review of existing Export Finance Scheme (EFS) to reduce current subsidy and improve its targeting to first time and small and medium size exporters 	<ul style="list-style-type: none"> Initiate reform of CBR administrative procedures to significantly reduce delays and shortfalls in the process of accessing refunds on GST and tax-and-duty-free imports (duty drawbacks, no-duty/ no-drawback, and zero-rated ST) 	<ul style="list-style-type: none"> Continue implementation of CBR reforms to expedite GST and duty drawback schemes to exporters Establish a new institutional framework with a high level body responsible for overseeing the 	<ul style="list-style-type: none"> Exporter-friendly institutional framework, increase in the rate of growth of exports

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
		refunds to exporters. Establish system to grade exporters according to risk, with low risk categories of exporters being fast-tracked in the refund process <ul style="list-style-type: none"> Implement reforms on the EFS 	responsible for overseeing the implementation of the overall export oriented policy <ul style="list-style-type: none"> Phasing out to elimination in June 2003 of subsidized export financing 	
NSS REFORM Increase Financial Deepening and reduce Government Borrowing Costs	<ul style="list-style-type: none"> Reduce the interest rate in NSS certificates Ban on institutional investors purchase of NSS certificates 	<ul style="list-style-type: none"> Further reduce the NSS interest rates Launch new tradeable government debt instruments with medium and long-term maturities Announce new interest rate policy for NSS including benchmark criteria Make NSS rates market determined by benchmarking in relation to new government debt instruments Initiate NSS institutional reform by establishing professional management and autonomy from the Ministry of Finance. 	<ul style="list-style-type: none"> Deepen the capital markets by introducing derivatives and short selling instruments, and strengthen credit practices and accounting standards. Eliminate tax exempt status of interest rates earning from NSS 	<ul style="list-style-type: none"> Increase financial sector deepening and reduce market segmentation by increasingly channeling financial intermediation through the banking system and private sector capital markets. Lower government borrowing costs making NSS rates market-determined by benchmarking in relation to medium-and long-term government debt instruments
C. PRIVATIZATION AND DEREGULATION				
PRIVATIZATION AND DEREGULATION Privatize and/ or Deregulate Sectors which Produce Major Inputs for Rest of the Economy, or Carry Significant Contingent Liabilities	<ul style="list-style-type: none"> Preparation by Privatization Commission (PC) of a short and medium term timetable for privatization in the telecommunication, banking, oil and gas, power and industry sectors Issue policy Statement on the Telecom sector including tariff and regulatory framework prior to initiate marketing of PTCL Liquidation/sale of assets of 6 industrial units 	<ul style="list-style-type: none"> Promulgation of Privatization Ordinance Complete analysis and inventory of areas that will be suitable for deregulation and elimination of barriers to entry for an improved business environment (e.g. reinstatement of open skies policies in September 2000, liberalization of telecommunication sector ahead of the 2002 WTO agreement) Implement measures to deregulate key sectors and remove barriers to entry. A new insurance law to be promulgated. 	<ul style="list-style-type: none"> Implement deregulation strategy of major areas that serve as important inputs for the rest of the economy such as telecommunications, transport, steel, cement, and the like Liquidation/sale of 11 industrial units Liquidation/sale of 10 industrial units Strategic sale of Pak American, Pak Arab, and Pak Saudi Fertilizer Lease/Management Control of Heavy Electrical Complex and Heavy Mechanical Complex Privatization of PTCL completed 	<ul style="list-style-type: none"> Promote private sector development and growth by promoting deregulation, lifting barriers to entry to major sectors of the economy, and improving efficiency through privatization
Divestment of state minority interest in privately owned firms		<ul style="list-style-type: none"> Disinvestments of Muslim Commercial Bank and Pakistan State Oil Shares 		

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
<p>POWER SECTOR</p> <p>Reform and Privatization to Create a Competitive and Efficient Electric Power System</p> <p>Establish Appropriate Regulatory Framework</p>	<ul style="list-style-type: none"> Resolve issues with IPPs. Financial Restructure Plan of WAPDA initiated WAPDA's US\$650 million outstanding debt service liabilities to GOP converted into GOP equity Appointment of Chief Executive for PEPCO Thirteen corporatized entities created (3 GENCOs, 2 NTDCs and 8 DISCOs) Appointment of key executives in corporatized distribution and generation companies Submission of license applications to the NEPRA by all corporatized distribution companies (DISCOs) 	<ul style="list-style-type: none"> Complete corporatization of DISCOs: (i) issuance of license; (ii) transfer of assets, liabilities, and staff (iii) achieve effectiveness date of ODA Complete corporatization of NTDC and GENCOs Complete implementation of financial restructuring of WAPDA by: (i) settlement of arrears with Federal & provincial governments including FATA, AJK, and Baluchistan wells; (ii) resolution of outstanding IPP issues within orderly framework; (iii) resolve pension liability issues related to restructuring; and (iv) finalize transfer pricing Implement KESC financial restructuring WAPDA /KESC to meet targets for system loss reduction Appoint NEPRA chairman and remaining members WAPDA/ KESC to submit tariff filing to NEPRA, including a proposal for automatic adjustment clause for fuel and power purchased NEPRA to notify new retail tariff for WAPDA and KESC with automatic adjustment clause for fuel and power purchases NEPRA notification of remaining Rules and Regulations Announce framework for privatization and appoint Financial Advisor for KESC and one DISCO Introduce energy conservation policies and measures. 	<ul style="list-style-type: none"> WAPDA/ KESC to meet targets for system loss reduction. Encourage conversion of power plants from furnace oil to gas. Encourage power production based on hydel and indigenous inputs such as coal. Introduce competitive bidding for new capacity and for bulk supply (at the margin) within existing contractual framework <p><u>By June 2002</u></p> <ul style="list-style-type: none"> Privatize one GENCO and one additional DISCO <p><u>By 2003-04</u></p> <ul style="list-style-type: none"> Initiate transition from single-buyer model to competitive wholesale market Privatize KESC and three DISCO 	<ul style="list-style-type: none"> Competitive electric power system consisting of autonomous largely privately owned, financially viable and efficiently operated entities for generation, transmission, and distribution
<p>NATURAL GAS</p> <p>Establishment of Adequate Regulatory Framework</p>	<ul style="list-style-type: none"> Establishment of Gas Regulatory Authority, GRA Prices of compressed natural Gas have been deregulated 	<ul style="list-style-type: none"> Appoint Chairman and two remaining members of Gas Regulatory Authority (GRA) GRA to promote entry and competition by establishing principles for the 	<ul style="list-style-type: none"> Unbundle transmission and distribution areas in SSNGPL and SSGC Divesting of up to 51% of PPL completed 	<ul style="list-style-type: none"> Sector development based on private sector investment, anchored on a sound regulatory framework, and a

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
Sector Reform and Privatization to Promote Sector Development	<ul style="list-style-type: none"> Board of Directors of State enterprises have been re-constituted with private sector professional and given greater autonomy, corporate responsibilities, and accountability Cabinet approved wellhead pricing framework for new discoveries Gas sale agreements with private companies that made recent gas discoveries completed Program for privatization has been agreed with Privatization Commission 	<ul style="list-style-type: none"> determination of common carrier charges Announcement of new gas pricing framework based on (i) phased abandonment of cost-plus well-head pricing (ii) prices of all categories of consumers to reflect the cost of service; (iii) a new slab system for residential consumers with targeted subsidies to the poor; and (iv) a timetable through which subsidies to the fertilizer sector will be made transparent by either putting them in budget or buying out those contracts. Adjust PPL wellhead and retail tariffs as per gas price framework Announce strategic framework for privatization Divest GOP minority interest in 6 fields operated by international operators Appoint financial advisor and complete pre-qualification of bidders for the privatization of Pakistan petroleum Limited (PPL), Sui Northern Gas Limited (SNGPL), Sui Southern Gas Pipeline Limited (SSGPL) 	<ul style="list-style-type: none"> Transition of Oil and Gas Development Co. Ltd. (OGDCL) taken to the market <p><u>By June 2002</u></p> <ul style="list-style-type: none"> Divestment of up to 51% of SNGPL and SSGC completed Fertilizer subsidy to be included as part of the budget, or contracts brought out with privatization proceeds <p><u>By June 2003</u></p> <ul style="list-style-type: none"> Completion of phased adjustment of well-head pricing and consumer prices to fully reflect economic cost of gas resources with the exception of low income consumers 	redefined role for the state away from commercial and production activities and centered on policy-making
<p>PETROLEUM</p> <p>Establishment of Adequate Regulatory Framework</p> <p>Sector Reform and Privatization to Promote Sector Development</p>	<ul style="list-style-type: none"> Advance work towards creation of new regulatory authority, the Petroleum Regulatory Board (PRB) Adjustment in petroleum derivative prices in line with international prices Board of Directors of State enterprises have been re-constituted with private sector professionals and given greater autonomy, corporate responsibilities and accountability 	<ul style="list-style-type: none"> Promulgate ordinance for creation of PRB Liberalize LPG prices, imports, storage, transport and distribution. Notification of LPG price liberalization Establish common carrier rules for use of furnace oil infrastructure facilities Withdraw furnace oil from freight pool Initiate phased program to dismantle the freight pool Complete sector policy analysis with a view to: (i) advance sector reforms to have competitive procurement of petroleum products (including crude oil); (ii) eliminate relative price distortions across products; (iii) eliminate or make 	<ul style="list-style-type: none"> Based on policy studies' recommendations, initiate implementation of board sector reforms including an action plan to eliminate relative price distortions and privatize the refineries <p><u>By March 2002</u></p> <ul style="list-style-type: none"> Bidding process for Pakistan State Oil (PSO) completed <p><u>By June 2003</u></p> <ul style="list-style-type: none"> Petroleum Product Freight Pool dismantled 	<ul style="list-style-type: none"> Sector development based on private sector investment, anchored on a sound regulatory framework, and a redefined role for the state away from commercial and production activities and centered on policy making. Promote competition by liberalization of markets and prices, eliminating barriers to entry and dismantling of

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
		<p>transparent existing subsidies to the refineries; and (iv) design an overall sector privatization strategy, including the refineries</p> <ul style="list-style-type: none"> Announce a strategic framework for privatization of the petroleum sector Appoint Financial Adviser for the privatization of PSO 		monopolies or cartels
Introduce Cleaner Products to Protect the Environment		<ul style="list-style-type: none"> Announce timetable for adoption of cleaner fuels, consistent with international standards Adopt improved petroleum products specifications Notification on use of improved product specification and initiate phase out of leaded gasoline Initiate phase out of high sulfur fuel oil and other poor quality products 	<ul style="list-style-type: none"> Continue adoption of improved petroleum products and phase out of poor quality products 	<ul style="list-style-type: none"> Improvement in environment and health conditions
<p>BANKING AND FINANCIAL SECTOR REFORM Improve sector Governance through Privatization</p> <p>Improve Banking Supervision</p>	<ul style="list-style-type: none"> Develop plans for restructuring and consolidation of banking sector. Installation of professional management and consolidation of the workforce and branch network of the nationalized commercial banks (NCBs) Banking supervision upgraded Intensified loan recovery drive has yielded 10% outstanding stock of defaulted loans Measures undertaken to enhance financial position of NCBs prior to privatization including capitalization of Habib Bank Ltd. (HBL) 	<ul style="list-style-type: none"> Promulgation of a new Bank Recovery Ordinance to allow foreclosure without additional Court interventions Establishment of Corporate and Industrial Restructuring Corporation (CIRC) to restructure/liquidate non performing loans Advertisement for expression of interests for UBL Bidding for UBL Appointment of financial adviser for the privatization of HBL Preparation of DFI restructuring to consolidate DFIs Strengthen bank supervision and SBP institutional capacity 	<ul style="list-style-type: none"> Initiate DFI privatization Separate non-core activities of SBP from its core activities and strengthen the regulatory core function of SBP. Remaining shares of two partially privatized banks to be divested through the stock market (MCB, Allied Bank) Public offerings of stocks of HBL and NBP <p><u>By June 2002</u></p> <ul style="list-style-type: none"> Bidding for HBL to have taken place Participate in joint IMF-WB Financial Sector Assessment, and implement recommendations Transfer non-core activities of SBP to other entities 	<ul style="list-style-type: none"> Improve Governance and efficiency in the banking/financial sector by imposing market discipline through privatization and improved enforcement of prudential regulation

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
D. Governance				
<p>CIVIL SERVICE REFORM Reform the Civil Service to Enhance Efficiency and Effectiveness in Service Delivery</p>	<ul style="list-style-type: none"> • Set up Committee to guide process of civil service reform • Increased autonomy to Federal Public Services Commission for merit-based appointments. • Ordinance allowing discretionary retirement of civil servants after 25 years of service promulgated. • Ordinance that allows fast disciplinary measures for corruption and inefficiency in the workplace has been promulgated • Elimination of 1000 vacancies at CBR and suspension of 1000 CBR staff has taken place 	<ul style="list-style-type: none"> • Preparation of policy paper and announcement on the direction and principles of civil service reforms • Review overall salary structure and carry out a Census of public sector employees as an input for right-sizing policy • Carry out functional reviews across the Fedearl Government Ministries • Initiate comprehensive civil service reform including right-sizing of CBR and the Federal economic Ministries 	<ul style="list-style-type: none"> • Functional restructure and completion of comprehensive civil service reform of all Federal Ministries by June 2003. 	<ul style="list-style-type: none"> • Improved quality of government services.
<p>FINANCIAL MANAGEMENT ACCOUNTABILITY Modernize Financial Management and Control System to Enhance Accountability and Promote a More Honest, Efficient and Answerable Government</p>	<ul style="list-style-type: none"> • Establishment of a Fiscal Monitoring Committee to oversee preparation and publication of quarterly reports on fiscal developments and ensure accuracy of data by requiring verification by the AGPR 	<ul style="list-style-type: none"> • Completion of the fiscal module of the Report on Standards and Codes (ROSC) and the implementation of its main recommendations, including: (I) publishing a statement describing the main economic assumptions underlying the budget forecasts; and (ii) improving the presentation of budget estimates by providing clear detailed provisional estimates for the previous and actual year based on audited accounts for the preceding years • Accelerate implementation of Program to Improve Financial Reporting and Auditing (PIFRA) by introducing pilot program for use of new chart of accounts. • The government has adopted a comprehensive strategy for improving public accounting and auditing functions by separating audit from accounts. • Establish Procurement Regulatory Authority to standardize procurement procedures, settle disputes, and serve as a watchdog agency. 	<ul style="list-style-type: none"> • Roll out computerized system of accounts to both Fedearl and Provincial governments • Mechanisms in place to reduce lag between close of accounts and audit review process • Mechanisms in place to ensure follow up action to auditors recommendations • Initiate a review of budget documentation to streamline overall budget presentation and improve analytical content • Initiate a study of measures to improve the effectiveness of the PAC and the possibility of broadening the mandate of the PAC/ Audit Office to monitor government performance and transparency as well as financial compliance 	<ul style="list-style-type: none"> • Improved quality of financial information available to the public; improved and timely information financial management; Effective scrutiny over financial management by the executive

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
<p>REDUCE CORRUPTION & INCREASE ACCOUNTABILITY</p> <p>Anti corruption strategy to reduce corruption & mal-administration</p>	<ul style="list-style-type: none"> Establishment of National Accountability Bureau with powers to investigate and prosecute 	<ul style="list-style-type: none"> Assign institutional responsibility for anti-corruption policy coordination and establish a broad based Governance Reform Task Force including civil society representatives for rationalizing and strengthening key accountability institutions Promulgation of Tax Ombudsman Ordinance Promulgation of Freedom of Information Ordinance Increase private sector access to TV and radio media 	<ul style="list-style-type: none"> Conduct series of workshops on corruption survey's results and develop and publish an anti-corruption strategy taking into account these results Publish Citizens charters in key Departments where services are provided Complete the first surveys of perceptions of public service quality and corruption among households, business enterprises, and civil servants 	<ul style="list-style-type: none"> Stakeholder surveys indicate decreasing perceptions of corruption
<p>DEVOLU-TION</p> <p>Implement Devolution and Decentralization to Enhance Beneficiary and Stakeholder Participation and Accountability</p>	<ul style="list-style-type: none"> Preparation of blueprint for devolution 	<ul style="list-style-type: none"> Finalize devolution plan in consultation with stakeholders to devolve powers and responsibilities, including the delivery of social services, from the federal and provincial governments to elected district level authorities and councils Hold elections of local government authorities 	<ul style="list-style-type: none"> Launch Implementation of the Devolution Plan in line with administrative capacities 	<ul style="list-style-type: none"> Enhanced beneficiary and stakeholder participation in decision making and in overseeing government performance
E. POVERTY AND SOCIAL DEVELOPMENT				
<p>MONITOR POVERTY AND EVALUATE IMPACT OF PUBLIC POLICIES</p>		<ul style="list-style-type: none"> Establish Micro-finance Bank Define criteria and methodology to assess impact of Poverty Reduction Strategy. Carry out beneficiary assessment analysis of targeting and impact of the Social Action Plan (SAP), Khushal Pakistan Program, the enhanced Zakat program, and Food Support Program 	<ul style="list-style-type: none"> Develop the institutional setup to regularly monitor poverty and social development indicators based on Household and Census data Based on analysis of poverty data and social impact indicators, identify factors for adverse outcomes and design appropriate policy responses and mitigation measures 	<ul style="list-style-type: none"> Track progress in reducing poverty and improving living conditions using a range of indicators. Measure the impact of key reform measures on the poor, the vulnerable, and marginalized groups
<p>EDUCATION</p> <p>To Reduce Illiteracy, primarily through Increased</p>		<ul style="list-style-type: none"> Reduce the rate of illiteracy Expand the school network at primary level by increasing the number of mosque and non formal schools by 2,200 and 2,800, respectively. 	<ul style="list-style-type: none"> Reduce the rate of illiteracy by 3-4 %, per annum. 	<ul style="list-style-type: none"> Increased literacy rates, particularly those for females.

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
<p>Non Formal Education, Particularly in Rural Areas</p> <p>Improve the Quality of Education By Strengthening Curriculum, the Teacher Training System, and the Information and Monitoring System.</p>		<ul style="list-style-type: none"> • Shift financial powers to District Education Authority (DEA), Union Councils, and school management committee & involve teachers and NGOs in improving the standard of primary education. • Establish school development funds for operation and maintenance of schools through cost sharing by parents, donors, and the Government. 	<ul style="list-style-type: none"> • Improved teacher's training using regular, cluster based, in service monitoring programs. • Further emphasizing the role of PTAs and developing school management systems that allow hiring and firing of teachers. • Tax rebates to the private sector for making capital investment in education. • Regularizing private school education councils. 	
GENDER RELATED REFORMS	<ul style="list-style-type: none"> • Reform discriminating laws identified by the Commission of Inquiry of Women Report, 1997. 	<ul style="list-style-type: none"> • Establish a permanent commission on the status of women to oversee and coordinate policy measures regarding empowerment of women. • Economic empowerment of women through targeted micro-credit loans for women • Reserving 33% women seats in local bodies under the Devolution Plan. 	<ul style="list-style-type: none"> • Introduce policy measures in education to reduce the gender gap. • Evaluate the existing employment sector with an aim of maintaining a gender balance in employment. 	<ul style="list-style-type: none"> • Improved status of women through sustainable socio-economic empowerment. Active role of women in decision making at all levels as an outcome of the Devolution Plan.
HEALTH AND NUTRITION	<p>Expanded Coverage and Access to High Quality Basic Health Services, Especially for Women and Rural Inhabitants.</p>	<ul style="list-style-type: none"> • Deploy 44,000 lady health workers (LHWs). • Achieve functional integration with Village Based Family Planning Workers (VBFPWs). • Expanded Program of Immunization (EPI) • Reduce the incidence of measles. • Introducing the reproductive health package in a phased manner. 	<ul style="list-style-type: none"> • Strengthen the Expanded Program of Immunization (EPI). • Introducing Hepatitis – B in the EPI. • Expand the Tuberculosis Control Program and National Tetanus Coverage. • Establish clinics for HIV/ AIDS prevention counseling, voluntary and confidential testing, and prevention. 	<ul style="list-style-type: none"> • Improved human resource development through sound health services; disease control through cost effective preventive health services.
NUTRITION		<ul style="list-style-type: none"> • Encourage participation of philanthropic organizations at all levels of health 	<ul style="list-style-type: none"> • Improve the efficiency of Basic Health Units (BHUs) and Rural Health 	<ul style="list-style-type: none"> • Achieve Improved nutrition level for capacity

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
Reduce the Prevalence and Incidence of Micro-nutrient Deficiencies in Women and Children		services, including voluntary management of public facilities. <ul style="list-style-type: none"> Strengthen National Nutrition Program especially its components of breast-feeding, fortification, and provision of Vitamin A, iron and iodine. 	Centers (RHCs) by setting up district level community based supervisory committees. <ul style="list-style-type: none"> Integration of Family Welfare Centers, Mobile Service Units, and VBFPWs with the Health Sector outlets. 	building of human resources. Reduction in the level of malnutrition especially for poor women and children, which will in turn control infant and maternal mortality rates.
POPULATION PROGRAM Reduce the Fertility Rate	<ul style="list-style-type: none"> Matching of the current need of 33% contraceptive prevalence rate (CPR) 	<ul style="list-style-type: none"> Integrate family planning services with health outlets at service delivery level. Extend support through Pakistan Poverty Alleviation Fund (PPAF) to autonomous, women centered community based organizations (CBOs) for education and training; as lower fertility rates are directly related to the education level of women. 	<ul style="list-style-type: none"> Bring about a social change for family planning by social sensitization. 	<ul style="list-style-type: none"> Reduced fertility rates and a wider social acceptance for contraceptive use.
WATER SUPPLY AND SANITATION Increase Access to Safe Drinking Water and Sanitation in Rural and Urban Areas ENVIRONMENT Solve Environmental Problems Arising from Poverty and Pursue Environmentally Friendly Policies for Sustainable Development		<ul style="list-style-type: none"> Meet rural needs, through SAP-II, by following a participatory approach. Effectively manage urbanization for sustainable development of cities. Develop a strategy for the solution of environmental problems caused by poverty, land degradation, deforestation, water pollution, soil depletion, and wild life destruction. 	<ul style="list-style-type: none"> Increase access to safe drinking water and sanitation. Developing provincial capacity for implementing environmental protection laws and monitoring their effectiveness. Developing a policy framework for creating environmental awareness for introducing pollution free fuels. 	<ul style="list-style-type: none"> Improved access to clean drinking water and sanitation. Control of diseases caused by water pollution. Conservation of natural resources for sustainable development and strengthening environmental protection laws.
TARGETED SOCIAL ASSISTANCE PROGRAMS	<ul style="list-style-type: none"> The Integrated Rural and Urban Development Program (IRUDP), now Khushal Pakistan Program, was launched in the poorest districts to stimulate economic 	<ul style="list-style-type: none"> Initiate the Food Support Program, to mitigate the impact of the wheat price increase, for 1.2 million poor households. 	<ul style="list-style-type: none"> Monitoring and Evaluation of Khushal Pakistan Program by developing a sustainable civilian monitoring system. Transfer of Khushal Pakistan 	<ul style="list-style-type: none"> Reduction in the poverty level and improvement in basic needs provision to those with financial constraints.

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
Develop Social Assistance and Income Supplementing Programs for the Poor, mainly in Rural Areas, to Help Reduce Poverty and Increase Employment	<p>activity.</p> <ul style="list-style-type: none"> Measures taken to develop sustainable participatory mechanisms for monitoring and evaluation of social sector programs. 	<p><u>Zakat and Ushr</u></p> <ul style="list-style-type: none"> Revamp the Zakat and Ushr system and increase coverage of the subsistence allowance to 2 million Mustahiqeen (beneficiaries). Increase the Guzara (subsistence) allowance from Rs. 200 to Rs. 500 per month per Mustahiq (deserving). <p><u>Micro – Credit Bank</u></p> <ul style="list-style-type: none"> Establish Micro-Credit Bank for provision of collateral free micro-credit to the poor, especially poor women, and support NGOs and CBOs dealing in micro-credit. 	<p>Program implementation to local governments.</p> <ul style="list-style-type: none"> Develop participatory mechanisms for the identification, disbursement, and monitoring and evaluation of the Zakat system Small infrastructure development in rural areas 	<ul style="list-style-type: none"> Provision of an elaborate system of social safety nets for the poor. Generation of employment opportunities through labour public work projects in rural areas. Improvement in the status of women through economic empowerment.

F. Transport System

TRANSPORT SECTOR REFORMS		<p><u>Railways Reforms</u></p> <ul style="list-style-type: none"> Rationalize manpower structure and strength. Introduce economy measures through rationalization in overtime payments, pilferage of gas and electricity, reduction in passes, investigation of ghost pensioners, black marketing of tickets, and reduction in train stoppages. Establishment of a marketing department in Railways. Auctioning of redundant assets and sale of railway lands <p><u>Roads Network</u></p> <ul style="list-style-type: none"> National Highway Authority (NHA) to enhance system of road user charges Prioritize the maintenance and rehabilitation of existing road networks Integration of remote areas with a 	<p><u>Railways Reforms</u></p> <ul style="list-style-type: none"> Railways travel to be made affordable for the poor. Strategy will include: (a) investment in track rehabilitation, locomotives, rolling stock and signaling apparatus; (b) Cost-cutting measures to keep down tariffs and (c) encouraging participation of the private sector. Corporatize three railway business units under the Company's' Act. 	
---------------------------------	--	--	---	--

Objectives	1999-2000 (July-June)	2000-2001 (July-June)	2001-02 to 2003-04 (July-June)	Outcomes
		priority for improved rural access and farm-to-market roads as per Khushal Pakistan Program.		
G. TELE-COMMUNICATION AND INFORMATION TECHNOLOGY (IT)				
<i>IT REFORMS</i>	<ul style="list-style-type: none"> • Merged the Telecommunication and Information Technology (IT) Departments, and placed under the Ministry of Science and Technology for effective institutional support and operations. 	<ul style="list-style-type: none"> • Expand bandwidth, invest in digital equipment, remove bottlenecks in outside plants, and provide access to switching centers, (NII and GII). • Introduce Voice Over Internet Protocol (VOIP) to the PTCL network and modernize, expand and rebalance the telecom network. • Provide telecom services to rural areas by using services based on VOIP, satellite linkages, Wireless Local Loop (WLL) systems; and finance them through Universal Service Obligation (USO) funds, towards which telecom operators and the government will make contributions. • Establish a Standing Committee to track new telecom technologies and introduce them into the system. • Develop a legal framework to regulate the IT industry, and protect intellectual property rights. • Ensure provision of credit and export finance to the IT industry. • Rationalize PTCL tariff structure and make it internationally competitive. • Government departments to develop their web-sites for efficient supply of information and service material. 	<ul style="list-style-type: none"> • Double internet usage by 2002. • Develop a strong pool of IT professionals through new IT-based universities. • Ensure IT professionals' competence through a National Testing Service. 	Policies to improve teledensity in the country by rapidly developing the telecom and digital infrastructure.

Annex V
I-PRSP Expenditures: Consolidated Expenditures (Rs. Millions)

Code	Function		1995-96			1996-97			1997-98			1998-99			1999-00			2000-01		
			Curr.	Dev.	Total	Curr.	Dev.	Total	Curr.	Dev.	Total	Curr.	Dev.	Total	Curr.	Dev.	Total	Curr.	Dev.	Total
31200	Highways, Roads, & Bridges	Punjab	1355	2068	3423	1243	1677	2920	1358	1990	3348	1439	2154	3593	1462	1695	3157	1729	1704	3433
		Sindh	93	1805	1898	74	811	885	135	895	1030	88	880	968	111	668	779	160	929	1089
		NWFP	202	628	830	81	285	366	75	312	387	203	657	860	240	390	630	146	351	497
		Baluchist.	178	817	995	105	368	473	75	334	409	117	505	622	67	501	568	325	1174	1499
		TOTAL	1828	5318	7146	1503	3141	4644	1643	3531	5174	1847	4196	6043	1880	3254	5134	2990	4158	7148
32000	Water Supply & Sanitation (Public Health Services)	Federal	82	14	96	88	11	99	89	7	96	106	24	130	132	34	166	131	13	144
		Punjab	405	2672	3077	391	2306	2697	597	2923	3520	504	1896	2400	427	2220	2647	451	1272	1723
		Sindh	247	782	1029	210	507	717	267	486	753	284	516	800	329	418	747	356	208	564
		NWFP	319	807	1126	232	695	927	467	640	1107	527	667	1194	530	750	1280	587	516	1103
		Baluchist.	336	669	1005	323	190	513	445	179	624	488	282	770	461	252	713	559	406	965
TOTAL	1389	4944	6333	1244	3709	4953	1865	4235	6100	1909	3385	5294	1879	3674	5553	2084	2415	4499		
41000	Education	Federal	4508	998	5506	4822	792	5614	5298	866	6164	5125	836	5961	5829	1053	6882	5672	702	6374
		Punjab	18661	483	19144	19062	219	19281	21513	1408	22921	21709	954	22663	23049	402	23451	24672	263	24935
		Sindh	8689	105	8794	8829	44	8873	10253	64	10317	10323	77	10400	11424	178	11602	12188	127	12315
		NWFP	5499	239	5738	5505	739	6244	6230	415	6645	6647	258	6905	7729	567	8296	8292	605	8897
		Baluchist.	2253	760	3013	2418	174	2592	2806	231	3037	3175	302	3477	3541	230	3771	3572	269	3841
TOTAL	39610	2585	42195	40636	1968	42604	46100	2984	49084	46979	2427	49406	51572	2430	54002	54396	1966	56362		
42000	Health	Federal	1583	1852	3435	1644	1802	3446	1826	1581	3407	1746	2024	3770	2003	2193	4196	2106	1790	3896
		Punjab	4123	514	4637	4168	497	4665	4837	797	5634	5142	647	5789	5921	654	6575	6370	435	6805
		Sindh	2067	175	2242	2189	57	2246	2547	131	2678	2597	79	2676	2994	75	3069	3154	128	3282
		NWFP	1590	140	1730	1535	66	1601	1725	90	1815	1956	159	2115	2192	91	2283	2124	42	2166
		Baluchist.	821	519	1340	885	591	1476	965	232	1197	947	250	1197	1198	21	1219	1281	64	1345
TOTAL	10184	3200	13384	10421	3013	13434	11900	2831	14731	12388	3159	15547	14308	3034	17342	15035	2459	17494		
43000	Population Planning	Federal	7	1123	1130	27	1046	1073	32	1070	1102	30	1477	1507	32	2068	2100	40	1465	1505
		Punjab	0	420	420	0	410	410	0	418	418	0	548	548	0	709	709	0	1	1
		Sindh	0	199	199	0	178	178	0	221	221	0	274	274	0	322	322	0	36	36
		NWFP	1	111	112	2	132	134	2	149	151	3	164	167	3	197	200	3	1	4
		Baluchist.	0	72	72	0	63	63	0	82	82	0	97	97	0	108	108	5	1	6
TOTAL	8	1925	1933	29	1829	1858	34	1940	1974	33	2560	2593	35	3404	3439	48	1504	1552		
47000	Social security & other welfare	Federal	1697	86	1783	1814	65	1879	1284	58	1342	1269	55	1324	1352	72	1424	847	47	894
		Punjab	252	19	271	272	19	291	272	11	283	313	67	380	341	7	348	359	7	366
		Sindh	161	9	170	161	3	164	201	6	207	192	1	193	177	0	177	180	2	182
		NWFP	39	12	51	42	7	49	50	2	52	45	2	47	51	2	53	51	5	56
		Baluchist.	48	127	175	48	3	51	54	9	63	55	23	78	64	3	67	59	11	70
TOTAL	2197	253	2450	2337	97	2434	1861	86	1947	1874	148	2022	1985	84	2069	1496	72	1568		
48000	Natural calamities	Federal	514	0	514	122	0	122	113	0	113	962	0	962	759	0	759	225	0	225
		Punjab	25	0	25	76	0	76	71	0	71	83	0	83	113	0	113	169	0	169
		Sindh	31	0	31	14	0	14	11	0	11	10	0	10	104	0	104	322	0	322
		NWFP	14	0	14	5	0	5	13	0	13	6	0	6	22	0	22	4	0	4
		Baluchist.	14	0	14	5	0	5	6	0	6	13	0	13	245	0	245	192	0	192
TOTAL	598	0	598	222	0	222	214	0	214	1074	0	1074	1243	0	1243	912	0	912		
52000	Irrigation	Federal	69	1751	1820	72	985	1057	77	1142	1219	62	1080	1142	70	686	756	59	248	307
		Punjab	3919	1053	4972	4423	624	5047	3103	1096	4199	2762	1273	4035	2940	1200	4140	3060	1020	4080
		Sindh	1255	1731	2986	1240	787	2027	1409	1130	2539	1294	662	1956	1402	510	1912	1310	411	1721
		NWFP	709	380	1089	366	293	659	713	317	1030	811	601	1412	727	313	1040	657	176	833
		Baluchist.	217	801	1018	231	826	1057	234	501	735	291	311	602	261	165	426	705	511	1216
TOTAL	6169	5716	11885	6332	3515	9847	5536	4186	9722	5220	3927	9147	5400	2874	8274	5791	2366	8157		

Interim - Poverty Reduction Strategy Paper (I - PRSP)

53000	Land Reclamation	Federal	19	0	19	18	0	18	19	0	19	25	0	25	20	0	20	21	0	21
		Punjab	49	0	49	42	0	42	49	0	49	46	0	46	56	0	56	54	0	54
		Sindh	399	0	399	359	0	359	473	0	473	744	0	744	863	0	863	1326	0	1326
		NWFP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Baluchist.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		TOTAL	467	0	467	419	0	419	541	0	541	815	0	815	939	0	939	1401	0	1401
56000	Rural Development	Federal	28	4846	4874	30	1709	1739	30	2043	2073	31	2179	2210	32	2806	2838	36	1449	1485
		Punjab	324	1715	2039	335	647	982	489	632	1121	304	1833	2137	360	2342	2702	420	4082	4502
		Sindh	43	0	43	42	0	42	43	0	43	50	0	50	56	0	56	1612	0	1612
		NWFP	62	655	717	65	114	179	65	77	142	62	232	294	708	88	796	1129	1801	2930
		Baluchist.	87	211	298	88	61	149	91	82	173	103	58	161	104	17	121	698	749	1447
		TOTAL	544	7427	7971	560	2531	3091	718	2834	3552	550	4302	4852	1260	5253	6513	3895	8081	11976
61000	Food Subsidies	Federal	7182	0	7182	6185	0	6185	4558	0	4558	1405	0	1405	1322	0	1322	228	0	228
		Punjab	1100	0	1100	1500	0	1500	1131	0	1131	2942	0	2942	3500	0	3500	4000	0	4000
		Sindh	133	0	133	1216	0	1216	100	0	100	0	0	0	388	0	388	2949	0	2949
		NWFP	850	0	850	1200	0	1200	1550	0	1550	2750	0	2750	3250	0	3250	1059	0	1059
		Baluchist.	550	0	550	0	0	0	0	0	0	0	0	0	1390	0	1390	0	0	0
		TOTAL	9815	0	9815	10101	0	10101	7339	0	7339	7097	0	7097	9850	0	9850	8236	0	8236

TOTAL	72,809	31,368	104,177	73,804	19,803	93,607	77,751	22,627	100,378	79,786	24,104	103,890	90,351	24,007	114,358	96,284	23,021	119,305
--------------	---------------	---------------	----------------	---------------	---------------	---------------	---------------	---------------	----------------	---------------	---------------	----------------	---------------	---------------	----------------	---------------	---------------	----------------

GDP at market prices			2120173			2428312			2677656			2938379			3182822			3472149
----------------------	--	--	---------	--	--	---------	--	--	---------	--	--	---------	--	--	---------	--	--	---------

TOTAL I-PRSP Exp. as % of GDP			4.91%			3.85%			3.75%			3.54%			3.59%			3.44%
-------------------------------	--	--	-------	--	--	-------	--	--	-------	--	--	-------	--	--	-------	--	--	-------

Sources : Combined Finance & Revenue Accounts 1994 - 2000; Federal & Provincial (June provisional) Civil Accounts 2000-01; and GDP figures from Economic Survey 2000-01

NOTE:

- Public Health Expenditures include those on: Water supply, sanitation, sewerage and refuse disposal; administration; works urban establishment; works rural establishment; and public health engineering.
- Education Expenditures includes those on: administration; education secretariat; university, colleges and institutes; education department; professional technical universities/ colleges; agri education; technical training centers; apprenticeship schemes; teacher training schemes; commercial centers; vocational institutes; technical colleges; professional colleges; health department; elementary teacher training college; secondary edu.; primary edu.; Non SAP schemes; SAP schemes; schools for handicapped; archives; libraries; research; miscellaneous grants; examinations; others.
- Health Expenditures includes those on: health administration; health departments; hospitals and clinics; Non SAP schemes; SAP schemes; labour department; mental hospital; mother and child health care; health facilities and preventive measures; and chemical examiners and health laboratories.
- Social Security and Other Welfare Expenditures include those on: administration; social welfare measures and grants; Child Welfare and In Service Training Institutes; labor welfare activities; employment exchanges; preservation of wildlife and hunting control; and environmental control.
- Natural Calamities Expenditures include those on: relief measures; and rehabilitation and resettlement.
- Irrigation expenditures include those on: Administration, Irrigation dams, canal irrigation, tubewells, equipment & machinery workshops, irrigation R&D, flood control and drainage.
- Land Reclamation expenditures include those on: administration, water logging and salinity control.
- Rural Development expenditures include those on: Administration, rural works program, integrated rural development program, and others.