

# **A POLICY FOR PRO POOR GROWTH IN PAKISTAN**

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## INTRODUCTION

Designing a policy for pro poor growth involves addressing the structural features of Pakistan's growth process which constrain its capacity at the macro level for poverty reduction. At the same time it is necessary to come to grips with the nature of the poverty process at the local level. Poverty occurs when the individual is isolated from the community and is locked into a nexus of power, which deprives the poor of their actual and potential income. The poor face a structure of markets, state, and institutions, which discriminate against their access over resources, public services and government decision-making<sup>1</sup>. In this context overcoming poverty means *empowering* the poor at the local level. The challenge of pro poor growth therefore is to re-orient both the structure of the economy as well as the local structures of power in favour of the poor.

This paper articulates a broad strategy of pro poor growth which could be designed to optimize four parameters: (a) achieve higher GDP growth with a relatively low investment (i.e. have a low incremental capital output ratio); (b) generate higher employment for given growth rates of GDP; (c) generate higher exports; (d) achieve greater equity and poverty reduction. The paper is organized into four sections as follows:

Section I summarizes some of the major structural features of the economy and the poverty process that need to be addressed in such a strategy; section II outlines a strategy that can achieve both faster growth and faster poverty reduction; section-III gives

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<sup>1</sup> For a more detailed analysis of this phenomenon, See: Akmal Hussain: Pro Poor Growth, Participatory Development and Decentralization: Paradigms and Praxis, chapter in: P. Wignaraja et.al. (ed): Pro-Poor Growth and Governance in South Asia, Case Profiles, Oxford University Press (forthcoming).

an outline of an approach for a direct attack on poverty through Participatory Development at the local level. This constitutes a vital element not only in alleviating poverty but also faster GDP growth: Participatory Development enables the poor communities to acquire new skills, increase their productivity, incomes and investment. This would enable them to overcome their poverty and simultaneously contribute to a faster and more equitable GDP growth. In section IV we draw on some lessons from the experience of decentralization reforms from South Asian countries in the context of poverty, growth and empowerment; and finally section-V summarizes the main policy conclusions of the paper.

## **I. STRUCTURAL FACTORS IN SLOW GROWTH AND RISING POVERTY**

We begin by identifying the major features of the crisis in the real economy that need to be addressed. These are:

### **I.1 Governance, Poverty and Unemployment**

Poverty and inequality have increased during the 1990s due to the decline in GDP growth, coupled with a decline in employment elasticities, labour productivity, and real wages in both the agriculture and the industrial sector (see tables 1, 2, and 3). At the same time the economic burden of the poor intensified in the 90's due to serious lapses in three major aspects of governance:

- (i) Due to poor financial management by successive governments particularly during the 1990s, both the level of development expenditure and the efficiency of its use declined. This contributed to the decay in the already inadequate social infrastructure, a slow down in GDP growth, and rising poverty.
- (ii) The failure to control budget deficits combined with the attempt to finance them through indirect taxation also contributed to the increase in poverty, since the adverse impact of such taxation had a relatively greater impact on the poor<sup>2</sup>.

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<sup>2</sup> For example, the tax burden as a percentage of income was highest at 6.8% for the lowest income group and lowest at -4.3% for the highest income group. See: Overcoming Poverty, The Report of the Task Force on Poverty Eradication, May 1997.

(iii) During the 1990s the unprecedented level of corruption in the government, had a significant adverse impact on economic growth and poverty. The cost of such corruption to the banking sector alone has been estimated at around 10 to 15 percent of the GDP in 1996-1997; and the overall cost to the country of corruption at the highest level of government was 20% to 25% of the GDP, which was approximately US \$ 15 billion in the same period<sup>3</sup>.

Widespread corruption in government may have contributed to increasing poverty in three ways: (a) the rising magnitude of corruption over time and at different levels of decision making in the government may have been a major factor in the uncertain policy environment and a constraint to estimating accurate project feasibilities. This would be expected to slow down investment growth and employment; (b) the transfer of resources to corrupt politicians and government officials to be used at their discretion, and the resulting misuse and misappropriation, rather than productive investment, could also be a factor in the slowing down of the GDP growth; (c) the financial cost of individual projects increased, thereby simultaneously slowing down GDP growth for given levels of investment and also reducing the employment elasticities with respect to investment.

**TABLE 1**

**INCIDENCE OF POVERTY DURING THE 1990s**

<b>POVERTY INDEX</b>	<b>1992-93 HIES</b>	<b>1993-94 HIES</b>	<b>1996-97 HIES</b>	<b>1998-99 PIHS</b>
Head-count	26.6	29.3	26.3	32.2
Poverty gap	4.5	5.5	4.5	6.9
Severity of poverty	1.2	1.5	1.2	2.2

*SOURCE: Federal Bureau of Statistics, April 2001.*

<sup>3</sup> Burki, Pakistan: Fifty Years of Nationhood, Vanguard Books, Lahore, Page 174.

**TABLE 2****INCOME INEQUALITY (GINI INDEX) DURING THE 1990s**

<b>REGION AND PROVINCE</b>	<b>1992-93 HIES</b>	<b>1993-94 HIES</b>	<b>1996-97 HIES</b>	<b>1998-99 PIHS</b>
Pakistan	26.85	27.09	25.85	30.19
Urban areas	31.70	30.70	28.77	35.96
Rural areas	23.89	23.45	22.65	25.21

*SOURCE: Federal Bureau of Statistics, April 2001.*

**TABLE 3****GROWTH OF GDP, EMPLOYMENT AND PRODUCTIVITY IN TWO DECADES**

<b>GROWTH</b>	<i>Percent</i>	
	<b>1980s</b>	<b>1990s</b>
1. GDP GROWTH	6.3	4.2
2. EMPLOYMENT GROWTH (TOTAL)	2.4	2.4
(i) Agriculture	1.9	1.6
(ii) Manufacturing	1.4	-0.4
3. PRODUCTIVITY GROWTH (TOTAL)	3.9	1.8
(i) Agriculture	2	1.7
(ii) Manufacturing	7	4.6

*SOURCE: Nomaan Majid, Pakistan: An Employment Strategy, ILO/SAAT, December 1997 (Mimeo), Table A5, Page 58.*

**I.1.1 Policy Implications:** Our analysis in this section shows that the most important underlying factors in rising poverty during the 1990s were slower growth, rising capital output ratios, falling employment elasticities, increased corruption and inefficiency of public expenditure. Therefore a pro poor growth policy should aim to: (a) induce higher investment, reduce incremental capital output ratios, and increase employment elasticities

with respect to both output and capital in order to increase employment; (b) increase the level and efficiency of government development expenditure to increase employment; (c) increase transparency of governance and reduce corruption to alleviate poverty. (d) Improve the efficiency of institutions responsible for delivering public services to alleviate poverty.

## **I.2 Health and Poverty**

Research for the National Human Development Report (NHDR), suggests that the high prevalence of disease amongst those who are slightly above the poverty line is a major factor in pushing them into poverty. Those who are already poor get pushed into deeper poverty as the result of loss of income and high medical costs resulting from illness. The data show that on average 65% of the extremely poor were ill at the time of the survey, and they had on average suffered from their illness for 95 days. The survey data also show that the poor predominantly go to private allopathic practitioners rather than to basic health units or government hospitals. Private medical facilities in rural areas and small towns have grossly inadequate diagnostic facilities and there is wide spread prevalence of spurious drugs in private sector retail outlets. Consequently when the poor fall ill they suffer for a protracted period and get locked into a high cost source of medical treatment. This erodes whatever little asset base they have, and pushes them into indebtedness and deeper poverty<sup>4</sup>.

The NHDR data on the widespread prevalence of disease in Pakistan is supported by evidence from the National Health Survey of Pakistan<sup>5</sup>, which shows that in rural areas the prevalence of fair plus poor health for females above 25 years is as high as 75%, while that for the males in the same age group is 45%. The curative health care system has expanded substantially during the last decade (for example, the population per doctor has fallen from 2082 in 1990 to 1529 in the year 2000), yet the high incidence of disease points to both inadequate coverage and poor quality of the health care system in Pakistan.

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<sup>4</sup> Poverty, Growth and Governance, NHDR, UNDP, (Forthcoming).

<sup>5</sup> National Health Survey of Pakistan, Pakistan Medical Research Council, Federal Bureau of Statistics, Pakistan and the Department of Health and Human Services, USA, 1998, Page 127. Food note 5 appears to be three references, if so please give their dates and publication refer to, as well as the publishing agency.

I.2.1 *Policy Implications:* Since the UNDP, NHDR study shows that health is a major factor that pushes people into poverty, clearly improved nutrition and health conditions are important for poverty reduction. Improving the nutrition, preventive hygiene, provision of safe drinking water, improving the service delivery of basic health units, and improved diagnostic and treatment capabilities of Tehsil and District Hospitals are urgent imperatives to deal with the crisis of health and poverty.

### **I.3 Asymmetric Markets, Local Power Structures and Poverty**

The NHDR/PIDE survey data<sup>6</sup> shows that the poor peasants face adverse input and output markets. They have to pay relatively higher prices for their inputs and get relatively lower prices for their outputs compared to the large farmers. At the same time, due to the lack of access to formal credit markets, the poor peasants often have to borrow from the landlord. As a consequence they are obliged to work on the landlord's farm at less than market wage rates. The NHDR study shows that the poor peasants could be losing one third of their income due to asymmetric markets for inputs and outputs.

In the urban and semi urban areas where the poor households are predominantly involved in micro enterprises the data shows that low incomes are primarily due to low productivity and profitability of these micro enterprises.

I.3.1 *Policy Implications:* The evidence shows that asymmetric markets and local power structures constitute structural factors in persistent poverty. They siphon off as much as one third of the actual incomes of the poor, deprive them of their potential savings and keep their productivity and incomes at a low level. A pro poor policy must address these structural factors if poverty is to be overcome on a sustainable basis. Better access for the poor over the markets for labour, land, agricultural inputs and outputs, means changing the balance of power in favour of the poor at the local level. This requires facilitating emergence of autonomous organisations of the poor, particularly poor women at the village, Union Council, Tehsil and district levels. It also means

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<sup>6</sup> This survey was part of the study embodied in the National Human Development Report, UNDP, Forthcoming.

enabling the poor to access credit, training, and technical support for increased employment, productivity, and incomes.

#### **I.4 Institutional Factors in Slow and Unstable Crop Sector Growth<sup>7</sup>**

In agriculture the average annual growth rate of major crops has declined from 3.34% during the eighties to 2.38% in the nineties. At the same time, the frequency of negative growth years in some of the major crops has increased. The slow down in growth and increased instability of output in major crops has resulted in sharp increase in rural poverty on the one hand, and a slow down in the export growth on the other. Underlying this phenomenon are five major institutional constraints:

- (a) Reduced water availability at the farm gate due to poor maintenance of the irrigation system and low irrigation efficiencies of about 37 percent. While the availability of irrigation water has been reduced, the requirement of water at the farm level has increased due to increased deposits of salts on the top soil and the consequent need for leaching. About 33 million tons of salts are annually brought into the Indus Basin Irrigation System, out of which 24 million tons are being retained.<sup>8</sup>
- (b) What makes improved efficiency of irrigation even more important is that the extensive margin of irrigated acreage has been reached, so the future agricultural growth will have to rely on improving the efficiency of water use and other inputs. Thus the rehabilitation of Pakistan's irrigation system for improving irrigation efficiency has become a crucial policy challenge for sustainable agriculture growth.
- (c) It is well known that high yielding varieties of seeds gradually lose their potency through re-use, changing micro structure of soils, and changing

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<sup>7</sup> This sub-section is based on research paper by Akmal Hussain: (Employment Generation, Poverty Alleviation and Growth in Pakistan's Rural Sector: Policies for Institutional Change, Report prepared for the ILO/CEPR, (Mimeo), March 1999.

<sup>8</sup> Interim Poverty Reduction Strategy Paper, Government of Pakistan, November 2001, Page 23.

ecology of micro organisms in the top soil. Therefore, breeding of more vigorous seed varieties adapted to local environmental conditions, and their diffusion amongst farmers through an effective research and extension programme is necessary. Yet there is no organized seed industry in Pakistan to meet the needs of farmers for the supply of vigorous varieties of seeds even in the major crops. In wheat, for example, the average age of seeds in Pakistan is 11 years compared to an average of 7 years for all developing countries. It has been shown that compared to India there was a sharp decline in growth of total factor productivity in Pakistan after 1975, which can be attributed to the poorer level of research and extension in Pakistan compared for example to India.<sup>9</sup>

- (d) A new dimension to the imperative of improving research capability in the crop sector is indicated by the possibility of declining yields per acre related with global warming. Given the sensitivity of wheat seed to temperature increase, even a 2-degree centigrade increase in average summer temperatures could mean an absolute yield decline of between 10 to 16 percent during the 21<sup>st</sup> century.<sup>10</sup> With a 2.8 percent population growth, even a decline of 5 percent in yield per acre associated with global warming, could mean serious food deficits for Pakistan. It is, therefore, necessary to develop heat resistant varieties of food grains.

The current ineffectiveness of agriculture research and poor diffusion amongst farmers is a cause for concern. This is particularly so in a situation where future agriculture growth and labour absorption will have to depend more on

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<sup>9</sup> Mark W. Rosegrant and Robert Evenson: "Agricultural Productivity Growth in Pakistan and India: A comparative Analysis", presented at Pakistan Institute of Development Economists Ninth Annual General Meeting, Islamabad, 1993.

<sup>10</sup> If atmospheric carbon is doubled, the average summer temperatures in Pakistan are expected to increase by 1.5 C to 4.5 C (base average of 2.5 C), over the next 70 years. This could lead to a decline in wheat yields from 10 percent to 60 percent, depending on the type of wheat seed, planting time, related atmospheric/weather conditions. See: Qureshi, Ata and Iglesias: Implications of Global Climate Change for Pakistan Agriculture: Impacts on Simulated Wheat Production, Climate Institute, Washington, D. C. USA, 1992.

input efficiency than on enlargement of irrigated acreage; and input intensification which were the major sources of agriculture growth in the past.

- (e) One of the most important constraints to sustainable growth in the crop sector is the degradation of soils, resulting from improper agricultural practices such as: (i) lack of crop rotation and the resultant loss of humus in the top soil; (ii) stripping of top soil and resultant loss of fertility associated with over grazing; (iii) water erosion along hill sides and river banks due to cutting down of trees and depletion of natural vegetation. According to one estimate, over 11 million hectares have been affected by water erosion and 5 million hectares by wind erosion.<sup>11</sup>

**TABLE 4**  
**AVERAGE ANNUAL GROWTH RATE OF THE MANUFACTURING SECTOR**  
**(VARIOUS PERIODS)**

<b>Period</b>	<b>Small Scale Manufacturing</b>	<b>LSM</b>	<b>Total Manufacturing</b>
1959/60 to 1969/70	2.85	12.43	9.24
1970/71 to 1979/80	7.21	4.84	5.50
1980/81 to 1989/90	8.40	8.16	8.21
1990/91 to 1995/96	7.88	4.40	5.59
1996/97 to 1999/2000	5.31	2.21	1.29

Source: Federal Bureau of Statistics, GOP.(Various Years) and Economic Survey of Pakistan 2000-2001, Economic Advisor’s Wing, Ministry of Finance, GOP.

### **I.5 Some Constraints to the Growth of the Large Scale Manufacturing Sector**

The growth rate of the large scale manufacturing sector was 12.43% in the period 1959/60 to 1969/70, and fell to 2.21% in the period 1996/97 to 1999/2000. (See table 4). The factors underlying this dramatic decline include the following:

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<sup>11</sup> Alim Mian and Yasin Mirza: Pakistan Soil Resources, National Conservation Strategy, Sector Paper IV, Environment and Urban Affairs Division, with IUCN, 1993.

- (a) A fundamental structural constraint to industrial growth as indeed the underlying factor in slow export growth, is the failure to diversify exports. The large scale manufacturing output, particularly exports are concentrated in the traditional low value added end of textiles.
- (b) A changed pattern of global demand for industrial products with a shift towards higher value added and knowledge intensive products. Pakistan's industrial structure was not positioned to respond quickly to these changed market conditions.
- (c) An erosion of the domestic framework within which investment and growth is sustained. This includes: (i) a continued threat to the life and property of citizens due to the persistent poor law and order situation; (ii) high electricity tariffs and relatively high interest rates (though the latter have fallen this year); (iii) lack of trained professionals especially in the high skill sector; (iv) an inadequate technological base through which industry can respond in a flexible way to changing patterns of demand; (v) an adverse policy environment in the past within which tariff and export incentives were distorted against those entrepreneurs who were seeking to improve quality and productivity for export growth; (vi) dumping of smuggled, poor quality and extremely low priced imported goods which are in many cases counterfeit copies of branded Pakistani manufactured goods.

## **II. RESTRUCTURING GROWTH FOR FASTER POVERTY REDUCTION<sup>12</sup>**

A four-pronged revival strategy needs to be undertaken in the light of the structural constraints to growth and poverty alleviation discussed in Section I.

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<sup>12</sup> This section is based on a paper presented to the Federal Finance Minister in the Economic Advisory Board, by Akmal Hussain: A Medium Term Strategy of Economic Revival, 15<sup>th</sup> November 1999. (Also published in the daily Dawn on November 25 and 26, 1999).

Note: Some of the proposals related with agriculture sector have been incorporated in the Interim Poverty Reduction Strategy Paper of the Government of Pakistan, November 2001, Pages 22 and 23.

## **II.1 Improving the Supply of Irrigation Water**

Pakistan's irrigation system which is currently in a state of acute disrepair due to decades of poor maintenance. The first element of the growth strategy should be a national campaign on a war footing to rehabilitate it. Such a campaign would involve organizing semi skilled labour for: (i) the desilting of canals; (ii) strengthening the banks; (iii) organizing villagers for making “Pucca Khaalas” (concrete lined water courses); (iv) improving the gradient of water courses and farmlands in order to improve both the delivery and application efficiencies of irrigation.

Such a campaign being inherently labour intensive would not only generate employment rapidly but also help to improve water availability and yields per acre at the farm level. If the campaign is professionally designed and managed, the funding for financing wage payments to the newly employed labour force could be sought from multilateral agencies, some of which have poverty alleviation and sustainable agricultural growth as their priority concerns. The district level development institutions in the local government system could coordinate with union councils, village development councils, and autonomous farmers associations to implement such a campaign.

## **II.2 Infrastructure Development**

In addition to the campaign for improved maintenance of the irrigation system other labour intensive infrastructure projects should also be undertaken to simultaneously generate employment and stimulate aggregate demand in the economy. These include: (i) building of farm to market roads; (ii) national high ways and ports; (iii) upgrading the railway system and enlarging its transport capacity for bulk cargo; (iv) improved communication system, and (iv) increased production of cheaper energy through domestically available coal rather than imported furnace oil.<sup>13</sup>

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<sup>13</sup> In this regard the Planning Commission has formulated a valuable set of policy proposals for energy development, See: Government of Pakistan, Planning Commission: Ten Year Perspective Plan and Three Year Development Programme, Islamabad, September 1, 2001.

### **II.3 Milk, Marine Fisheries and High Value Added Agriculture Products**

The third element of the revival strategy is to rapidly develop export led production capacity for milk, fisheries, and high value added agricultural products such as fruits, vegetables, and flowers. Let us illustrate this initiative by using the example of milk. Pakistan is currently producing about 177 billion rupees worth of milk annually for domestic consumption. This makes milk the largest agricultural product because Pakistan's largest crop wheat, has an annual production value of about 111 billion rupees. Unlike wheat however, the output of milk can be accelerated sharply within a couple of years. Currently Pakistan's milch cattle yield per animal is one-fifth of the European average. Demonstrable experience in the field has shown that the milk yields per animal in Pakistan can be doubled within two years through scientific feeding, breeding, and marketing. If the institutional framework could be established for training the farmers in scientific feeding and breeding, and if the logistics could be set up to collect milk from the farm door by means of refrigerated transport, milk output in Pakistan could be doubled. This would have a dramatic impact not only on the incomes of the poor peasants, but also on exports and overall GDP growth.

Pakistan lies at the hub of milk deficit regions such as Central Asia, West Asia and South East Asia. Hence it could be argued that if milk output in Pakistan could be doubled, export earnings would increase to such an extent that they would make a major contribution to overcoming the balance of trade deficit. Such an initiative therefore can lead to accelerated exports, higher GDP growth and improved income distribution in Pakistan. A possible institutional framework for such an initiative could be the establishment of dairy development boards at the provincial levels linked up with the development institutions at the district and union council levels in the local government structure.

Marine Fisheries, also provide a significant potential for improving foreign exchange earnings although not as large as the potential for milk. Here again, what is required is improved institutional support and better management rather than huge investments by the Government. The expansion in the export of marine fisheries is constrained because the storage facilities for transportation do not match the international

quality standards. Currently alternate layers of fish and hard sharp edged ice are placed in containers on the boats. Under the weight of upper layers of fish and the sharp edged ice, fish at the lower layers are crushed, and the resultant bleeding causes putrefaction. To avoid this, it is necessary to provide shelves for layered storage of fish in boats, topped by dry ice, with fiberglass covers to maintain the European Union standards of minus 7°C temperature during transportation. An export potential of 300 million dollars exists over the next three years if such improved management of the marine fisheries industry could be achieved.

Similarly the high value added production and export of fruits, vegetables, and flowers would require: (i) institutional support for improved quality of output; (ii) improved grading and packaging; and (iii) refrigerated transport right up to the cargo terminals for air freight to the export market.

#### **II.4 Rapid Growth of Small Scale Enterprises**

The fourth element of the strategy would be to provide the institutional support necessary for the rapid growth of small scale enterprises. These SSEs. include high value added units in light engineering automotive parts, moulds, dyes, machine tools and electronics and computer software.

Training of a large number of software experts with requisite support in credit and marketing could quickly induce a significant increase in software exports from Pakistan. Pakistan could build a pool of software experts for a large increase in export earnings. This would of course require a proactive government to establish joint ventures between large software companies such as Microsoft and Pakistan's private sector institutions such as LUMS and INFORMATICS. The Ministry of Science and Technology is already moving rapidly in facilitating the growth of information technology in Pakistan. In this sub-section however we will focus on small scale manufacturing enterprises.

Small scale industries have a low gestation period, are labour intensive, and can generate a larger output per unit of investment compared to the large scale manufacturing sector. Therefore the rapid growth of small scale enterprises would not only accelerate economic growth in the medium term at relatively low levels of investment, but would

also increase employment and exports for given levels of GDP growth. The key strategic issue in accelerating the growth of SSEs is to enable them to shift to the high value added, high growth end of the product market.

A large number of small scale enterprises (SSEs) in the Punjab and the North Western Frontier Province (NWFP) have a considerable potential for growth and high value added production such as components for engineering goods or components of high quality farm implements for the large scale manufacturing sector.<sup>14</sup> Yet they are in many cases producing low value added items like steel shutters or car exhaust pipes resulting in low profitability, low savings and slow growth.

II.4.1 *Constraints to the Rapid Growth of SSEs:* Small scale enterprises in small towns of Pakistan face the following major constraints:

- (i) Inability of small units to get vending contracts for the manufacture of components from the large-scale manufacturing sector (LSM).
- (ii) Due to lack of expertise in production management and the frequent inability to achieve quality control it becomes difficult to meet tight delivery schedules.
- (iii) Lack of specific skills like advanced mill work, metal fabrication, precision welding, all of which are needed for producing quality products with low tolerances and precise dimensional control. In other cases accounting and management skills may be inadequate.
- (iv) Difficulty faced by small units in getting good quality raw materials, which often can only be ordered in bulk (for which the small entrepreneurs do not have the working capital), and from distant large cities.
- (v) Lack of specialized equipment.

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<sup>14</sup> Akmal Hussain: Labour Absorption in Pakistan's Rural Sector, Final Report, ILO/ARTEP (Mimeo), 20<sup>th</sup> September 1989, Pages 21 to 23.

- (vi) Absence of fabrication facilities such as forging, heat treatment and surface treatment which are required for manufacture of high value added products, but are too expensive for any one small unit to set up.
- (vii) Lack of capital for investment and absence of credit facilities.

II.4.2 *Overcoming the Constraints to the Growth of SSEs.* Overcoming the aforementioned constraints would involve providing institutional support in terms of credit, quality control management, skill training and marketing. This could be done by facilitating the establishment of industrial support centers (ISCs) located in the specified growth nodes in selected towns where the entrepreneurial and technical potential as well as markets already exist. Such support institutions (ISCs) while being facilitated by the government and autonomous organizations such as SMEDA can and should be in the private sector and market driven.

The concept of the Industrial Support Centers is based on the fact that small scale industrialists in Pakistan have already demonstrated a high degree of entrepreneurship, innovation and efficient utilization of capital. The ISCs would provide an opportunity for rapid growth to SSEs through local participation in extension services, prototype development, and diffusion of improved technologies, equipment, and management procedures. The ISCs would constitute a decentralized system which ensures continuous easy access to a comprehensive package of support services such as credit, skill training, managerial advice and technical assistance. The ISCs could also be linked up with national research centres, and donor, agencies for drawing upon technical expertise and financial resources of these agencies in the service of small scale industries (SSI).

The Industrial Support Centres could have the following functional dimensions:

- (i) Marketing

Provision of orders from the large scale manufacturing sector for components, and from farmers for farm implements. These orders would then be sub-contracted to the cluster of SSI units that the ISC is supposed to serve. The individual order

would be sub-contracted to the SSI on the basis of the skills and potential strengths of the unit concerned.

(ii) Monitoring and Quality Control

Having given the sub-contract, the ISC would then monitor the units closely and help pinpoint and overcome unit specific bottlenecks to ensure timely delivery and quality control of the manufactured products. These bottlenecks may be specialized skills, equipment, good quality raw material or credit.

(iii) Skill Training and Product Development.

Skill training for technicians could be provided by the new good quality vocational training institutes (VTIs) established by the Vocational Training Council of Punjab. Similar VTIs could be established in other provinces. The ISC would provide specialized supplementary skill training on its premises to workers in the satellite SSI units when required. At the same time, it would provide advice on jigs, fixtures, special tools and product development where required.

(iv) Forging and Heat Treatment Facilities

The ISC's would establish at their premises plants for forging, heat treatment and surface treatment. The SSI units could come to the ISC to get such fabrication done on the products they are manufacturing on sub-contract, and pay a mutually agreed price for this job to the ISC.

(v) Credit

The ISC would provide credit to the SSI's for purchase of new equipment and raw materials. In cases where raw materials are available in bulk supply, the ISC could buy it from the source, stock it on its premises and sell at a reasonable price to units as and when they need them.

### **III DIRECT ATTACK ON POVERTY**

Establishing the institutional basis for enabling the poor to increase their incomes, savings and investment, would not only constitute a direct attack on poverty but would also contribute to a faster and more equitable economic growth process. In this section we examine the issue of empowerment of the poor with special reference to women. In this context we will explore the institutional imperatives of making the newly emerging local government structures more effective in achieving the empowerment of poor women.

#### **III.1 Empowerment and Autonomous Organizations of the Poor**

(i) *The Meaning of Empowerment:* Since the term empowerment has been loosely used in much of the literature on development it may be helpful to specify its meaning in the context of this paper. Empowerment means enabling the poor to build their human capabilities and economic resource base for breaking out of the poverty nexus. It is a process of reconstructing a group identity, of raising consciousness, of acquiring new skills and of achieving better access over markets and institutions for a sustainable increase in incomes. Such a process progressively imparts to the poor a new *power* over the economic and social forces that fashion their daily lives. It is through this power that the poor shift out of the perception of being passive victims of the process that perpetuates their poverty. Thus they become active subjects in initiating interventions that progressively improve their economic and social condition to overcome poverty.

(ii) *Empowering the Poor, Particularly Women:* The fact that poor women in Pakistan suffer from a double burden that of being poor and being women, the economic strategy should require a national campaign to empower the poor at the level of village/mohallah, Union Council, Tehsil and District. The idea is to facilitate the growth of community organizations of the poor at the village/mohallah level and to enable poor women to form their own autonomous community organizations to be able to break out of both the poverty nexus and gender based discrimination. Through these COs the poor can identify income generating projects, initially at the household level, acquire skill training from a variety of sources such as government line departments, autonomous institutions, private

sector firms, NGOs. and donors; and access credit for micro enterprise projects through apex organizations such as the PPAF, Khushali Bank, Small Business Finance Corporation (SBFC), and commercial banks. Special organizational arrangements would need to be made in these apex institutions to take credit to poor women and women's COs, since poor women have even lesser access over institutional credit compared to poor men.

It is important that such village level community based organisations (CBOs) be autonomous and be permitted to form cluster apex organisations with other CBOs. Autonomous CBOs by means of social mobilisation, increased productivity through skill training, increased income, savings and investment would begin a process of localised capital accumulation. Such a process, which we have called Participatory Development<sup>15</sup> would be integrally linked with the emergence of a new consciousness of empowerment. The poor can begin to take autonomous initiatives to improve their material conditions of life. They would thus break out of the poverty nexus and shift from being victims to active subjects of social and economic change. Such a process of village level increases in productivity, incomes and savings would not only constitute a direct attack on the poverty problem but would also contribute to a faster and more equitable macro economic growth<sup>16</sup>.

Such autonomous organizations of the poor could become not only a framework for grassroots economic growth, but would also constitute countervailing power to that of the power structures of local elites. At the same time, these autonomous organizations of the poor would enable the individual poor household to get better access over input and output markets.

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<sup>15</sup> The concept of Participatory Development is formulated in: Akmal Hussain: Pakistan, A Strategy for Poverty Alleviation, Vanguard, Lahore, 1994, Pages 26 to 29.

Also see: P. Wignaraja, A. Hussain, H. Sethi & G. Wignaraja: Participatory Development: Learning from South Asia, O.U.P, 1991.

<sup>16</sup> For a more detailed discussion of this issue, See: Akmal Hussain: Poverty, Growth and Governance, Chapter in, V.A. Pai Panandiker (ed.): Problems of Governance in South Asia, Centre for Policy Research, New Delhi, 2000.

Facilitating the emergence of autonomous organizations of the poor particularly organizations of poor women, could enable the newly established local government institutions to function in a more equitable and effective manner. The equity would be with respect to class as well as gender. This would require establishing institutionalized links between autonomous organizations of the poor and local government bodies at the Village, Union Council, Tehsil and District levels. These institutional links between organizations of the poor and elected local bodies would enable more participatory and equitable processes of project identification, design and implementation for local level development.

### **III.2 Devolution for Empowerment Versus Decentralization**

Almost every country in South Asia has undertaken decentralization reforms with the stated purpose of empowering the poor and thereby achieving good governance. Yet there are a number of pitfalls in the implementation of these reforms. As Pakistan embarks on its own programme of devolution, it may be useful to point out that devolution cannot simply be seen in terms of a decentralization of administrative functions within existing government structures. Rather decentralization has to create the space within which an institutionalized relationship can begin between autonomous organizations of the poor and various tiers of local government.

A number of pitfalls can emerge in the implementation of devolution reforms. Unless they are addressed at an early stage these reforms may not achieve the desired objectives. The following four lessons may be drawn on the basis of case studies of decentralization reforms in South Asian countries<sup>17</sup>:

- (i) Formal decentralization of administrative power in itself does not necessarily help the poor as pointed out by Upadhyay<sup>18</sup> in the context of Nepal. Empowerment of the poor, he argues, requires that formal decentralization must be accompanied by

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<sup>17</sup> See Akmal Hussain: Pro-Poor Growth, Participatory Development and Decentralization: Paradigms and Praxis, Part-III of the forthcoming book: P. Wignaraja and S. Sirivardana (ed.) Pro Poor Growth and Governance in South Asia – Case Profiles of Participatory Development and Decentralization Reforms, Zed Press, London (Forthcoming)

<sup>18</sup> See: S.K. Upadhyay, The Nepal Case Study, in P. Wignaraja and S. Sirivardana (ed.) Pro Poor Growth and Governance in South Asia, op.cit. Annexure to Part-III.

a rigorous process of social mobilization. This involves consciousness raising, conscientisation (would sensitization be a substitute for this) and building organisations of the poor. It is only such a process that will enable the poor to acquire countervailing power. Without this dimension of countervailing power, decentralization will merely result in the appropriation by elites of the “fruits of decentralization for their own narrow benefit”. In this context Ali<sup>19</sup> makes an important distinction between decentralization of administrative power in favour of its regional/local offices as opposed to decentralization in favour of the local people in case of Bangladesh. Apart from this it could be argued that in areas where asymmetric structures of power prevail (for example, coalitions of rich peasants/landlord, local influentials such as traders, revenue and police officials) mere decentralization of administrative power could intensify the oppression of the poor.

- (ii) The second lesson emerging from the case studies is that if decentralization is to enable empowerment of the poor, it must be holistic. i.e., it incorporates political power, enhanced confidence, emergence of social consciousness, and administrative and fiscal devolution. At the same time it must reach down to the grass roots level through various intermediate levels, with institutionalized participation of the poor in governance at every level. Upadhyay refers to this holism and multi layered devolution in the Nepal case study.
- (iii) The political dimension of decentralization must be inclusive and capable of absorbing what Upadhyay calls “diverse ethnic and other identity groups as equal partners occupying spaces in the polity”. He argues that the centralized polity excludes such identities which may be a factor in ethnic strife and social polarization. While the poor once organized are able to generate new resources at the local level yet, as participatory development is scaled up, internally generated resources may be insufficient. Therefore externally generated resources become necessary but these have to be carefully applied through a sensitive support

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<sup>19</sup> See: Dr. Shaikh Maqsood Ali, The Bangladesh Case Study, in P. Wignaraja and S. Sirivardana (ed.), op.cit., Annexure to Part-III.

system that strengthens rather than weakens the autonomy of the organisations of the poor. Such a support system could be provided by a combination of apex NGOs, state institutions, banks and local governments. Upadhyay emphasizes the importance of such support organisations being sensitized by a pro poor perspective.

- (iv) In the case of urban areas it appears that communities who have developed their own funds and managed development themselves are able to establish a more equitable relationship with local government institutions<sup>20</sup>. It can be argued that to enable urban communities to manage their own development it is necessary to provide technical advice and managerial guidance. At the same time an institutionalized process of consultation and coordination may be necessary between urban community organizations and local government institutions to prevent them from working at cross purposes.

## **POLICY CONCLUSIONS**

(1) This paper proposes a policy of pro poor growth, which involves restructuring the macro economic growth process on the one hand and local structures of power in favour of the poor on the other. The poor at the local level are locked into a nexus of power represented by markets, social groups and institutions, which deprive them of as much as one third of their income. It has been argued that empowerment of the poor requires facilitating the emergence of autonomous community based organizations of the poor (CBOs) which can enable them to acquire improved access over markets, institutions, and public resources for breaking out of the poverty nexus. These CBOs need to be institutionally linked with various tiers of local government so that the poor can participate in the decisions regarding the allocation of public resources at the local level, and in the design and implementation of community level social infrastructure projects.

(2) On the basis of latest empirical evidence available it is seen that widespread ill health in Pakistan is a major trigger that pushes people into poverty and the poor into

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<sup>20</sup> See: Arif Hassan, The Pakistan Case Study, in P. Wignaraja and S. Sirivardana (ed.), op.cit., Annexure to Part-III.

deeper poverty. It was proposed that urgent initiatives need to be undertaken for preventive hygiene, provision of safe drinking water, improving the service delivery of basic health units and improved diagnostic and treatment capabilities of Tehsil and District hospitals.

(3) At the macro level, restructuring growth to enhance its poverty reduction capability involves addressing four parameters: (a) achieve higher GDP growth with a relatively low investment (i.e. have a low incremental capital output ratio); (b) generate higher employment for given growth rates of GDP; (c) generate higher exports; (d) achieve greater equity and poverty reduction.

Specifically a four pronged policy initiative is suggested to address these parameters for pro poor growth: (i) a national campaign to rehabilitate Pakistan's Irrigation System to increase irrigation efficiencies so as to provide more water at the farm level. Specifically this would involve building more dams, desilting and lining of canals wherever possible, and building pucca khaalas. This would provide more water to the farmers and increased employment; (ii) initiating infrastructure projects such as farm to market roads, national highways and ports, upgrading the railway system and increased production of cheaper energy through the domestically available coal rather than the furnace oil. Since such projects have high employment elasticities they would help to generate both employment and aggregate demand. (iii) facilitate the increased production and exports of milk, marine fisheries and high value added agriculture products. (iv) accelerate the growth of small-scale industries through the establishment of Industrial Support Centres in the context of public/private partnership. These centres would aim at providing unit specific support for marketing, quality control, skill and product development, specialized fabrication facilities and credit.

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