

**REPORT OF THE
TECHNICAL COMMITTEE 1
OF THE
PRIME MINISTER'S TASK FORCE
ON
POVERTY ALLEVIATION
AND
EMPLOYMENT GENERATION**

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I. INTRODUCTION

The stability of economy is well reflected in the rising levels of foreign exchange reserves, low fiscal deficit, low inflation rates and surplus in the balances of payments. Whereas these financial indicators are one of the major determinants of investment and are expected to result in higher investment levels, but so far both public and private investments have failed to rise. At the same time, the stabilization policies have contributed to the slow down of GDP, unemployment and increase in poverty. While poverty and unemployment levels have increased to such an extent that it calls for an urgent action, but it needs to be ensured that such efforts do not result in the economic instability.

What is the level and trends in poverty is difficult to ascertain, because of the differences in the poverty lines, methods of estimation and the nature of data used in various studies. All these issues are examined in section II. The trends in labour force, employment and unemployment, and productivity of labour are discussed in section III. Data availability, reliability and coordination issues are discussed in section IV. The mechanism that results in rising levels of poverty and how the poor finances its consumption level beyond the income levels are discussed in section V. Strategy for pro-poor growth is outlined in section VI. Policy implications are drawn in section VII.

II. POVERTY LEVELS IN PAKISTAN

POVERTY INDICATORS

The FGT indices are commonly used to examine the poverty levels and trends. The three indices are:

- The proportion of population falling below a specified poverty line, generally known as head count;
- The income gap, i.e. the proportion of income required to bring the poor above the poverty line; and
- The income inequality among the poor.

All the three indices require setting up of a poverty line and both the levels and trends in poverty are extremely sensitive to the choice of the poverty line. The poverty lines may be drawn in at least three ways. Firstly, poverty line may be defined with reference to calorie requirement¹ of a male adult. Nutritional needs of an individual depend on body mass which depends on age, sex and height, and the activity levels. While the numbers of calories required vary across individuals, the average requirements are based on the average body mass of the individuals in a country. Secondly, poverty line may be defined by determining the basic needs. The basic needs would vary depending on the perceptions of those who define and, therefore, some arbitrariness creeps in defining the basic needs. Thirdly, poverty line may be drawn on the basis of poverty of opportunity index, a composite of deprivations in three vital dimension, health, education, and income levels.

Almost all the studies in Pakistan use calorific requirement. However, as is evident from Table 1, various studies have used different calorific requirements. In Pakistan, calorie requirement, on average, works out to be 2550 per adult. However, the official poverty line adopted by the Planning Commission is based on the calorie requirement of 2350 per adult per day at the national level (2150 per adult per day for urban areas and 2450 for rural areas). While this is lower than the required calorie requirements in view of average body mass in Pakistan, it is significantly higher than 2150 used in India and other South Asian countries. Poverty line is drawn by taking into consideration the revealed expenditure patterns between food and the non-food expenditures.

¹ The calorie requirement for the females of the same age than that of males is less. Similarly, calorie requirements of children of varying ages are different, and these are standardized as proportion of adult males.

Table 1: Methodologies used in Recent Poverty Lines

Source	Period Covered	Calorie Norms Used	Data Source	Type of Data Used	Method Applied	Base-year for Poverty Lines	Type of Poverty Line
Amjad and Kemal (1997)	1963/64-1992-93 (8 survey years)	2550 Calories per adult (for rural and urban areas)	HIES	Grouped (secondary)	Average consumption pattern of the lowest three income brackets was used	1984-85 (inflated/deflated for other years)	Basic needs
Jamal and Ghaus-Pasha (2000)	1996-97	- 2550 calories per capita for rural areas - 2230 calories per capita for urban areas	HIES	Primary	Calorie-total expenditure function	1996/97	Basic needs
Jafri (1999)	1986/87-1993/94 (5 survey years)	- 2450 calories per adult for rural areas - 2150 calories per adult for urban areas	HIES	Primary	Calorie-food expenditure function	Poverty line was estimated for each survey year	Food
Jafri (1999)	1986/87-1993/94 (5 survey years)	- 2450 calories per adult for rural areas - 2150 calories per adult for urban areas	HIES	Primary	- Calorie-food expenditure function - Average expenditure on non-food items of those households whose food expenditures an equal to the minimum prescribed	Poverty line was estimated for each survey year	Basic needs
Qureshi and Arif (2001)	1993/94 and 1998/99 (2 survey years)	- 2550 calories per adult for rural areas - 2295 calories per adult for urban areas	HIES and PSES	Primary	- Calorie-food expenditure function	Poverty line was estimated for each survey year	Food
Qureshi and Arif (2001)	1998/99	- 2550 calories per adult for rural areas - 2295 calories per adult for urban areas	PSES	Primary	- Calorie-food expenditure function - Average expenditure on non-food items of those households whose food expenditures an equal to the minimum prescribed	1998/99	Basic needs
FBS (2001)	1992/93-1998/99 (4 survey years)	2550 calories per adult for rural and urban areas	HIES and PIHS	Primary	- Calories-total expenditure function based on first three consumption expenditure quintiles	1998/99 (deflated for previous years)	Basic needs
F B S (2001)	1992/93-1998/99 (4 survey years)	2150 calories per adult for rural and urban areas	HIES and PIHS	Primary	- Calorie-total expenditure function based on first three consumption expenditure quintiles (excluding expenditure on marriages, funiles and durable items)	1998/99 (deflated for previous years)	Basic needs
Planning Commission (Official Poverty Line)	1998/99	- 2350 calories per adult at the national level - 2450 calories per adult for rural areas - 2150 calories per adult for urban areas	PIHS	Primary	- Calorie-total expenditure function based on first three consumption expenditure quintiles (excluding expenditure on marriages, funiles and durable items)	1998/99	Basic needs

Source: Arif (2002).

- Notes:
- 1) HIES refers to Household Integrated Economic Survey carried out by the FBS
 - 2) PSES refers to Pakistan Socio-economic Survey carried out by Pakistan Institute of Development Economics in 1998-99
 - 3) PIHS refers to Pakistan Integrated Household Survey carried out by the FBS in 1995-96, 1996-97 and 1998-99. The 1998/99 PIHS includes the HIES component as well.

The World Bank is using the basic needs approach for estimating poverty in Pakistan. Based on an opinion survey carried out by Ahmad (1993), World Bank made certain adjustments to arrive at poverty line. The Mahboob-ul-Haq Institute is providing estimates on the basis of deprivation index.

Even if the calories requirements is the same, poverty estimates may differ because of the methodological issues. The main issues are:

- For consistency of the poverty estimates the poverty line in real terms should remain the same over time. This may be ensured by updating the poverty line by price indices.² While it ensures that the real incomes of those at poverty line remain the same, it does not necessarily ensure that the non-poor meet the calorific requirements. If it is to be ensured that in each year the minimum calorie intake is met, then poverty line will have to be re-estimated for all the years;
- Whereas some studies use market prices to convert the expenditure into calorie intake, the others use the prices within the data set reported by the respondents in the survey;
- Some studies use the consumption as the basis, while the others use incomes of the households for determination of the poverty line;
- While some studies consider servants and lodgers as part of the households, others exclude them;
- Some studies use the same poverty line for the both the urban and rural areas, the others use separate poverty lines for the two areas; and
- Finally, some studies use only food items while the others use both food and non-food products in the regression analysis to determine poverty line.

POVERTY TRENDS

Amjad and Kemal (1997) provide consistent estimates upto the period 1992-93 but the estimates available for the 1990s cannot be compared with their estimates. Their estimates of poverty for 1992-93 are considerably lower than either of the World Bank or FBS poverty estimates. The two sets of series without splicing would give erroneous poverty trends. Moreover neither the World Bank nor FBS provides estimates after 1998-99 though Planning Commission provides estimates for both 1998-99 and 2000-01. However, the estimates for 1998-99 are quite different from both the World Bank and

² Should the poverty line be updated by the general consumer price index or consumption on food be updated by the food price index separately and the non-food products by the non-food price index also needs to be considered.

FBS³. Therefore we should be cautious in drawing conclusions regarding the extent of an increase in poverty.

The main conclusion that may be safely drawn from the analysis of poverty trend is a six percentage point increase in the poverty over 1992-92 to 1998-99 and at least a further increase of 1.5 percentage points over the 1998-99 to 2000-01 period. For monitoring purpose, poverty on the basis of definition employed by Planning Commission should be ascertained and the methodology employed should be notified.

Table 2: Poverty trends in the 1990s by rural and urban areas

Year	Amjad and Kemal (1997)	Ali and Tahir (1999)	FBS 2550 calories	World Bank (2002)	Planning Commission
Total					
1987-88	17.32	19.18	-	30.7	-
1990-91	22.10	23.0	-	34.0	-
1992-93	22.40	28.11	26.6	26.7	-
1993-94	-	27.93	29.3	28.6	-
1996-97	-	-	26.3	24.0	-
1998-99	-	-	32.2	32.6	30.6
2000-01	-	-	-	--	32.1
Rural Areas					
1987-88	18.32	20.36	-	40.2	-
1990-91	23.59	24.49	-	36.9	-
1992-93	23.35	30.53	29.9	27.7	-
1993-94	-	31.24	34.7	33.4	-
1996-97	-	-	30.7	27.1	-
1998-99	-	-	36.3	35.9	34.7
2000-01	-	-	-	-	39.0
Urban Areas					
1987-88	14.99	16.65	-	-	-
1990-91	18.64	19.82	-	30.7	-
1992-93	15.50	22.91	20.7	20.8	-
1993-94	-	20.89	16.3	17.2	-
1996-97	-	-	16.1	16.9	-
1998-99	-	-	22.4	24.2	20.9
2000-01	-	-	-	-	22.7

Source: Amjad and Kemal (1997), FBS (2001), World Bank (2002) and Pakistan Economic Survey 2002-03.

DEPTH AND SEVERITY OF POVERTY

Income gap ratio (P_1) and severity of poverty estimated as squared poverty gap index (P_2) are the other two GT indices. Table 3 shows that the income gap ratio has increased from 4.5 to 6.9 percent over 1993/99 period. These estimates indicate the

³ We may note that the Planning Commission uses 2350 as the calorific requirements, the FBS and PIDE estimates are based on 2550 calorie requirements and Word Bank use the Basic needs approach. Except for PIDE which uses its own Pakistan Socio-economic Survey all the other studies use Household Income and Expenditure Survey.

transfer of average incomes required to be transferred to the poor to pull them out of poverty. It implies that poverty is deep in Pakistan. Similarly, the dispersion has also increased from 1.2 to 2.2 percent over the same period. Obviously, in any poverty alleviation program not only the prevalence of poverty but also the depth and severity of poverty need to be rigorously addressed.

Table 3: Poverty Gap and Severity of poverty

Year	Gap	Severity
1992-93	4.5	1.2
1993-94	5.5	1.5
1996-97	4.5	1.2
1998-99	6.9	2.2

Source: FBS (2001)

Who are Poor

Larger family size, illiteracy, poor education, small land holdings, unemployment, poor tenurial status, lack of medical facilities and litigation are the major factors associated with the poverty of households. For example, the families having larger number of persons are more likely to be poor; households with 9 or more members are eight times more likely than households with 4 or less members to be poor. If the head of the households had primary or secondary education, there was less likelihood to fall below the poverty line compared to the illiterate households. Those households who do not possess any land in the rural areas have higher poverty levels followed by those who had small land but supplemented land on share-cropping basis. If the bread winner falls sick or there is prolonged illness in the family or there has been litigation the household fall below the poverty level. Most importantly more than are earners has a significant and negative impact on the probability of being poor. Families suffering from unemployment had higher probability of falling below poverty line. The households with two or more productively employed persons were rarely poor.

Determinants of Poverty Trends Over Time

The Pakistan's experience suggests that the growth does not necessarily trickle down. In the 1960s despite high growth rate exceeding 6.5 percent, poverty increased and a slow down of the growth rate in the 1970s resulted in reduction in poverty because of an increase in employment, wage rates and remittances. During the 1980s even though

the employment grew at a rate of just 2 percent far below the growth of labour force, poverty fell because of sharp growth in the remittances and high growth rate of output. In the 1990s the slow growth rate of per capita incomes and rising unemployment have resulted in rising levels of poverty.

The econometric studies for ascertaining determinants of poverty levels in Pakistan suggest that growth, reduction in unemployment and remittances are the main factors associated with changes in poverty levels. The elasticity of poverty reduction with respect to increase in per capita income is almost unity which is in line with the results of cross country study of Kray and Dollar (2001). However if the increase in per capita income is accompanied with higher unemployment and/or decline in remittances, the rising per capita incomes would not be sufficient for reduction in poverty [see Kemal (2002)]⁴. This allows us to conclude that growth is essential for poverty reduction, but is not sufficient.

Table 4. Determinants of Poor Time Series Analysis Elasticity

Explanatory Variables	Elasticity with Respect to Explanatory Variables
Per Capita GDP	-0.927
Unemployment	0.824
Remittances	-0.131

III. EMPLOYMENT AND PRODUCTIVE LEVELS

Recent Trends in Employment

Whereas the crude activity rates maintained the declining trend of 1980s upto 1995, it has increased since then mainly due to child and females participation rates resulting in unemployment (see Table 5). The labour force that had grown at a rate of 2.0 percent upto 1995 has grown at a rate of 3.2 percent upto 2000 and to an even higher rate of 3.6 percent upto 2002. The employment growth also accelerated form 2.3 percent upto 1995 to 2.7 percent from 1995-2000 period and 3.2 percent for 1995-2002. However, because of more rapid growth of labour force than the employment generation the unemployment rate has increased to 8.3 percent by 2002. However, there have been sharp variations across the

⁴ For the determinants of poverty in Pakistan also see Amjad and Kemal (1997), Tahir and Ali (1999) and Qadir, Kemal and Mohsin (2000).

years in terms of employment across various years.

Table 5: Labour Force, Employment and Unemployment

Years	Crude Activity Rate (%)	Labour Force (millions)	Employment (millions)	Unemployment (millions)	Unemployment rate (%)
1991	27.97	30.99	29.04	1.95	6.2
1992	28.11	31.94	30.07	1.87	5.9
1993	27.86	32.45	30.92	1.53	4.7
1994	27.88	33.29	31.68	1.61	4.8
1995	27.46	33.60	31.80	1.81	5.4
1997	28.69	36.84	34.59	2.25	6.1
1998	29.38	38.64	36.36	2.28	5.9
2000	28.97	39.40	36.32	3.08	7.8
2002	29.61	43.17	39.60	3.57	8.3

Source: Labour force Surveys (various issues).

Because of the sharp variations and sensitivities of the growth rates to the choice of base and terminal years, trend growth rates have been computed for the 1991-2002 period. The trend growth rates reported in Table 6 indicate a much sharper growth rate of 3.0 percent in labour force compared to the growth of employment at a rate of 2.7 percent, resulting in an unemployment growth rate of 6.7 percent.

Table 6: Trend growth rates

Variable	Trend growth rates
Labour Force	3.00
Employment	2.74
Unemployment	6.67

The increase in poverty despite sharp growth in employment suggests that the jobs may have been created in less remunerative sectors. The distribution of employment by the industry division suggests that the production factors have moved into those sectors where the labour productivity has been rather low.

Table 7: The Distribution of Employment by Industrial Sectors
(percentage distribution)

Industry division	1990-91	1994-95	1996-97	1999-2000	2001-2002
Agriculture	47.45	46.79	44.15	48.42	42.09
Mining & Quarrying.	0.15	0.09	0.10	0.07	0.07
Manufacturing	12.23	10.41	11.10	11.48	13.84
Electricity & Gas	0.83	0.82	0.98	0.70	0.81
Construction	6.62	7.21	6.75	5.78	6.05
Trade	13.24	14.50	14.62	13.50	14.85
Transport	5.24	5.07	5.71	5.03	5.90
Finance	0.89	0.78	0.98	0.82	0.89
Services	13.33	14.66	15.62	14.20	15.30

The employment depends on the growth rate of output and the employment elasticities of various sectors. The employment elasticities have increased sharply to 0.667, over the 1991-2000 period and to 0.759 the 1991-2002. The employment elasticity over both the 1995-2000 and 1995-2002 period is higher than for the period upto 1995. In 1991-95 period the employment elasticity was 0.466 while in 1995-2000 period it was 0.759 and in 1995-2002 it was even higher, i.e., 0.866. Interestingly the employment elasticity exceeded unity in 1995-97 period and 2000-02 period.

Table 8: Employment Elasticities

Sector	1991-95	1995-97	1997-2000	2000-02	1991-2000	1991-2002	1995-2000	1995-2002
Agriculture	0.490	0.221	1.260	2.224	0.617	0.488	0.737	0.525
Mining & Manufacturing.	-0.369	4.169	0.751	2.134	0.445	0.878	1.583	1.935
Construction	1.275	0.399	-7.324	3.653	0.482	0.988	-1.311	0.582
Electricity & Gas	0.209	4.437	-0.983	-2.218	0.098	0.504	0.000	1.231
Transport	0.218	4.942	-0.272	6.389	0.440	0.882	0.786	1.700
Trade	1.061	1.428	0.000	1.886	1.023	1.251	0.954	1.392
Others	0.735	1.608	-0.138	1.342	0.647	0.778	0.618	0.836
TOTAL	0.465	1.043	0.574	1.254	0.591	0.667	0.759	0.866

Growth of Output and Labour Productivity

Labour productivity besides human resource development, and the management practices, is influenced by the capital-labour ratios. The capital formation at constant prices grew at a rate of just 2 percent while the employed labour grew at a rate of 2.6 percent in 1991-2002 period resulting in slow growth of labour productivity. The growth rate of labour productivity during the period has been 1.1 percent, which is quite welcome in view of the slow growth of investment. Higher level of capacity utilization,

movements towards less capital intensive activities, orientation of production towards export sectors have contributed towards growth of labour productivity.

Table 9: Levels of Labor Productivity

Sector	Labor Productivity at 1980-81 constant prices				
	1991	1995	1997	2000	2002
Agriculture	8312	8953	9759	9475	9822
Mining & Manufacturing.	22114	28505	25538	26276	23157
Construction	9616	9281	9521	10592	9639
Electricity & Gas	64267	82969	67847	109962	80047
Transport	28105	33753	28722	35113	29418
Trade	19109	18925	18421	19007	17788
Others	24156	25369	23815	27649	26677
TOTAL	15294	16820	16764	17568	17333

Whereas labour productivity grew at a rate of 1.1 percent over the ten year period, it was just 0.4 percent in 1995-2002. Productivity levels declined in the manufacturing, electric and gas distribution, transport and trade sectors. Whereas slow rate in the manufacturing has been due to lack of demand and the falling levels of investment, the performance has been poor in the utilities sector due to the heavy cost of the electricity purchased from the private sector. Similarly while in the construction sector it is the orientation towards capital intensive production, in the latter it is the changing composition of the services sector. The labour productivity in agriculture sector has increased only because the Labour Force Survey shows a rather sharp decline in the proportion of persons employed in agriculture sector.

Table 10: Growth Rates Of Labour Productivity

(At constant prices of 1980-81)

	1991-95	1995-2000	1995-2002	1991-2000	1991-2002
Agriculture	1.87	1.14	1.33	1.47	1.52
Manufacturing	6.55	-1.16	-2.91	1.93	0.42
Construction	0.88	2.68	1.76	1.08	0.02
Electricity & Gas	6.59	5.80	-0.51	6.15	2.02
Transport	4.68	0.79	-1.94	2.50	4.16
Trade	-0.24	0.09	-0.94	0.00	-0.65
Services	1.23	2.73	0.72	1.51	0.91
Total	2.41	0.87	0.4	1.55	1.1

Source: Based on data obtained for Economic Survey and Labour Force Surveys.

Unemployment and Poverty: Transitory Poor or Chronic Poor⁵

The movement of persons amongst employment, unemployment and nonparticipation in the labour force between the 1998-99 and 2000-01 period is shown in a matrix of labour market flows that examines transition from one labour market state to another state. Transition from unemployment to employment is quite slow. Out of the unemployed in 1998, 26 percent have opted out of labour market because of sheer frustration that they would not get jobs and one-third of them could not get a job even after two years. Similarly, those who were out of labour force in 1998-99, one-quarter of them joined labour force but less than one-fifth got job. One important aspect is that approximately 3.7 percent of the total employed stock in 1998-99 became unemployed in 2000-01. All these trends are indeed quite disturbing.

Table .11: Change in labour market states between the 1998-99 and 2000-01 period.

Labour market states in 2000-01	Labour market states in 1998-99			All	N (Male)
	Employed	Unemployed	Not in labour force		
Employed	79.3 (90.7)	41.4 (84.1)	19.4 (46.8)	44.6 (79.5)	5309 (4220)
Unemployed	3.7 (79.0)	32.6 (60.6)	6.0 (29.0)	5.8 (47.0)	688 (323)
Not in labour force	17.0 (55.8)	26.0 (48.2)	74.6 (25.1)	49.7 (29.7)	5918 (1758)
All	100 (84.2)	100 (67.1)	100 (29.4)	100 (52.9)	-
N (Male)	4891 (4119)	319 (214)	6705 (1968)	11915 (6301)	-

Source: Computed from the PSES Round I and II.

Note: Percentage of males in each cell of the table is reported in parenthesis.

Table may be read by columns which show transition from one labour market state to other between the 1998-99 and 2000-01 period.

The flow data allows us to make a distinction between the transitory and chronic unemployed.⁶ All such persons outside the labour force in 1998-99 but reported themselves as unemployed in 2000-01 are termed as short-term unemployed, as they are likely to be new entrants into the labour force. Based on this classification, it is estimated

⁵ This section is based on the data of PIDE Pakistan Socio-Economic Survey.

⁶ Chronic unemployed are those who remained unemployed in both rounds of the PSES. However, the possibility of being employed for some time between these two period cannot be ruled out. Transitory unemployed are those who made transition from being employed in 1998-99 to being unemployed in 2000-01.

that more than half of the total current stock of unemployed consisted of short-term unemployed. More than a quarter of the unemployed were in the category of transitory unemployed, while 15 percent were chronic unemployed (Table 12). The females dominated in the short-term category of unemployment.

Table 12: Classification of the current stock of unemployed

Classification	(Percentages)	
	Males	Females
Short-term unemployed	58.6	71.0
Transitory unemployed	26.3	29.0
Chronic unemployed	15.1	39.4
All	100	53.0

Source: Computed from the 1998-99 & 2000-01 PSES.

Movement of the panel households from poor to non-poor category indicates that only 31 percent of the poor households in 1998-99 were able to move out of poverty while about 27 percent of non-poor households fell into poverty between the 1998-99 and 2000-01 period.⁷ It thus appears that poverty in Pakistan is not a transitory or seasonal phenomenon; two-third of poor households remained in the state of poverty even after two years. Limited job opportunities with low wages have added to the miseries of the poor households.

Table 13: Poor/Non-poor vs Chronically/Transitorily Poor

2000-01	1998-99	
	Poor	Non-poor
Poor	68.8	27.0
Non-poor	31.2	73.0
Total	100	100

Source: Computed from the PSES Round I and II

Transition from unemployment to employment reduces the incidence of poverty while the movement in opposite direction, employment to unemployment increases the poverty level. In terms of poverty level, households headed by chronic unemployed (remained unemployed in two surveys) were worst, with highest level of incidence of poverty, 48 percent. These findings suggest strong linkages between poverty and the employment in Pakistan (See Table 14).

⁷ Poverty increased because non-poor accounted for 64.8 percent in the base year and 30 percent of these far exceeded the numbers of poor who escaped poverty; the poor were 35.2 percent in the base year and only one-third of these could escape poverty.

Table 14: Transition in Employment and Poverty

Transition	Poor	Non-Poor	Total
Transition from employed to unemployed	46.0	54.0	100
Unemployed in two periods	47.8	52.2	100
Transition from unemployed to employed	27.6	72.4	100
Employed in to periods	41.6	58.4	100

Source: 1998-99 and 2000-01 PSES.

IV. DATA AVAILABILITY AND RELIABILITY

Household Income and Expenditure Survey (HIES) and Pakistan Integrated Household Survey (PIHS) present the most comprehensive data on household incomes and expenditures. These data have been extensively used by researchers since early 1960s for drawing the poverty line and construction of poverty profile in the country. For Employment the Labour Force Survey serves as the basic source of information.

HIES and PIHS provide data separately for rural and urban areas and they are also broken down by the four provinces of the country. While estimates of poverty levels for the urban and rural areas have small sampling errors, the poverty at the provincial levels involves large errors especially for the smaller provinces, viz. NWFP and Balochistan. Therefore these surveys may not be used for the analysis of poverty levels by provinces.

Recently the government has come under a lot of criticism for having a weak data collection system. The latest Household Integrated Economic Survey (HIES) for 2001-02 and has not been updated and therefore it is not possible to estimate poverty levels beyond this period. Other controversies also exist regarding the reliability of the data collected. Whereas the sample design of the survey is quite adequate, it suffers from non-sampling errors. There is a need for proper monitoring of the surveys and third party validation. Whereas these data allows us to study the trends of poverty over time, the non-sampling errors may result in under or over statement of poverty. Moreover, these data understate the incomes of the highest strata and therefore, the income inequalities on the basis of these data would be underestimated. There is a need to set up a group that oversees the process of sample design and conduct of the survey.

There are other problems envisaged with the use of household surveys which need to be addressed. Since the household survey gathers data on gross categories only, it may

not always be helpful for qualifying impacts on the livelihood strategies of poor groups, or for designing complementary policies to address these impacts. Serious comparability problems are also documented in the literature when existing data collection and compilation are carefully inspected.

Disaggregated data by gender and by district are also not available and has constrained the analysis of poverty and employment and subsequent policy formulation for the marginalized and the most vulnerable groups. Similarly the analysis of employment is limited by data availability of the Labour Force survey. Occupational segregation data, disaggregated by districts and by region as well as by gender is not reliable. Analysis on this data is similarly not able to shape policies.

There are a number of other independent primary data sources which have recently been used to measure poverty and some of the PIDE surveys provide insights into issues of transient and permanent in the country. The three such surveys include firstly, Pakistan Socio-Economic Survey of PIDE which is a panel data set of around 4000 households. These data are available for 1998-99 and 2000-01. Besides income and consumption levels, it provides data on various economic and social parameters. Second, PIDE/World Bank panel data set for 4000 households across 54 districts which uses two separate questionnaires for males and females and there are three 15 modules. Third, PIDE data set for 8 communities for UNDP used in Pakistan Human Development Report.

Data Accessibility

The benefits of independent analysis of poverty and employment cannot be overemphasized. Results of research can be credible only if conclusions are independent and based on sound analysis and are not predisposed or predetermined to reflect positions of particular institutions or individuals. Accessibility to data is a prerequisite for this. Users of data especially disaggregated data in the research and policy communities face unnecessary hurdles in getting access to disaggregated data. Sometimes the time and transaction costs may be very high. The resulting analysis may therefore become outdated. Quick accessibility to such data may improve the quality of research and comparable work on poverty and employment.

V. POVERTY GENERATION MECHANISM: LOCAL POWER

STRUCTURES, MARKETS AND POVERTY

Various forms of dependency of the peasant on the local power structures and the distortions in the input and the output markets, functioning against the poor, constitute the elements of the process of poverty generation amongst the peasantry. A substantial proportion of the potential as well as actual income of the poor peasantry is lost to the increasingly adverse tenancy arrangements and the obligation to sell labour at less than market wage rates or without any wages at all, to the landlords. This is because of the social and economic leverage that the landlords exercise over the poor peasants. At the same time, there is unequal access over both the input and the output markets, as well as over services such as credit, dispute resolution and health facilities. In this section, we will present evidence from the NHDR/PIDE Survey to analyze the nature of the process of poverty generation and the magnitude of peasant income lost due to various forms of dependence and market distortions. In the small farm households, the most significant constraint to increasing income is the non-availability of land and the income losses associated with land use within the structure of dependence. Amongst the non rural farm households, the principal constraint to poverty alleviation is the limited possibility of remunerative jobs and the low ability to initiate self-employment projects. In the urban areas, the employment status, informalization of the work force and the low level of productivity of micro enterprises constrain income levels and give rise to poverty.

While the poor have very low levels of consumption, they do not have resources to finance them. The incomes in rural areas are low because of the skewed land distribution and poor tenurial status. Moreover, lack of medical facilities push the non-poor households below poverty levels.

Financing of Consumption by the Poor

How the poor manage with meager amount of income to meet their basic needs. The PIDE/UNDP survey data of eight poor communities used in Human Development Report of Pakistan, 2003 helps in answering this question.

The households are divided into three groups; extremely poor (EP), the poor (TP) and non-poor (NP)⁸. In the first category (EP) those households are included who suffer

⁸ The poverty line used in this study is arrived at by inflating the poverty line of Arif and Qureshi.

from abject poverty and the bottom 4 deciles are included in this category. Their incomes and receipts are only 24.1 and 29.0 percent of poverty line and suffer from extreme form of the nutritional deficiencies. The second category (TP) includes all the other poor who with some efforts can be pulled out of poverty. Their incomes are 65.7 and total receipts 71.3 percent of the poverty line. Though they suffer from malnutrition, consumption level of most of these households is less than their total receipts. In the third category (NP) are the households whose incomes levels are above the poverty line.

The poor, whose incomes and receipts fall below the poverty line, use loans and sell assets to meet the consumption requirements. Since availability of loans to the extremely poor is constrained and they do not possess any assets, they suffer from extreme nutritional deficiencies. Total available resources of extremely poor are 84.0 percent of the poverty line. In the urban areas the poor persons instead of using the loan and assets to finance consumption, in general, seems to have cut their consumption levels. In the rural areas income levels of the extremely poor are 21.6 and 61.9 percent, their total receipts are 28.0 and 68.6, and total resources are 38.5 and 88.0 percent of the poverty line respectively. In the rural areas incomes of both the extremely poor and the poor fall short of their consumption levels but they use loans to finance the consumption levels (see Table 15).

Table 15: Average Household Income, Receipts and Total Available Resources.

	Extremely Poor	Poor	Non-poor	Total
PAKISTAN				
Total Household Income	17,397	41,093	115,690	42,972
Total Receipts of the Households	20,170	43,925	123,273	46,506
Total resources available to the households	25,184	52,624	147,382	56,079
Total Consumption by the Households	24,152	41,764	85,217	41,330
Food Consumption by the Households	19,041	32,381	62,325	31,599
URBAN				
Total Household Income	30,266	53,830	110,804	51,007
Total Receipts of the Households	30,691	54,207	110,894	51,370
Total resources available to the households	33,030	57,000	114,061	54,024
Total Consumption by the Households	28,740	44,562	63,002	40,354
Food Consumption by the Households	23,465	36,229	49,200	32,612

Continued

Table 15 Continued...

	Extremely Poor	Poor	Non-poor	Total
RURAL				
Total Household Income	12,495	35,704	116,992	39,918

For 2000-01, it comes to 63,766 per household for Pakistan; 57,686 for rural areas and Rs. 76,687 for the urban areas.

	Extremely Poor	Poor	Non-poor	Total
Total Receipts of the Households	16,162	39,575	126,574	44,657
Total resources available to the households	22,195	50,773	156,267	56,860
Total Consumption by the Households	22,405	40,580	91,141	41,701
Food Consumption by the Households	17,356	30,753	65,824	31,214

Source: PIDE/UNDP survey.

Transfers, especially the remittances, supplement considerably the total income; for the extremely poor, remittances account for 16 percent and total transfers 20.9 percent and for the poor remittances account for 4.2 percent and total transfers 5.3 percent of the total receipts. Despite the large transfers the current receipts of the extremely poor fall short of their consumption levels by 35 percent and had to resort to credit and sale of the assets to finance their meager consumption levels. As much as 17 percent of total consumption of the poor is financed through credit and 5 percent through the sale of land. Even though the poor on average spend less than the total receipts, a large number of households amongst them do use credit and proceeds from the sale of assets to increase their consumption; 10 percent of the consumption of the poor was financed through net credit and 2 percent through the sale of assets.

In the urban areas, the consumption of extremely poor exceeds their total receipts by 14 percent, and ratio of net credit to consumption is 17 percent. Remittances have been rather low in the two urban communities and total transfers are just around 6 percent of total receipts. In the rural areas, the remittances in the total receipts of the extremely poor accounted for 17.2 percent and other transfers for another 4 percent. The consumption exceeds total receipts by 35 percent financed by credit to the extent of 17 percent and sale of land by about 5 percent. The poor received 6.7 percent in the form of remittances and 1.3 percent from other transfers. On average they could finance their consumption levels through net credit and sale of land by 15 percent and 3 percent of the consumption level.

Table 16: Transfers and financing of consumption.

(Proportion)

	Extremely Poor	Poor	Non-poor	Total
ALL PAKISTAN				
Remittances/Total Receipts	0.12	0.05	0.07	0.08
Other transfers/Total receipts	0.04	0.01	0.01	0.02
Consumption/Total Receipts	1.24	0.96	0.74	1.02
Net Credit/Consumption	0.14	0.13	0.15	0.14
Land Sale/Consumption	0.05	0.03	0.04	0.04
URBAN				
Remittances/Total Receipts	0.00	0.00	0.00	0.00
Other transfers/Total receipts	0.02	0.00	0.00	0.00
Consumption/Total Receipts	0.95	0.83	0.59	0.83
Net Credit/Consumption	0.07	0.06	0.04	0.06
Land Sale/Consumption	0.00	0.00	0.00	0.00
RURAL				
Remittances/Total Receipts	0.20	0.08	0.08	0.13
Other transfers/Total receipts	0.05	0.01	0.01	0.03
Consumption/Total Receipts	1.44	1.04	0.76	1.13
Net Credit/Consumption	0.18	0.17	0.16	0.17
Land Sale/Consumption	0.07	0.05	0.05	0.06

Small Landholders and Landlessness

Farmers' income not only depends on the production of various crops, tenancy arrangements, and marketing arrangements but also on other agricultural activities, such as livestock, and non-agricultural activities. The poor and the extremely poor households have a very small amount of owned land. Poverty and land ownership are positively correlated: Compared to the non-poor's land ownership that exceeds 6 acres; for the extremely poor and the poor it was only 1 acre and 2 acres, respectively.⁹ Such land holdings are uneconomical and, as such, a sizable proportion of the extremely poor and the poor rent out the land and undertake non-agricultural activity.¹⁰ The others rent-in the land both on share-cropping and cash rent basis and increase the operating holdings to around 3 acres. (see table 17). While this does help in increasing the production levels, their incomes would not necessarily rise proportionately, through increasing operated holdings. The increase in income would largely depend on the share-cropping arrangements.

⁹ Whereas 89.3 percent of the non-poor households owned the land, the proportion was 48.2 and 70.9 percent amongst the extremely poor and the poor.

¹⁰ The land rented out is 10.3 percent and 18.0 percent of the land ownership of the extremely poor and the poor.

Table 17: Land Owned and Operated by Economic Status (Rural Farm Households).
(in acres)

	Extremely Poor	Poor	Non-poor	Total
Land owned	1.07	2.06	6.09	2.72
Land Rented Out	0.11	0.37	1.19	0.49
Land rented in on share crop basis	1.85	0.99	0.92	1.22
Land rented in on cash rent basis	0.04	0.14	0.71	0.25
Any other land	0.08	0.26	0.11	0.17
Total land	2.93	3.09	6.65	3.88

Note: There are non-farm households who own land and because of that total land exceeds the land owned.

Source: NHDR/PIDE Survey 2001.

Instead of buying land, the poor were forced to sell their land. As many as 76.5 percent of the extremely poor and 38.9 percent of the poor sold their land over the last 10 years. Even more important, the poor had to sell land for urgent consumption needs, marriage expenditure and health expenditures (see table 18). In the process, the productive assets of the poor get depleted, adversely impacting their future streams of incomes and reducing the probability of getting out of poverty.

Table 18: Land Obtained and Sold by Economic Status

	Extremely Poor	Poor	Non-Poor	Total
Made any plan to buy land (Proportion)	1.7	4.6	7.5	3.9
If yes, reasons for not buying				
Too expensive	90.9	93.1	83.3	89.7
Land not available	9.1	6.9	--	5.2
Did you sell any land (Proportion)	2.5	5.0	10.4	4.9
Acres of land sold	2.0	4.3	13.6	7.03
Reasons for selling land				
Urgent consumption need	46.2	23.5	29.2	29.6
Marriage expenditure	30.8	26.5	12.5	22.5
Health expenditure	23.1	17.6	4.2	14.1
To purchase other property	--	11.8	20.8	12.7
To return debt	--	17.6	25.0	16.9
To establish business	--	2.9	8.3	4.2
Sold any land during last few year as well (Proportion)	76.5	38.9	42.3	48.1
Money received from land sale last year	1522	1458	6126	2261

Source: NHDR/PIDE Survey 2001.

Poverty and Unequal Access over the Land Rental and Credit Markets

As table 19 shows, the average farm size of owner-cum-tenant households is higher compared to any other category of tenurial status. This is true for all the income classes, the extremely poor, the poor and the non-poor. This suggests that, ceteris paribus, the ability of farm households to increase their farm size and income depends upon the ability to rent-in additional land. It is interesting that the average farm size of owner-cum-tenant operators amongst the non-poor is more than twice that of poor households. This indicates that the non-poor are able to rent-in more land than the poor to enlarge their operated holdings and incomes. It also suggests a certain asymmetry in the rural land rental market as between the poor and the non-poor households, as also the relative shortage of working capital amongst the former arising from unequal access over the credit market. Yet it is precisely the poorest farm households with an average farm size of only 2.3 acres (compared to 7.03 acres for the non-poor households) who have a greater need for renting-in land than the non-poor.

Table 19: Farm Size by Tenurial Status

	Extremely Poor	Poor	Non-Poor	Total
FARM SIZE (ACRES)				
Owner Operator	2.32	3.43	7.03	3.92
Tenant	3.28	3.38	3.66	3.34
Owner Operator-cum-Tenant	3.68	4.11	8.94	5.92
Others	1.07	6.59	19.08	7.30
Total	2.85	3.62	7.67	4.16
Percentage of Households				
Owner Operator	41.1	58.6	58.3	51.7
Tenant	45.8	25.5	10.3	30.3
Owner Operator-cum-Tenant	9.8	11.9	27.6	14.3
Others	3.4	4.0	3.8	3.7

Source: NHDR/PIDE Survey 2001.

Power, Economic Dependence and Poverty

Table 20 shows the impact of the landlord's power on the disposal of produce by the poor farm households, and its direct consequence for their consumption. Under asymmetric tenurial arrangements, the extremely poor farmers are obliged to pay a larger proportion of their farm produce compared to the poor and the non-poor categories. For example, the extremely poor have to pay 28.21 percent of their production value to the landlord,

compared to 13.39 percent by the poor households and only 8.41 percent by the non-poor households. Consequently, the extremely poor households are forced to keep only 39.59 percent of their crop output for household consumption, compared to 48 percent by poor households and 54 percent by non-poor households. This suggests that the extremely poor and the poor households are likely to run out of their household stock of food grain and would be obliged to purchase grain in the market near the end of the year when market prices are relatively higher (Hussain (1988)]. Such households are then faced with the necessity of borrowing for food consumption. Where this is not possible the peasant household faces starvation. This is also suggested by the evidence in table 15, which shows that the extremely poor households borrow for food consumption. Poor farm households are placed under a double squeeze: First by the power of the landlord, who obliges them to hand over a relatively larger proportion of their crop output as a crop share to the landlord. A second squeeze is placed by the seasonal variation in the market price of grain, which obliges the extremely poor households to purchase a relatively larger proportion of their food consumption requirements from the market when prices are high.

Table 20: Disposal of Crop Harvest by Income Class

	Extremely Poor	Poor	Non-Poor
Total Production Value	13864	22538	37626
Paid in kind to labour (Value)/Total Production Value* 100	1.45	2.76	4.7
Paid as rent (Value)/Total Production Value* 100	1.1	1.4	0.83
Paid to landlord under share cropping agreement (Value)/Total Production Value* 100	28.21	13.39	8.41
Given to Relatives (Value)/ Total Production Value* 100	0.09	1.06	1.61
Crop Sold (Value) /Total Production Value* 100	29.57	33.27	30.02
Crop Kept for Own Use/Total Production Value* 100	39.59	48.12	54.43

Source: NHDR/PIDE Survey 2001.

Given their food budget deficit, many tenant households in the poor and the extremely poor categories are obliged to supplement their incomes by working part time on the landlord's owner-cultivated piece of the land holding. Such poor tenants thereby constitute a convenient source of tied labour supply to the landlord. It is convenient not only in the sense that their labour is easily accessible during peak seasons when many farmers experience a temporary labour shortage. Perhaps more important, landlords are able to pay a lower than market wage rate to their dependent tenants [Hussain (1980)]. Table 21 for example, shows that a substantial proportion of the poor households work as wage labourers

for the landlord and that the wage rates of the poor and the extremely poor households are almost half the wage rates at which the non-poor households are able to sell their labour in the market.

Apart from the income loss of the poor households emanating from adverse crop sharing contracts, an additional squeeze on their income results from *loan* dependency on the landlord. Table 21 shows that as many as 50.8 percent of the extremely poor farm households borrow a loan from the landlord.

Table 21: Loan Dependence on the Landlord and Labour Exploitation of the Poor Peasantry

	Extremely Poor	Poor	Non-Poor	Total
Loan from landlord (%)	50.8	29.4	11.7	34.4
Work for landlord against wages (%)	14.0	24.3	5.1	16.9
Daily wages (Rupees)	28.0	43.6	60.0	40.0
Work for landlord without wages (%)	57.4	38.5	25.4	43.5

Source: NHDR/PIDE Survey 2001.

The resultant leverage and additional social control acquired by the landlord obliges many poor households to work for the landlord without any wage at all. For example, table 14 shows that 57.4 percent of extremely poor households worked for the landlord without wages. Similarly amongst poor households, as many as 29.4 percent have borrowed a loan from the landlord and 38 percent are obliged to work for the landlord without wages.

Impact of Adverse Changes in Tenancy Arrangements on Input Costs of the Poor

The incomes of households depend on the proportion of the land owned, tenurial status and productive use of assets. Majority of the extremely poor (52.5%) and the poor (30.6%) are tenants. Any deterioration in the tenancy arrangements for the tenant would therefore tend to increase poverty. As shall be seen later, the tenants over time have to bear a higher proportion of the cost of inputs thereby reducing the incomes of the poor. No doubt, 36.2 and 56.4 percent of the extremely poor and the poor are owner-operators but because of very small land holdings they are confronted with persistent poverty. This suggests that contrary to the general belief that poverty of a household is a short run phenomenon, the fact is that the tenants are generally poor and the ancestors of existing tenants have also been tenants. As many as 78.7 percent of the existing tenants' fathers were also tenants. This suggests that rural poverty may be endemic to the agrarian structure rather than a transient

phenomenon.

Changes in tenancy arrangements with respect to the financial contribution of the tenants to input use on the tenant operated farm have become a significant factor in generating poverty. The contribution of tenants to input costs in the case of tractor rental, labour, seeds and fertilizer has increased during the period 1990-91 to 2000-2001. For example as table 22 shows, in the case of wheat, the contribution of the tenants in the provision of tractors increased from 63 percent to 74 percent, labour from 47 percent to 60 percent, seeds from 51 percent to 67 percent and fertilizer from 47 percent to 57 percent. The increase in the proportion of tenant's contribution to inputs for cotton has been 30 percent to 48 percent in the case of tractors, from 15 percent to 30 percent in the case of labour, from 20 percent to 38 percent in the case of seeds, and from 20 percent to 36 percent in the case of fertilizer. For rice the tenant's share in input costs has increased in the case of tractors hiring from 24 percent to 28 percent, labour from 16 percent to 18 percent and fertilizer from 19 percent to 23 percent.

Table 22: Contribution of Tenants in Inputs

(Percentages)

	1990-91				2000-2001			
	Tractor	Labour	Seeds	Fertilizer	Tractor	Labour	Seeds	Fertilizer
Wheat								
Extremely Poor	58	43	45	43	70	51	56	50
Poor	55	45	52	48	75	65	72	60
Non-poor	93	59	62	57	84	69	75	64
Total	63	47	51	47	74	60	67	57
Cotton								
Extremely Poor	41	20	24	24	52	28	34	34
Poor	21	8	15	15	46	31	41	38
Non-poor	21	15	21	19	42	32	42	36
Total	30	15	20	20	48	30	38	36
Rice								
Extremely Poor	24	17	16	20	29	20	19	25
Poor	22	14	13	18	25	15	14	19
Non-poor	28	18	22	21	32	18	25	25
Total	24	16	16	19	28	18	18	23
Sugarcane								
Extremely Poor	22	15	14	17	23	15	15	18
Poor	20	8	11	17	19	11	11	19
Non-poor	17	11	10	12	20	12	13	13
Total	20	12	12	16	21	13	13	17
Total								
Extremely Poor	36.3	13.8	24.8	26.0	43.5	28.5	31.0	31.8
Poor	29.5	18.8	22.8	24.5	41.3	30.5	34.5	34.0
Non-poor	39.8	25.8	28.8	27.3	44.5	32.8	38.8	34.5
Total	34.3	22.5	24.8	25.5	42.8	30.3	34.0	33.3

Source: NHDR/PIDE Survey 2001.

The burden of financing input costs in percentage terms even in 1990-91 was higher for the extremely poor and poor categories compared to the non-poor (see table 22). With the increase in this burden over the decade of the 1990s, the squeeze on tenant income has been intensified.

While the financial burden and input costs on the poor tenants has increased, their lack of control over timing of water application, combined with adulterated inputs, keeps the yield per acre of poor peasants at a low level, thereby reducing their net income.

Income Loss Resulting from Unequal Access over Input Markets

The source of input procurement also impacts adversely the cost of production and hence on incomes of the poor. As many as 28.2 percent of the extremely poor have to buy the inputs from the landlords and the proportion falls to only 8.7 and 2.7 percent in the case of the poor and the non-poor. On average, the poor have to pay 11.8 percent more than the actual amount which they would have to pay in case these inputs were procured from the least cost sources. Compared to the extremely poor, this proportion for the non-poor is only 9.41 percent. (see table 23).

Table 23: Percentage Loss in Prices of Inputs Used for Selected Inputs by Economic Status

	Input Type						Total
	DAP	Urea	Potash	Nitrogen	Pesticide #1	Pesticide #2	
Extremely Poor	7.11	14.65	--	4.23	18.57	28.57	11.78
Poor	7.98	9.74	2.86	6.67	20.29	--	9.03
Non-poor	8.27	10.56	--	6.67	4.76	--	9.41
Total	7.81	11.32	2.86	5.45	16.84	28.57	9.89

Source: NHDR/PIDE Survey 2001.

Irrigation is basic to the productivity in the agriculture sector. As many as 54 percent of the extremely poor households do not have any source of irrigation and the proportion falls to 45.8 percent in case of the poor and 30.3 percent in case of the non-poor. Whereas the proportion of households using canal as the only source of irrigation is not much different, it is significantly different in the case of other irrigation facilities. Moreover, most of the extremely poor households are at the tail end of the irrigation channel.

Income Loss Resulting from Unequal Access over Output Markets

As we have seen in the preceding Section, unequal access over input markets squeezes the income of the poor since the inputs they purchase have a higher price and poorer quality compared to those which the more influential large farmers are able to acquire. Similarly the income of the poor farmers is further squeezed due to unequal access over markets for farm output. The government fixes the support prices for some of the major crops but the small farmers seldom receive these prices because government agencies procure output from commission agents rather than directly from small farmers. The following table 24 shows the distribution of 4 major crops sold in the market by type of buyer.

Table 24: Distribution of Four Major Crops Sold in the Market by Type of Buyer (Rural Pakistan)

To whom Sold	Rice	Cotton	Wheat	Sugarcane	Total
Trader	37.5	78.2	49.7	1.9	56.9
Relative/Friend	14.1	1.6	15.6	--	7.1
Neighbour	4.7	--	4.1	--	1.8
Mill Owner	28.1	0.4	--	88.5	12.8
Government	1.6	--	--	1.9	0.4
PASCO	--	--	1.4	--	0.4
Food Department	--	--	2.7	--	0.8
Landlord	7.8	18.1	13.6	5.8	14.2
Others	6.3	1.6	12.9	1.9	5.5
Total	100.0	100.0	100.0	100.0	100.0

Source: NHDR/PIDE Survey 2001

It shows that an overwhelming proportion of output sold in the case of rice, cotton and wheat, is sold to traders and landlords who constitute an important element in the local power structure in many areas, rather than directly to the government or semi autonomous government organisations. It is pertinent to point out that the traders and the landlords give a lower price than the official purchase price of the government, since, in most cases, either the poor peasants do not have direct access over government agencies, or are tied into various forms of dependence (on the landlord through tenancy and loans dependence, and on traders through loan dependence and protection rackets). For example of the total output sold, the percentage sold to traders and landlords is 45.3 percent in the case of rice, is 96.3 percent in the case of cotton and 67.3 percent in the case of wheat. Only in the case of sugarcane, as much as 88.5 percent of the total output

was sold directly to the mill owners. However even in this case, mill owners enjoy a virtually monopolistic position vis-à-vis the farmers in the local area. They are able to push down prices of sugarcane simply by delaying purchase in a situation where delay in the opportunity to sell the sugarcane places the small farmer under intense pressure. This is partly because of his urgent requirements at harvest time and partly because the sucrose content of the sugarcane falls over time thereby reducing its value.

As seen in the following table 25, the income of the poor is reduced by 7.44 percent of the total value of sales for the major crops because they were unable to get the minimum ruling market price. These four crops account for 85 percent of the total output in the crop sector. If the loss of income in the other sub sectors resulting from such market distortions, is also taken into account, then the loss would be higher. If the increase in the cost of input procurement is also taken into account, then the small farmers are deprived of about 20 percent of their potential income from crop production. If the income loss resulting from the pressure to bribe local administration officials through provision of milk and ghee is included, then as much as one-third of the potential income of small farmers is lost.

Table 25: Income Loss due to Distortions in Output Markets by Economic Status

	Loss/Value Sold* 100
Extremely Poor	7.44
Poor	6.42
Non-poor	5.65
Total	6.55

Source: NHDR/PIDE Survey 2001.

Table 26: Place Where Livestock Produce Sold by Economic Status

Where Sold	Extremely Poor	Poor	Non-Poor	Total
MILK				
Village	33.3	33.0	16.3	26.9
Town	21.2	19.1	16.3	18.4
Middleman	36.4	44.3	61.6	49.6
Others	9.1	3.5	5.8	5.1
Total	100.0	100.0	100.0	100.0
BUTTER/GHEE				
Village	100.0	100.0	--	80.0
Town	--	--	100.0	20.0
Total	100.0	100.0	100.0	100.0

Source: NHDR/PIDE Survey 2001.

Table 27: Livestock by Economic Status

	Value of Animals (Rs.)					
	Currently Owned	Owned in the Start of Last Year	Sold during Last Year	Slaughtered/ Consumed during Last Year	Purchased during Last Year	Received as Gift during Last Year
Extremely Poor	17048	12641	1106	51	1706	19
Poor	23990	19438	2114	163	2103	220
Non-poor	47414	39631	3624	303	3118	206
Total	27268	22050	2165	163	2218	159

Source: NHDR/PIDE Survey 2001.

Milk and Milk Products and Income Loss to the Local Power Structure

Besides land, livestock is another major asset of the farming community especially of the poor. It plays a major role in providing nutrition to the farming community. Whether the farmers are poor or extremely poor, they do own some animals; ownership of animals is less skewed than the ownership of land. Value of animals owned by the extremely poor and the poor ranges between Rs.17,000 to Rs.24,000, compared to Rs.47,400 for the non-poor. It is noteworthy that the value of animals owned has increased over the years for all the three categories.

Milk is the major product, and the quantity produced per year varies from 702 liters of milk annually in case of the extremely poor to 2,463 liters in case of the non-poor (see table 28). The extremely poor households consumed 84 percent of the total milk they produced. The ratio declines to 76 and 66 percent for the poor and the non-poor, respectively. Since the extremely poor have a small amount to sell, they are able to earn from the sale of milk only Rs.1,898 compared to Rs.5,980 by the poor and Rs.19,202 by the non-poor. Whereas production of the extremely poor and the non-poor has a ratio of 1 to 3.5, the sales ratio is 1 to 10. Another interesting feature is that whereas the extremely poor and the poor are pressurized to provide a relatively large proportion of their milk output to the officials in the area, it does not form a significant proportion in the case of the non-poor.(see table 28).

All the three income classes also produce butter and ghee. The annual quantity is 25 Kg in case of the extremely poor and 73 Kg in case of the non-poor. Most of this is consumed and it is only the poor who sell 11 percent of the total quantity (see table 28).

Table 28: Production and Income from Livestock by Economic Status

	Extremely Poor	Poor	Non-Poor	Total
MILK				
Quantity Produced (Litres)	701.85	1079.96	2463.72	1380.56
Quantity consumed from own production (%)	83.83	75.60	66.35	74.92
Quantity Sold (%)	12.39	23.63	33.78	23.85
Sale Value (Rs.)	1898	5980	19202	8672
Value of produce given to Patwari (Rs.)	0	0	8	2
Value of the produce given to other officials (Rs.)	72	197	7	116
Value of produce given to Imam Masjid (Rs.)	35	10	51	27
BUTTER/GHEE				
Quantity Produced (Kg.)	24.89	47.42	73.00	51.21
Quantity consumed from own production (%)	94.12	89.24	95.80	92.49
Quantity Sold (%)	5.88	11.07	3.33	7.47
Sale Value (Rs.)	26	203	43	114
Value of produce given to Patwari (Rs.)	0	0	0	0
Value of the produce given to other officials (Rs.)	0	0	0	0
Value of produce given to Imam Masjid (Rs.)	0	4	0	2

Source: HDR/PIDE Survey 2001.

DISPUTES AND THE ECONOMIC COST OF SEEKING RESOLUTION

Given the powerlessness of the poor and their vulnerability to social and economic injustice within the local power structure, the poor are engaged in a variety of disputes. The NHDR/PIDE Survey 2001 has investigated the frequency and type of disputes for various income classes of the poor and the cost of mediation as well as the rate of successful resolution.

As table 29(a) shows, the highest frequency of reported disputes occurs in the case of the poor, while the extremely poor, perhaps due to their acutely constrained economic circumstances, are often not prepared to take on the burden of a dispute. Their disputes as a percentage of the total disputes is 17.1 percent, with the figure for the non-poor being 34.2 percent. In the relatively few cases where the extremely poor do engage in disputes, the cost of mediation (Rs.18,333) places a crippling burden on them since it is more than their annual household income. Yet in spite of having spent such a large

amount of money, usually by taking out loans or selling whatever few assets they have, the percentage of successful resolution of disputes in the case of the extremely poor is the lowest amongst the three income classes (38.5%). In the case of the non-poor, the percentage of reported disputes resolved is much higher at (80.8%) indicating the role of their relatively greater social influence in dispute resolution.

Table 29(a): Frequency of Disputes, Resolution and Cost of Resolution by Economic Status (Cases Reporting Disputes only)

Economic Status	Distribution of Reported Disputes	Amount Spent on Mediation (Mean)	Percent of Reported Disputes Resolved
Extremely Poor	17.1	Rs. 18,333	38.5%
Poor	48.7	Rs. 12,074	59.5%
Non Poor	34.2	Rs. 18,264	80.8%
Total/Average	100	Rs. 15,123	63.2%

Source: NHDR/PIDE Poor Communities Survey 2001.

As table 29(b) shows, the greatest proportion of disputes related with money/credit occurs in the case of the poor (61.2%) and to a much lesser extent in the other two income classes, being 22.2 percent for the extremely poor and 16.7 percent for the non-poor. In the case of land disputes, again the highest proportion occurs in the case of the poor (42.9%) with the extremely poor also facing a substantial proportion of land disputes (21.4%). In disputes related with honour or “loss of face”, again the greatest percentage occurs amongst the poor (47.1%) with the figure in the case of the extremely poor being 17.6 percent, and in the case of the non-poor being 35.3 percent.

Table 29(b): Type of Dispute by Economic Status (Dispute Reporting Cases only)

Economic Status	Land Dispute	Water Dispute	Money/ Credit Dispute	Honour (Izzat) Dispute	Other
Extremely Poor	21.4	-	22.2	17.6	13
Poor	42.9	-	61.2	47.1	47.8
Non Poor	35.7	100	16.7	35.3	39.1
Total	100	100	100	100	100

Source: NHDR/PIDE Survey 2001

Table 30: Police Involvement in Disputes and Amount of Bribe Money Paid by Economic Status

Economic Status	Police Involvement in any Dispute	Bribe Money Paid to Police
Extremely Poor	1%	Rs.16,171
Poor	2.8%	Rs.14,517
Non Poor	4.9%	Rs.35,558
Average	2.5%	Rs.22,648

Source: NHDR/PIDE Survey 2001.

The data show that in all the three income classes, the poor by and large tend to avoid involving the police. This is indicative not only of the perceived inefficiency of the police in handling disputes, but also the danger of harassment by them. This is quite apart from the bribe money that has to be paid to register and pursue a case with the police, whether it is theft, violence or kidnapping. As table 30 shows, the extremely poor involve police in only 1 percent of the disputes, the poor to the extent of 2.8 percent and the non-poor to the extent of 4.9 percent. The relatively low involvement of police in the disputes of the poor is explained to some extent by the fact that a relatively large amount of bribe money has to be paid to the police just to register a case. In the case of extremely poor the bribe money paid to police, in cases where it was involved was Rs.16,171/-, in the case of the poor, it was Rs.14,517/- and in the case of the non-poor, it was Rs.35,558/-

POVERTY AND ILLNESS

The NHDR/PIDE Survey 2001 shows that the poor are not only afflicted by a high frequency of illness but also, the high cost of medical treatment constitutes a major factor in pushing people into poverty.

The poor due to inadequate nutrition and hence lowered immunity are relatively more susceptible to disease. Moreover the lack of access over safe drinking water as well as unhygienic conditions of production, storage and consumption of food would be expected to result in a relatively high frequency of disease amongst the poor. It is not surprising that our data show that 55 percent of the poor and 65 percent of the extremely poor in the NHDR/PIDE 2001 poor communities survey, were ill at the time of the survey (see table 31). The high prevalence of poor health amongst the poor is also borne

out by the National Health Survey of Pakistan. It shows that in rural areas, amongst low income women of 45 years age and above as many as about 45 percent suffer from poor health and over 80 percent suffer from poor to fair health [PMRC (1998)]. Amongst men in rural areas, almost 60 percent suffer from poor to fair health. Similarly children under 5 years of age in rural Pakistan have on average 6 episodes of cough and fever during the year [PMRC (1998)].

Table 31: Percentage of Poor who are Sick, Number of Days of Sickness, Treatment Expenses and Distance Travelled for Medical Consultation [Head of Household only]

Economic Status	Sick at the Time of Survey (percent)	Number of Days in Current Sickness (Mean)	Treatment Expenses (Rs.)	Percent of Patients Travelling over 6 Kms.
Extremely Poor	65.1	94.9	1885	49.4
Poor	55.6	27.4	497	29.5

Source: NHDR/PIDE Survey 2001.

The NHDR/PIDE Survey 2001 shows that not only 65.1 percent of the extremely poor respondents were sick at the time of the survey but that they had on average suffered from their current sickness for the last 95 days (see table 32). The NHDR/PIDE Survey shows that rather than going to homeopaths, hakims or even government hospitals and dispensaries, the poor predominantly go to private allopathic medical practitioners. This is reflective of the desire of the poor to get the best possible medical treatment for their loved ones. It is also reflective of the poor quality of most government medical facilities and of the lack of access of the poor over the better ones. As table 32 shows, of the poor in the various income classes, on average, 54 percent go to private medical practitioners, 13.3 percent to government hospitals, 8.0 percent to government dispensaries and only 5.6 percent to homeopaths, hakims and others.

Ironically, a large number of private allopathic medical practitioners who are conducting private practices in the rural areas, are poorly trained and have grossly inadequate diagnostic facilities. The result is that when the poor fall ill they suffer for a protracted period and get locked into a high cost source of medical treatment. As table 31 shows, the extremely poor spend Rs.1,885/- on their current illness and 49.4 percent of the patients have to travel over 6 kilometers for their medical consultation. But given the high cost of medical treatment and protracted illness due to inadequate diagnostic

facilities, in many cases the poor are forced to sell whatever few assets they have and to finally borrow money to finance the treatment of their loved ones. The poignancy of the human condition of the poor in this context is that as they undertake the noble act of providing succour to their family members, they get pushed deeper into poverty.

Table 32: Type of Health Facility used by Sick Persons within each Economic Category

Distribution of sick persons By type of Health Facility Used							
ECONOMIC STATUS	Private Medical Practitioner (Allopathic)	Govt. Hospital	Govt. Dispensary	Compounder or Chemist	Community Health Worker	Homeopath, Hakim and others.	ROW TOTAL
Extremely Poor	57.8	12.0	7.2	13.3	1.2	8.4	100
Poor	45.9	16.3	8.2	22.4	0.9	6.1	100
Non Poor	64.4	8.9	8.9	15.6	-	2.2	100
Average	54.0	13.3	8.0	17.7	0.4	5.6	100

Source: NHDR/PIDE Survey 2001.

VI. AN OUTLINE OF POLICY FOR PRO-POOR GROWTH

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. As discussed in the previous section, 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 [Hussain (*forthcoming*)]. 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.

The pro-poor growth is designed to optimize four parameters: (a) achieve higher GDP growth with the available investment levels (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.

RESTRUCTURING GROWTH FOR FASTER POVERTY REDUCTION

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.

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.

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.

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. The Ministry of Science and Technology is already moving rapidly in facilitating the growth of information technology in Pakistan.

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 [see Hussain (1989)]. 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.

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.
- (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.

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.

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.

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 [Hussain (1994)] 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 [Hussain (2000)].

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.

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.

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 [see Hussain (*forthcoming*)].

- (i) Formal decentralization of administrative power in itself does not necessarily help the poor as pointed out by Upadhyay [*forthcoming*] in the context of Nepal.

Empowerment of the poor, he argues, requires that formal decentralization must be accompanied by 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 [*forthcoming*] 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 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 [see Hassan (*forthcoming*)]. 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.

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