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

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Pakistan

**PRIME MINISTER'S TASK FORCE ON POVERTY ALLEVIATION AND  
EMPLOYMENT GENERATION**

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## **INTRODUCTION: CONFRONTING THE CRISIS OF POVERTY AND UNEMPLOYMENT**

Never before in Pakistan's history was the crisis of poverty and unemployment so severe. Never before were the opportunities of overcoming it so great. After almost two decades of experience in community based institutions building and three years of careful economic management Pakistan now has both the fiscal space and the institutional capability to undertake bold initiatives for overcoming the worst aspects of poverty within the next five years.

The challenge is to undertake a combination of public sector targeted programmes for the poor with improvements in the regulatory environment for private sector investment. These initiatives are designed to accelerate GDP growth and at the same time enhance its capacity for poverty reduction and employment generation. The strategy is designed within four parameters: (1) Achieve higher GDP growth for given levels of investment (i.e. have a low incremental capital output ratio). (2) Generate higher employment for given growth rates of GDP. (3) Generate higher exports (4) Achieve greater equity and poverty Alleviation.

### **PART-I**

#### **TRENDS IN THE MAGNITUDE OF POVERTY**

In this section on the basis of the research work done by Dr. A.R. Kemal, we will briefly indicate trends in the magnitude of poverty and employment.

##### **1. Poverty Trends**

Amjad and Kemal (1997)<sup>1</sup> 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 FBS<sup>2</sup>. 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 1992-93 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 1: 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
<b>Total</b>					
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
<b>Rural Areas</b>					
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
<b>Urban Areas</b>					
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.

## 2. 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 2 shows that the income gap ratio has increased from 4.5 to 6.9 percent over 1993/99 period. These estimates indicate the 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. It is advisable that 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 2: 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)

## 3. 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.

As the UNDP/NHDR 2003 has shown 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 one earners in a household has a significant and negative impact on the probability of being poor. Families suffering from

unemployment have a higher probability of falling below the poverty line. The households with two or more productively employed persons are rarely poor.

#### 4. Determinants of Poverty Trends Over Time

Pakistan’s experience suggests that growth does not necessarily trickle down. In the 1960s despite high growth rates 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 employment grew at a rate of just 2 percent, which is 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 the 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)]<sup>3</sup>. This allows us to conclude that growth is essential for poverty reduction, but is not sufficient.

Table 3: 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

#### 5. 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 4). 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 from 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 employment generation the unemployment rate has increased to 8.3 percent by 2002. However, there have been sharp variations across the years in terms of employment.

Table 4: 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 5 indicate a much sharper growth rate (3.0 percent) in labour force compared to the growth of employment (2.7 percent), resulting in an unemployment growth rate of 6.7 percent.

Table 5: 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 jobs may have been created in less remunerative sectors. The distribution of employment by industry division suggests that the production factors have moved into those sectors where the labour productivity has been rather low.

Table 6: 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 over the period 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 7 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

## 6. 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 8: 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, electricity 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 9: 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.

## 7. Unemployment and Poverty: Transitory Poor or Chronic Poor<sup>4</sup>

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 the 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 the labour force in 1998-99, one-quarter of them joined the labour force but less than one-fifth got a job. One important aspect is that approximately 3.7 percent of the total employed stock in 1998-99 became unemployed in 2000-01. These trends indicate the seriousness of the poverty crisis in Pakistan and the need for urgent public action to overcome the crisis.

Table 10: 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.<sup>5</sup> All such persons outside the labour force in 1998-99 but reporting 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 that more than half of the total current stock of unemployed consists 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 11). The females dominated in the short-term category of unemployment.

Table 11: 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.<sup>6</sup> 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 12: 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 relatively worse off, with highest level of incidence of poverty, 48 percent. These findings suggest strong linkages between poverty and the employment in Pakistan (See Table 13).

Table 13: Transition in Employment and Poverty

<b>Transition</b>	<b>Poor</b>	<b>Non-Poor</b>	<b>Total</b>
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.

## **PART-II**

### **POVERTY GENERATION MECHANISMS**

In this part we will indicate on the basis of a recent study, some of the mechanisms through which poverty is created in order to identify the points at which efficacious policy intervention for poverty alleviation can be made. (See, Akmal Hussain et.al., Poverty, Growth and Governance, UNDP, NHDR 2003).

#### **1. 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 (See UNDP NHDR 2003 for quantitative evidence). 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.

## **2. 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.<sup>7</sup> 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.<sup>8</sup> The others rent-in the land both on share-cropping and cash rent basis and increase the operating holdings to around 3 acres. 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.

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. 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.

## **3. Poverty and Unequal Access over the Land Rental and Credit Markets**

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.

#### **4. Power, Economic Dependence and Poverty**

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% of their production value to the landlord, compared to 13.39% by the poor households and only 8.41% by the non-poor households. Consequently, the extremely poor households are forced to keep only 39.59% of their crop output for household consumption, compared to 48% by poor households and 54% 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.<sup>9</sup> 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 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.

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.<sup>10</sup> 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. As many as 50.8% of the extremely poor farm households borrow a loan from the landlord.

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, 57.4% of extremely poor households worked for the landlord without wages. Similarly amongst poor households, as many as 29.4% have borrowed a loan from the landlord and 38% are obliged to work for the landlord without wages.

## **5. 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. 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, in the case of wheat, the contribution of the tenants in the provision of tractors increased from 63% to 74%, labour from 47% to 60%, seeds from 51% to 67% and fertilizer from 47% to 57%. The increase in the proportion of tenant's contribution to inputs for cotton has been 30% to 48% in the case of tractors, from 15% to 30% in the case of labour, from 20% to 38% in the case of seeds, and from 20% to 36% in the case of fertilizer. For rice the tenant's share in input costs has increased in the case of tractors hiring from 24% to 28%, labour from 16% to 18% and fertilizer from 19% to 23%.

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. 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.

## **6. 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% 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.

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.

## **7. Income Loss Resulting from Unequal Access over Output Markets**

As we have seen in the preceding Section 6, 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.

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% in the case of rice, is 96.3% in the case of cotton and 67.3% in the case of wheat. Only in the case of sugarcane, as much as 88.5% of the total output was sold directly to the mill owners. However even in this case, mill owners enjoy a virtually monopsonistic 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.

The income of the poor is reduced by 7.44% 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% 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 almost doubled. If the increase in the cost of input procurement is also taken into account, then the small farmers are deprived of about 20% 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.

## **8. 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. The extremely poor households consumed 84% 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.

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% of the total quantity

## **9. 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% of the poor and 65% of the extremely poor in the NHDR/PIDE 2001 poor communities survey, were ill at the time of the survey. 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% suffer from poor health and over 80% suffer from poor to fair health.<sup>11</sup> Amongst men in rural areas, almost 60% 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.<sup>12</sup>

The NHDR/PIDE Survey 2001 shows that not only 65.1% 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. 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. Of the poor in the various income classes, on average, 54% go to private medical practitioners, 13.3% to government hospitals, 8.0% to government dispensaries and only 5.6% 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. The extremely poor spend Rs.1,885/- on their current illness and 49.4% 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.

### **PART-III**

#### **TARGETED PROGRAMMES FOR POVERTY REDUCTION, EMPLOYMENT GENERATION AND FASTER ECONOMIC GROWTH**

In order to rapidly increase incomes of the poor, to overcome hunger, improve their health and to enable them to become active subjects in contributing to the acceleration of overall economic growth the following five initiatives are proposed:

##### **1. Food for All Programme**

- (a) Amongst those who fall below the poverty line there may be at least ten million persons with the most acute food deficit and who borrow for food consumption purposes. To fulfill the minimum food consumption requirements for this poorest of the poor (extremely poor) section of Pakistan's population a targeted programme is proposed for giving a cash subsidy of Rs.1000/- per household per month in this category. With about 1.4 million households in this category the total annual government expenditure for this purpose would be Rs.16.8 billion.

In order to enable the extremely poor households to begin pulling out of poverty after one year, it is proposed that out of the monthly cash subsidy of Rs.1000/-, as much as Rs.300/- should be placed in a savings account of the household head, which cannot be accessed for three months. After one year, Rs.3,600 savings would be built up for such a household which together with a micro enterprise loan of Rs.10,000/- and technical support by a community organization could enable the household to start an income generating project and thereby pull out of poverty on a sustainable basis.

- (b) To implement such a programme an institutional strengthening of the Bait-ul-Mal would be required to enable it to correctly identify the persons in this category, and to ensure that the cash subsidy is regularly received by them. A data base for the poorest of the poor needs to be established on the basis of a National Census of food deficit households. This could be done by the Federal Bureau of Statistics together with an independent validation on a sample basis to check the accuracy of the census data.
- (c) A complimentary initiative for poor urban localities could be to mobilize the private sector to take responsibility for setting up *langgars* to provide free *Dal and Roti* in the evening to those in the locality facing acute food shortages.

## **2. Safe Drinking Water For All**

A large proportion of Pakistan's population is deprived of hygienic drinking water and as a consequence water borne diseases constitute an overwhelming proportion of illness. Illness is an important trigger that pushes marginal households into poverty and poor households into deeper poverty. Provision of hygienic drinking water can therefore be a crucial initiative for alleviating the suffering of the poor and improving both the disposable income as well as the productivity of the poor for enabling them to shift out of poverty.

It is proposed that a national campaign be conducted for providing safe drinking water for all the citizens of Pakistan. This can be done by setting up tube-wells linked with community taps in every village and mohallah of Pakistan. In those areas where there is no ground water, check dams can be built to feed community water reservoirs. The construction and maintenance of tube-wells, community water taps and check dams needs to be done through community-based organizations, which could be coordinated by local governments at the Union Council level.

### **3. Preventive Health Care For Poverty Alleviation**

As the UNDP, Pakistan National Human Development Report 2003 has shown, as much as 65% of the poor suffer from ill health, lose a large proportion of their income to the cost of medical treatment and lose on average 90 working days a year to illness. Widespread ill health in Pakistan is therefore a major trigger that pushes people into poverty and the poor into deeper poverty. Three important initiatives can be undertaken to reduce the frequency of illness and improve the health of the poor:

- (a) Provision of pre-natal and post natal care to lactating mothers through improved service delivery of basic health units and family planning centers. The mortality rate for women in the peak child bearing age (20 to 29 years) in Pakistan is more than double the rate during the low risk age (10 to 19 years), which indicate poor maternal health services. Poor nutrition, inadequate coverage of pregnant women with tetanus toxoid immunization and inadequate child delivery services are major factors in the poor health and high mortality of women in Pakistan. Moreover mal-nutrition and lack of pre and post-natal care have adverse inter generational implications for health: Malnourished mothers face the likelihood of low birth weight babies who often grow up into children with abnormally low height, weight, deficient learning capabilities and susceptibility to disease. All these are important contributory factors to the perpetuation of poverty.

It is proposed that a national campaign should be launched for providing improved health care at basic health units, particularly pre and post-natal care

for mothers. To ensure that a doctor is available at basic health units, it is proposed that locally available competent doctors who are conducting private practice should be given a monthly retainership to give three days of the week to work in the basic health units. Apart from this basic health units should be adequately provisioned with medicines and lady health assistants. The functioning of basic health units should be overseen by community-based organizations at the local level with the necessary funds for staff and medicines to be provided by adequately financed District Governments

- (b) An important factor in ill health is widespread diarrhea particularly amongst infants, which is associated with high infant mortality rates and results in acute distress to poor families. To prevent life threatening complications resulting from diarrhea it is proposed that a national information campaign be launched to train poor households to make oral rehydration salt (ORS) by mixing boiled water (twenty minutes boil) with sugar and salt in specified proportions.
- (c) Food Safety Laws should be specified and rigorously implemented at the village and mohallah level to prevent the sale of unhygienic and toxic food by vendors and road-side restaurants.

#### **4. Poverty Reduction Through Improved Market Access**

The poor at the local level are locked into a nexus of power consisting of asymmetric markets and local elites, which deprive the poor of a large proportion of their income. The evidence shows that poor peasants face input and output markets where they have to pay a relatively higher price for their inputs and get a relatively lower price for their outputs compared to large farmers. At the same time, due to lack of access over the formal credit markets the poor peasant often has to borrow from the landlord and as a consequence is obliged to work on the landlord's farm at less than market wage rates. The poor peasants could be losing one-third of their income due to asymmetric markets for inputs and outputs (UNDP, NHDR 2003).

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 for inputs and outputs. 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.

## **5. Employment Generation and Increased Incomes in the Urban, Rural, and Coastal Areas.**

### *5.1 Increasing Incomes and Employment Generation Through Industrial Support Centers For Small Scale Industries*

Faster growth of small scale industries (SSIs) and their increased weight in GDP can serve to accelerate overall GDP growth for given levels of investment and at the same time induce greater employment and incomes for the poor. It is proposed that in order to accelerate the growth of SSIs, and to increase their value added, Industrial Support Centers (ISCs) should be set up in all the major industrial clusters. The function of these Industrial Support Centers would be to provide unit specific support on a rental basis for marketing, quality control, product development, specialized fabrication facilities such as heat treatment, and credit. These ISCs can be set up through public-private partnership schemes for small-scale industries.

### *5.2 Employment Generation and Poverty Alleviation through Rural Infrastructure*

Declining irrigation efficiencies due to deterioration of the irrigation system have resulted in low availability of water per acre at the farm gate, at a time when deterioration of the top soil has increased the requirement of water per acre. This is significant factor in low yields and incomes particularly of small farms who are unable to afford tube-wells. It is proposed that a national campaign on a war-footing should be launched for the rehabilitation of Pakistan's Irrigation System. Specifically this would involve building dams, desilting and lining of canals wherever possible and building *Pucca Khalas*. The construction of *Pucca Khalas* and canal lining would not only bring more water to the

farm gate but would also be a major mechanism for generating employment and incomes for the poorest sections of rural society.

Associated rural infrastructure such as a network of farm to market roads is proposed to not only enable improved market access for agricultural products but also increased employment and incomes for the poor during the process of road construction and maintenance.

### 5.3 *Increased Incomes for the Poor, Self-employment and Exports through Increased Milk Production and Marine Fisheries*

Pakistan is producing approximately Rs.177 billion rupees worth of milk annually for domestic consumption. This makes milk the largest 'agricultural' product. The output of milk can be accelerated sharply within a couple of years. Currently Pakistan's milch cattle have a yield per animal, which 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. Pakistan lies at the hub of milk deficit regions such as Central Asia, West Asia and South East Asia. This would have a dramatic impact not only on the incomes of poor peasants, but also on exports and overall GDP growth (UNDP, NHDR 2003).

Marine Fisheries provide a significant potential for increasing incomes of the poor in coastal areas and at the same time improving Pakistan's export earnings. Currently there are large losses and failure to achieve significant exports due to the fact that the storage conditions of fish during transportation are both unscientific and unhygienic by 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. Through such measures it would be

possible to bring back the fish at the European Union standards of minus 7°C and thereby make it exportable. Furthermore GPS devices should be installed on fishermen's boats through special credit schemes to enable improved daily catch rates and hence incomes of the poor.

## **6. Financing the Targeted Programmes for the Poor**

The 16.8 billion rupee annual budget for the targeted food programme, indeed for all five programmes mentioned above could be financed partly through an increase of 0.5 percentage point in the overall budget deficit, partly through re-allocation of unutilized funds in the PSDP in the third quarter of the year and partly through grants from bilateral and multi-lateral donor agencies. In the first few years of the programmes some of the privatization proceeds could also be directed into the Targeted Programmes for the Poor.

## **PART-IV**

### **REGULATORY FRAMEWORK FOR INCREASED INVESTMENT, GROWTH AND EMPLOYMENT GENERATION**

Accelerating investment and growth, generating employment, enhancing labour skills and alleviating poverty requires improvements in the regulatory environment that raises the cost of private investment and of doing business. The constraints to private investment in sectors with high employment elasticities and large direct and indirect employment and income generating impacts, the policy and procedural reforms to remove these blockages, the nature of supporting public investment that will be required and the type of public private partnerships that the government should foster are encapsulated in the attached policy matrix.

There is also a need to augment the human capital of the poor households by making schooling free upto secondary level and by improving the delivery and quality of publicly provided education through (a) provision of free text books upto elementary level; (b) giving stipends to girls in elementary and secondary grades to enhance their enrollment and retention rates; and (c) involving communities in managing schools by funding and adequately empowering community based organizations.

1. Reduce multiplicity of taxes levied on investment and production by different levels of government. Same income base is being taxed in multiple ways by more than one level of government (e.g. GST at federal level, professional tax by provincial governments on a wide array of business and professional fees by local governments).
2. Reduce business costs through:
  - a. Flat rate levies for EOBI and social security with collection by one body instead of the present case of collection by two and sometime three agencies. Exporters to have option for deduction of tax at source, i.e., from their foreign exchange earnings.
  - b. Expedite the process of consolidation of 72 labour laws into 6 laws and simplification of labour and factory laws, reduction of inspections and adoption of one definition of SME's for all laws;
3. CBR should ensure that all commercial establishments with turnover in excess of the threshold are registered for GST. Private businesses should not be required to pay additional GST for purchasing their inputs from un-registered enterprises.
4. Improve incentives for construction and investment in property for rental purposes through (a) reduction in stamp duties on property related transactions; (b) by narrowing the differential in property taxes paid by rented and owner-occupied properties; and (c) Appropriately amending the Rent Control Legislation. The proposed measures will encourage construction activities, improve utilization of land, generate resources for utility companies from sunk investments in housing and other schemes not fully colonized and augment resources for provincial and local governments.
5. Eliminate property commercialization and related charges.
6. Abolish Benami holding of property and impose vacant or idle land tax to create a disincentive against speculation in real estate, thereby releasing land for construction and bringing down price of property

7. Dispose land owned by government in prime commercial locations. This move will facilitate mobilization of revenues and encourage private investment.
8. Phase out excise duty on cement in two years. Cement is used for multiple purposes and reduction in price will encourage construction and lower the investment cost of the PSDP.
9. Commit to dispense with ad-hoc restrictions on exports of vegetable, fruits, poultry and meat.
10. Withdraw GST on agricultural inputs, e.g. fertilizer and pesticides. Since agriculture is an exempted sector under GST regime farmers cannot claim input tax adjustment. The revenue loss can be recouped through extension of GST in the services sector and by withdrawing other GST and income tax exemptions.
11. A committee on livestock to be set up by NCCC
12. Introduce Insurance scheme Government to bear a part of the insurance premium or provide limited counter guarantee on a pilot basis through a specific separate endowment fund.
13. Set up a commission on Livestock on the pattern of the National Commission on Agriculture.
14. Improve access to elementary education and reduce gender disparity by universalizing a) provision of free text-books up to elementary level; b) funds for schools to be spent through School Management Committees (SMC's) by empowering them to prioritize needs, and c) stipends to girls in elementary and secondary grades to incentivize their retention in the education mainstream. These funds to be in the form of additional grants, over and above the shares of local governments under the PFC Awards.
15. Introduce a scheme of education vouchers for poor households, and especially targeted to girls.

16. Improve service delivery and matters of governance by allowing recruitment of teachers on contract and institution specific basis with preference to locals and females at the primary level, with process of hiring to be verified through third party validation exercises.

17. Move towards recruitment of teachers by SMCs from data base of teachers certified by an independent authority or system based on merit-based entry tests.

18. Raise lifeline slab of electricity tariff from 50 to 100 units. The subsidy can be recovered by phasing out other less effective safety net interventions.

As a result, WAPDA will suffer an annual revenue loss of about Rs 1.2 billion, which it can recover by improving efficiency in operations and by reducing technical losses.

19. To reduce cost of Atta treat flour-mills as zero rated for GST to enable them to adjust the cost of GST paid on inputs.

## **PART-V**

### **INSTITUTIONAL FRAMEWORK FOR IMPLEMENTATION**

It is proposed that a National Commission for Poverty Alleviation be set up under the chairmanship of the Prime Minister. The National Commission should be supported by an evaluation and monitoring cell consisting of high quality professionals who would monitor progress in implementing the Task Force Report and also conduct impact analysis on a sample of the poor population to enable regular evaluation.

## NOTES

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- <sup>1</sup> Amjad, R., and A. R. Kemal. 1997. Macroeconomic Policies and their Impact on Poverty Alleviation in Pakistan. *The Pakistan Development Review* 36:1.
- <sup>2</sup> 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 World 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.
- <sup>3</sup> For the determinants of poverty in Pakistan also see Amjad and Kemal (1997), Tahir and Ali (1999) and Qadir, Kemal and Mohsin (2000).
- <sup>4</sup> This section is based on the data of PIDE Pakistan Socio-Economic Survey.
- <sup>5</sup> 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.
- <sup>6</sup> 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.
- <sup>7</sup> 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.
- <sup>8</sup> The land rented out is 10.3 percent and 18.0 percent of the land ownership of the extremely poor and the poor.
- <sup>9</sup> An analysis of the mechanisms of poverty generation in the rural areas, (with special reference to the Punjab) was first conducted on the basis of a 1978 field survey, See: Akmal Hussain: *Strategic Issues in Pakistan's Economic Policy*, Chapter 5, Pages 101 to 176, Progressive Publishers, Lahore 1988.
- <sup>10</sup> This was first investigated over two decades ago in a small sample survey for a doctoral thesis, See: Akmal Hussain: *Impact of Agricultural Growth on Changes in the Agrarian Structure of Pakistan*, with Special Reference to the Punjab Province, D. Phil. Thesis, Sussex University, 1980.
- <sup>11</sup> National Health Survey of Pakistan, Pakistan Medical Research Council, 1998. (This survey was conducted by the Medical Research Council in collaboration with the Department of Health and Human Services, Washington, USA and the Federal Bureau of Statistics, Islamabad), Page 129, Figure 57.
- <sup>12</sup> *Ibid*, Page 109, Figure 48.