CHAPTER 8

Strengthening Democracy through Inclusive Growth

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INTRODUCTION

Militant extremism threatens Pakistan's democracy as much as the integrity of the state. It is clear that an important dimension of sustaining democracy and securing the state is to provide a stake in citizenship to the large proportion of the population that is suffering from growing poverty, unemployment and the deprivation of basic services. This is necessary to prevent fresh breeding grounds for recruitment to the militant cause. In this paper we will first identify some of the structural constraints to sustained economic growth and rapid poverty reduction. We will then present an alternative paradigm of achieving sustained growth through equity and specify the elements of a strategy for achieving this aim.

THE STRUCTURAL CONSTRAINTS TO SUSTAINING GDP GROWTH AND THE PROBLEM OF PERSISTENT POVERTY AND INEQUALITY

Economic growth in the past 60 years has failed to make a substantial dent into the poverty problem. This is because of an institutional structure within which high economic growth has been neither sustainable nor equitable. The pattern of high growth spurts, followed by periods of slow growth is indicated in Table 1. The high growth periods have broadly been associated with military regimes when large aid flows were available, while the slow growth periods were associated with elected civilian governments who in most cases could not attract sufficient foreign aid. The Table shows for example, that after an

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[1] This paper is based on an earlier version titled: Institutional Framework for Inclusive Growth which was contributed to the research paper series of Beaconhouse National University and circulated as a discussion paper in the Panel of Economists, 2009. This paper also draws upon some of the author's contribution to the Report of the Working Group on Poverty Reduction Strategy and Human Resource Development, Planning Commission, Government of Pakistan, Islamabad, 2010.

average annual GDP growth of 6.26 percent during the period of military regimes of General Ayub and General Yahya (1960 to 1973), there was a sharp slowdown in the subsequent period of democratic governance (1973 to 1978). Again during the General Zia regime (1978 to 1988), the growth rate increased to 6.6 percent annually but declined again in the following decade when democratic governments functioned (1988 to 1998). In the subsequent period (1998 to 2007) GDP growth accelerated once again to 5.28 percent annually during the regime of General Musharraf, but declined sharply to 2.4 percent in the period 2008-11, when a civilian government was in power. As Table 1 shows the problems of balance of payments and fiscal deficits persisted over the last five decades. Table 1 also shows that the problems of balance of payments and fiscal deficits persisted over the last five decades.

Economic growth has not been sustainable because of a set of structural constraints[2], the most important of which are: (i) A narrow base for savings which makes the savings rate (less than 12 percent of GDP), half that of the investment rate (24 percent of GDP) required to sustain a GDP growth rate of 6 percent[3]. (ii) A narrow base for exports which excludes potential small scale high value added export based industries and instead concentrates on a small number of large scale textile units at the low value added end of the textile range. Therefore export growth is insufficient to finance the foreign exchange requirements of a high GDP growth trajectory. (As Column 2 in Table 1 shows, the external trade deficit as a percentage of GDP remained quite high during most of Pakistan's economic history).

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[2] For a detailed discussion of the structural constraints to sustained growth, see: Akmal Hussain, Pakistan: Poverty, Power and Economic Growth, South Asia Centre for Policy Studies, MSS, 30 September 2008, pages 22 to 26. (Publication forthcoming).

[3] The Incremental Capital Output Ratio (ICOR) for Pakistan's Economy is, 4.

TABLE 1

PERIOD AVERAGES OF THE PERCENTAGE SHARE OF SELECTED MACRO-ECONOMIC INDICATORS IN THE GDP OF PAKISTAN

Average During	Real GDP Growth % (Average Annual)	Trade Balance as % of GDP	Debt Servicing as % of GDP
1960-1973	6.26	-5.11	1.28
1973-1978	4.99	-7.27	2.04
1978-1988	6.6	-8.66	2.44
1988-1993	4.92	-5	3.02
1993-1998	3.14	-3.99	3.48
1998-2007	5.28	2.93	5.3**
2008-2010	2.43	-10.44	6.1

Sources: Economic Survey of Pakistan and Federal Bureau of Statistics
** Estimate drawn from 2002-03 to 2006-2007

The evidence shows that while Pakistan's elite based growth process has a stop go pattern, at the same time the narrow base of savings and investments, and an extremely unequal distribution of productive assets in both manufacturing and agriculture, has resulted in growing income inequality during the high growth periods. Consequently the capacity of growth for poverty reduction is severely constrained. Table 2 shows that after over 60 years of GDP growth in the post independence period, the incidence of poverty was over 40 percent, with the food insecure population being as high as 48.6 percent. The inter-personal inequality is also significant, with Gini-coefficient which is a measure of inter-personal inequality, being 32.7 percent. This figure is relatively low compared to other South Asian countries, because of the tendency of the richest sections of the population to understate their consumption expenditure to avoid income tax. Dr. Shahid Javed Burki has derived more realistic estimates of inequality in Pakistan on the basis of World Bank data. He suggests that the top 10 percent of the population claims 27 percent of the national income[4]. The poorest 10 percent of the population gets only 4 percent of the national income, making the ratio between the top and bottom deciles of the population as high as 6.7. Burki estimates that the richest 18,000 have an average income of USD 72,700 per capita compared to the overall per capita income of USD 1,050 for the population as a whole.

4 Shahid Javed Burki, How Rich are the Pakistani Rich?, The Express Tribune, May 16, 2011.

TABLE 2

INFLATION, POVERTY AND INEQUALITY, 2010

Inflation (CPI Index)	14.1
Food Inflation (%)	18.4
Food insecure population*	48.6
Incidence of Poverty (estimates) (%)	40.71**
Ratios of top decile of income to bottom decile of income	2.36
Gini-coefficient in mid 2000s	32.7***

Sources: Fourth Annual Report 2011, State of the Economy Devolution of Pakistan, Institute of Public Policy, Beaconhouse National University, Lahore estimated from Pakistan Economic Survey SBP, Annual Report & IMF.

* World Food Programme Publication on "Food Insecurity in Pakistan, 2009"

** First Annual Report 2008, State of the Economy, Institute of Public Policy, Beaconhouse National University.

*** UNDP, Human Development Report 2011.

AN ALTERNATIVE POLICY PARADIGM: INCLUSIVE GROWTH

If growth is to be sustained and poverty is to be overcome quickly, a shift in the paradigm for understanding both the determinants of growth as well as the nature of poverty is required. The literature of the New Institutional Economics shows that the most important determinant of sustained growth is the institutional structure within which it occurs[5]. If Pakistan is to embark on a path of sustained growth it would be necessary to establish an institutional structure for *inclusive growth*. Such a growth process would

[5] (i) Douglass C. North, Institutions, Institutional Change and Economic Performance, Cambridge University Press, Cambridge, England, 2004.

(ii) Douglass C. North, Understanding the Process of Economic Change, Princeton University Press, 2005.

provide the economic basis for sustaining democracy[6]. The institutional structure of inclusive growth would enable all of the citizens of Pakistan rather than only a small elite to participate as subjects of economic growth as well as the recipients of its fruits.

In addressing the structural basis of poverty, it can be proposed that neither handouts to the poor nor the trickle down effects of the conventional unequal growth process can resolve the poverty problem. This is because the poor are locked into a nexus of power within an institutional structure that gives them insufficient access to productive assets and to health, skill development and education through which they could develop their human potential[7]. They also lack access over justice and over governance decisions that affect their immediate social, economic and environmental conditions.

The Elements of Inclusive Growth

A new approach to inclusive growth could be adopted by establishing an institutional framework for the provision of productive assets to the poor as well as the capacity to utilize these assets efficiently[8]. In this way the poor by engaging in the process of investment, innovation and productivity increase could become the active subjects of economic growth rather than being merely recipients of a "trickle down" effect: Thus a sustained high growth could be achieved *through* equity[9]. Inclusive growth so defined can become both the means and the end of GDP growth.

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[6] For a discussion on Economic Democracy and case studies of action, See: Ponna Wignaraja, Susil Sirivardana, Akmal Hussain (eds), Economic Democracy through Pro Poor Growth, SAGE Publications, Delhi, 2009.

[7] Akmal Hussain, Pakistan: Poverty, Power and Economic Growth, South Asia Center for Policy Studies, MSS, 30 September 2008, Forthcoming.

[8] This idea was formulated in my paper titled: Pakistan: Poverty, Power and Economic Growth, (2008), contributed to the SACEPS South Asia Poverty Study, and used as an input in the book, Rehman Sobhan, Challenging the Injustice of Poverty, Agendas for Inclusive Development in South Asia, SAGE Press, Delhi, 2010.

[9] I am grateful to Professor A.K. Sen for pointing out to me, that while my argument that higher growth could be achieved through equity is technically valid, yet it is important to understand that equity is an end in itself. This comment was made by Professor A.K. Sen during a SACEPS/CPD seminar (Equitising Development) in Delhi, 17-18 December 2008.

The institutional framework of such an inclusive growth could have four broad dimensions:

(1) A process of localized capital accumulation through Participatory Development.

(2) A small and medium farmer strategy for accelerated agriculture growth through the provision of land ownership rights to the landless and institutional arrangements for yield increases.

(3) Accelerated growth of small and medium scale industrial enterprises through an institutional framework for increasing the production and export of high value added products in the light engineering and automotive sectors.

(4) An institutional framework for providing productive assets to the poor through equity stakes in large corporations owned by the poor and managed by professionals.

In this paper we will discuss each of these elements of inclusive growth in turn.

I. THE INSTITUTIONAL STRUCTURE OF ENDEMIC POVERTY[10]

I.1 The Poverty Process

The poor in Pakistan cannot be simply seen as individuals with certain adverse 'resource endowments', making choices in free markets. Poverty occurs when the individual in a fragmented community is locked into a nexus of power which deprives the poor of their actual and potential income. The poor face markets, state institutions and local power structures, which discriminate against access of the poor over productive assets, financial resources, public services and governance decisions which affect their immediate existence.

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[10] This section is based on Akmal Hussain: Poverty, Power and Economic Growth, Pakistan Country Study for the SACEPS Poverty Project, 30th September 2008.

I.2 **Poverty, Power and Asymmetric Markets**

Various forms of dependencies of the peasant on the local power structures and the distortions in the input and 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. For example, the NHDR data shows that 50.8 percent of the extremely poor peasants have taken a loan from the landlord and of these peasants 57.4 percent worked for the landlord without wages and 14 percent worked for the landlord at a daily wage rate of only Rs.28, compared to the typical market daily wage rate of about Rs.150[11].

At the same time there is unequal access over both the input and the output markets. For example, the NHDR data shows that the poor peasants have to pay a higher price on their inputs and get a lower price on their outputs compared to the large farmers. As a consequence the poor are losing 20.5 percent of their income in the major crops alone due to asymmetric markets.

In the small farm households the most significant constraint to increasing income is lack of ownership rights and the income losses associated with land use within the structure of dependence. The evidence shows that the contribution of tenants to input costs in the case of tractor rental, labour, seeds and fertilizers has increased during the period 1990-91 to 2000-01. For example, in the case of wheat the contribution of 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 fertilizers from 47 percent to 57 percent over the period, 1990-91 to 2000-01[12]. The poor owner farmers and owner cum tenant farmers in the small size category instead of buying additional land have been forced to sell their

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11 Ibid. Chapter 3, Table 14, Page 63.

12 See, Akmal Hussain, Poverty, Power and Economic Growth, op.cit., page-9, table 6.

land over the period 1991-2000-01. As many as 76.5 percent of the extremely poor farmers and 38.9 percent of the poor farmers sold their land for urgent consumption needs, marriage expenditures and health expenditures[13]. As a consequence the productive assets of the poor peasants have been further depleted, thereby adversely impacting their future streams of income and reducing the probability of getting out of poverty.

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, lack of enforcement of minimum wage legislation amongst workers in the informal sector, and the low level of productivity of micro enterprises, constrain income levels and give rise to poverty[14].

II. INCLUSIVE GROWTH THROUGH PARTICIPATORY DEVELOPMENT[15]

Establishing the institutional basis for enabling the poor to increase their incomes, savings and investment, would not only constitute a direct attack on poverty but would also contribute to a faster and more equitable economic growth process. In this section we will begin by specifying the Participatory Development paradigm which has been formulated and put into practice successfully in a number of South Asian countries (including Pakistan) by a group of action researchers from South Asia led by Dr. Ponna Wignaraja[16]. We examine the issue of empowerment of the poor. In this context we will

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13 Ibid. page-9.

14 For evidence and detailed analysis of this phenomenon, see, Akmal Hussain, with inputs from A.R. Kemal, Agha Imran Hamid, Imran Ali and Khawar Mumtaz: Pakistan UNDP-National Human Development Report 2003, Oxford University Press, Karachi, 2003.

15 This section is drawn from Akmal Hussain, Pakistan: Poverty, Power and Economic Growth, South Asia Center for Policy Studies, 30th September 2008. pages 119 to 125.

16 See, for example:

(i) Ponna Wignaraja, Akmal Hussain, Harsh Sethi and Ganeshan Wignaraja: Participatory Development, Learning from South Asia, United Nations Press, Tokyo and Oxford University Press, Karachi, 1991.

explore the institutional imperatives of making the newly emerging local government structures more effective in achieving empowerment of the poor, particularly poor women.

II.1 **The Methodology of Participatory Development**[17]

Participatory Development in its broadest sense is a process which involves the participation of the poor at the village/mohalla levels to build their human, natural and economic resource base for breaking out of the poverty nexus[18]. It specifically aims at achieving a localized capital accumulation process based on the progressive development of group identity, skill development, and local resource generation[19].

II.1.1 *The Dynamics Of Participatory Development*

The process of Participatory Development proceeds through a dynamic interaction between the achievement of specific objectives for improving the resource position of the local community and the sense of community identity. Collective actions for specific objectives such as a small irrigation project, fertilizer manufacture through organic waste, clean drinking water provision, or production activities such as fruit processing, can be an entry point for a localized capital accumulation process, leading to group savings

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(ii) Ponna Wignaraja and Susil Sirivardana, Pro-Poor Growth and Governance in South Asia: Decentralization and Participatory Development, SAGE Publications, New Delhi and London 2004.

(iii) Ponna Wignaraja, Susil Sirivardana, Akmal Hussain (eds), Economic Democracy through Pro Poor Growth, SAGE Publications, Delhi, 2009.

(iv) Akmal Hussain, Poverty Alleviation in Pakistan, Vanguard Books, 1994.

(v) Akmal Hussain, Punjab Rural Support Programme (PRSP), The First Four Months, Report to the Board of Directors of PRSP, 1998.

17 Akmal Hussain, Poverty Alleviation in Pakistan, Vanguard Books, 1994, page-26 to 28.

18 For a case study of a Participatory Development initiative in 9 districts of the Punjab based on field experience, see: Akmal Hussain, The Punjab Rural Support Programme, The First Four Months, Report of the Honorary CEO to the Board of Directors (1998). Also see: Akmal Hussain, Participatory Development Praxis in Pakistan’s Punjab: A Case Study, chapter in, Ponna Wignaraja, Susil Sirivardana, Akmal Hussain (eds), Economic Democracy through Pro Poor Growth, SAGE Publications, Delhi, 2009.

19 Akmal Hussain, Poverty Alleviation in Pakistan, op.cit.

schemes, reinvestment and asset creation. The dynamics of Participatory Development are based on the possibility that with the achievement of such specific objectives for an improved resource position, the community would acquire greater self confidence and strengthen its group identity[20].

II.2 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 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[21].

(ii) *Empowering the Poor:* The proposed economic strategy requires a national campaign to empower the poor at the level of village/mohallah, Union Council, Tehsil

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[20] The theory and practice of Participatory Development was developed by a group of South Asian scholars including Dr. Ponna Wignaraja (Sri Lanka), Dr. Akmal Hussain (Pakistan), Mr. Susil Sirivardana, Mr. Harsh Sethi (India), Dr. Maqsood Ali (Bangladesh). Their published work articulating the Methodology of Participatory Development and documenting their praxis includes the following:

(i) Ponna Wignaraja, Akmal Hussain, Harsh Sethi and Ganeshan Wignaraja: Participatory Development, Learning from South Asia, United Nations Press, Tokyo and Oxford University Press, Karachi, 1991.

(ii) Akmal Hussain, Poverty Alleviation in Pakistan, Vanguard Books, 1994.

(iii) Ponna Wignaraja, Susil Sirivardana, Akmal Hussain (eds), Economic Democracy through Pro Poor Growth, SAGE Publications, Delhi, 2009.

[21] For a case study based on implementing the Participatory Development approach in nine districts of the Punjab province, see, Akmal Hussain, Honourary Chief Executive Officer, Punjab Rural Support Programme (PRSP), The First Four Months Report to the Board of Directors, PRSP, 1998.

and District. The idea is to facilitate the growth of autonomous community organizations of the poor at the village/mohallah level to be able to break out of the poverty. 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 organizations (CBOs) be autonomous and be permitted to form cluster apex organizations with other CBOs. Autonomous CBOs by means of social mobilization, skill training, increased productivity, increased income, savings and investment would begin a process of sustained growth at the local level. Such a process, which we have called Participatory Development[22] 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[23].

Such autonomous organizations of the poor could not only become a framework for grassroots economic growth, but would also constitute countervailing power to that of the

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[22] The concept of Participatory Development is formulated in: Akmal Hussain: Pakistan, A Strategy for Poverty Alleviation, Vanguard, Lahore, 1994, Pages 26 to 29.

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

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

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*.

II.3 **Institutional Forms of Development NGOs**

Over the last three decades the tightening financial constraints on the government[24] and growing awareness of the limitations of top-down development programmes to alleviate poverty,[25] have created the space for non-governmental organizations and alternative approaches to development action. During this period a variety of NGOs have established support programmes aimed at developing community organizations at the village level, institution building, providing training and accessing credit and technical support.

Development NGOs exist in a variety of sizes and forms, from large centralized bodies spanning a number of districts and provinces, such as the Rural Support Programs (RSPs) to smaller organizations operating in a number of regions within the same province (such as SUNGI). Finally there are CBOs which operate on a very local scale either at the village level or a cluster village level.

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[24] The government's annual development programme as a percentage of GDP has declined from seven percent in the 1970s to 2.5 percent this year.

[25] For a discussion on the limitations of top-down development programmes see: Akmal Hussain, Poverty Alleviation in Pakistan, op. cit., pages 23 –26.

Development NGOs range from multi-functional ones that support a wide range of activities in fields such as income generation, natural resource management and the social sector, (e.g. PIEDAR, SUNGI and RSPs) to a particular limited set of operations such as KASHF (which is essentially a micro-credit support NGO), or which target a particular disadvantaged group such as women through innovative and multi sectoral interventions (e.g. Shirkatgah, Aurat Foundation).

II.4 **Taking small NGOs to Scale: Some Necessary Conditions for Success**[26]

Some large NGOs such as AKRSP, PRSP and PPAF have achieved impressive results. At the same time, in the case of other large government created NGOs such as the NRSP, questions continue to remain with respect to five issues: (i) Lack of financial self sufficiency and continuing dependence on government/donor support. (ii) The problem of cost effectiveness. (iii) The problem of accuracy in targeting the poor population. (iv) The problem of speed and scale of coverage of the poor population. (v) Lack of autonomy of village level community organizations within the centralized command structure of the NRSP[27].

The success and limitations of existing large government supported RSPs not-withstanding, an approach of letting "a hundred flowers bloom", may enable greater innovation, rapid growth and success of the endeavour of development through NGOs.

In this sub-section we will examine some of the factors in the success of small NGOs reaching scale.

First, apart from the efficacy of the Participatory Development methodology adopted by some development NGOs, perhaps the single most important factor in their success is the

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[26] See, Akmal Hussain, Employment Generation, Poverty Alleviation and Growth in Pakistan's Rural Sector: Policies for Institutional Change, Report prepared for the ILO, Country Employment Policy Review (CEPR), Pakistan, March 1999. pages 65 to 73.

[27] (i) For a more detailed discussion of these issues, see, Akmal Hussain, et.al. UNDP-Pakistan National Human Development Report 2003, Oxford University Press, Karachi 2003. chapter 4.

(ii) See, Akmal Hussain, Employment Generation, Poverty Alleviation and Growth in Pakistan's Rural Sector: Policies for Institutional Change, Report prepared for the ILO, Country Employment Policy Review (CEPR), Pakistan, March 1999. pages 60 to 65.

quality of leadership. Specifically, it is the ability to relate with humility and love with the poor. It is to build a team which while being internally coordinated, at the same time, enables each member to become a centre of thought and action. The successful NGO leader creates the team synergy to develop innovative responses to each new problem on the ground. Yet, he/she ensures that each action by the team contributes to reinforcing the process of the poor taking charge of their development. The effective leader focuses the team to experience the potential of the poor and to grasp the specific dynamics of how they can organize, take responsibilities and initiate change. Thus the challenge for the NGO leadership is to so relate with the poor and the team, that every act, every word, every moment of silence, contributes to fertilizing the other, rather than establishing control: Liberating rather than inducing dependency.

The second factor in the success of small NGOs is the identification, training and fostering of village level activists who gradually begin to manage existing COs, thereby, enabling NGO staff to give more time to develop new COs. This process of devolution of management responsibility from NGO staff to village level activists is a crucial factor in the enlargement of NGO coverage in a situation where funds are limited and rapid expansion of staff, financially infeasible. The converse of this dynamic is that if too much money becomes available too early, it undermines discipline, initiative and energy of the NGO.

The third factor in the success of small NGOs which have reached significant scale is the development of second level management and the ability of top level leadership to devolve responsibility, acknowledge their achievements and to learn from them just as much as it is necessary for the leadership to learn from the poor. An inner wakefulness that comes from transcending the ego is necessary to be always open to learning from the poor, and from each member of one's team. It is this openness to learning from others that constitutes the basis of the organization's dynamism, its innovation and its sense of being a community.

The fourth factor in the success of small NGOs in reaching significant scale is the development of credible accounting procedures, and a regular monitoring and evaluation exercise on the basis of which donor funding can be sought when it is required. In each case the successful NGO, apart from devising efficacious modes of reflection and action with the village communities, also develops formalized recording and reporting systems.

III. INSTITUTIONAL FRAMEWORK FOR A SMALL AND MEDIUM FARMER AGRICULTURE GROWTH STRATEGY[28]

Pakistan's fragile democracy is threatened by an economic crisis combined with growing poverty that fuels terrorist organizations. An important factor in the economic crisis is the food deficit and the underlying stagnation in yields per acre of major crops. (In the year 2007-08, crop sector growth was negative). It can be argued that if the yield potential of the medium and small size farm sector is achieved, occasional food shortages can be converted into sustained food surpluses. Such a shift can enable Pakistan to convert its weakness into its strength: The crippling economic burden of food imports (when they are necessary) can be converted into a strength through food exports. To bring about this transformation a new policy framework is required to shift from the earlier elite farmer strategy to a new small farmer growth strategy.

The rural poor once liberated from the shackles of feudal power and provided with ownership rights can become a major driving force in accelerating agriculture growth and in achieving both political and economic democracy in Pakistan. In this section we will first briefly argue the case for land reform in Pakistan today as a means of achieving democracy at the political level and equitable growth at the economic level. We will then discuss the policy option available to the government of transferring state owned land to the landless peasantry together with an institutional framework for providing sustainable livelihoods to about 58 percent of the existing tenant households.

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28 This section is drawn from Akmal Hussain: Poverty, Power and Economic Growth, Pakistan Country Study for the SACEPS Poverty Project, 30th September 2008. chapter 4, pages 129 to 137.

III.1 **Land Reforms for Sustainable Growth with Equity**

At an economic level the existence of a powerful landed elite is indicated by the fact that according to the Agriculture Census of 2000, as much as 30 percent of total farm area is owned by land owners with ownership holdings above 50 acres, and yet they constitute only 2 percent of the total number of land owners[29]. Elements of this landed elite dominate the major political parties, local governments, institutions and markets for credit and agriculture input distribution.

When the 'Green Revolution' technology became available in the late 1960s it was possible to substantially accelerate agriculture growth through an elite farmer strategy which concentrated the new inputs on large farms. At that time the crucial determinant in yield differences became not the labour input per acre in which small family farms had been at an advantage in earlier decades, but the application of the seed-water-fertilizer package to which the large landlords with their greater financial power had superior access. Thus the 'Green Revolution' had made it possible to accelerate agriculture growth without having to bring about any real change in the rural power structure. Today, after almost four decades of the elite farmer strategy, the imperative of land reform is re-emerging, albeit in a more complex form than before. As the large farms approach the maximum yield per acre with the available technology, further growth in agricultural output increasingly depends on raising the yield per acre of small farms and reversing the trend of land degradation brought about by improper agricultural practices.

The small and medium farm sector whose yield potential remains to be fully utilized, constitutes a substantial part of the agrarian economy. Farms below 25 acres constitute about 94 percent of the total number of farms and about 60 percent of the total farm area.

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29 These Agriculture Census figures of the share of large land owners are highly under estimated because the Agriculture Census does not take account of the fact that a large number of individual ownership holdings may be nominally under the names of individual family members or even servants (to avoid the legal ceiling on individual ownership holding) but are actually owned by the head of the family. According to an earlier estimate of the share of land owning families as much as 30 percent of total farm area was owned by land owners in the over 150 acres category who constituted less than 0.1 percent of the total number of land owners. (See, Akmal Hussain, Pakistan: Land Reforms Reconsidered, chapter in Hamza Alavi and John Harriss (eds), Sociology of "Developing Societies" South Asia, Macmillan, London, 1989.

From the viewpoint of raising the yield per acre of small and medium farms (i.e. farms of less than 25 acres) the critical consideration is that 15.7 percent of the total farm area in the less than 25 acre farm category is operated by landless tenants. Another 13.07 percent of the farm acreage in less than 25 acre farms is operated by owner cum tenant farmers. Since tenants lose half of any increase in output to the landlord, they lack the incentive to invest in technology which could raise yields per acre. Because of their weak financial and social position they also lack the ability to make such investments. Their ability to invest is further eroded by a nexus of social and economic dependence on the landlord which deprives the tenant of much of his investible surplus.

This problem is further exacerbated by the absence of an efficient land market where productive land can move to the more efficient operator. Flexible and secure tenancy contracts, and a competitive land market which can allow efficient operation of farm land, can only emerge if the extra economic power currently enjoyed by the landed elite is constrained. Thus the objective of raising yields in the small farm sector is inseparable from removing the constraints to growth arising out of the institutional structure of tenancy. A policy initiative that enables the tenant to acquire land is therefore an essential first step in providing the small farmers with both the incentive and the ability to raise their yields/acre.

Thus the imperative of land reform today arises not only from the need to accelerate agricultural growth and alleviate rural poverty, but also from the need to build a sustainable democracy. A society based on tolerance, merit and the supremacy of law would require overcoming feudal forms in the conditions of production, in society, and in the very functioning of the State.

III.2 **Land for the Landless**

A policy of enabling tenant farm households to acquire ownership rights together with access to the markets for inputs could play a vital role in making the small farm sector the leading edge of a faster and more equitable agriculture growth. Such a policy could have two main elements: (a) Transferring the existing 2.6 million acres of state owned land to landless peasants together with an institutional framework for providing them with access over high quality seeds, fertilizers, water and extension services. (b) Institutional changes to open up the land market together with the provision of credit to tenant farm households for enabling them to purchase land. Let us briefly discuss each of these policies in turn.

III.3 State Land for the Landless

An initial step in providing productive assets to the rural poor could be to allot the available 2.6 million acres of State owned land to the landless. This cannot be seen as a substitute for a land reform programme of 'land to the tiller'. According to the Census of Agriculture 2000, there are about 4.97 million acres of private farm area under pure tenant cultivation in farms below 25 acres. It is this acreage that would need to pass into peasant ownership for a genuine land reform to occur. Nevertheless 2.6 million acres (assuming that all of it is cultivable) could make a significant contribution to the reduction of rural poverty. For example if the 2.6 million acres of state owned land were to be transferred to landless farm households in holdings of 5 acres each, then as many as 520,000 tenant farmers would become owner operators. This means that out of the total number of tenant farmers (about 897,000) in the less than 25 acre category, as many as about 58% would become owner operators.

However, it is important to recognize that providing ownership of land to the landless is a necessary but not a sufficient condition for alleviating their poverty. Enabling the landless to make the transferred land cultivable, to actually settle on the new land and to achieve a sustainable increase in their income, productivity and savings are equally important factors in making the scheme successful.

The achievement of sustainable livelihoods for the landless rural poor through the provision of state owned land would involve the following steps to be undertaken by relevant departments of provincial governments in partnership with NGOs, private sector and international donor agencies[30]:

[30] This sub-section is based on a policy note contributed by the author to the Ministry of Local Government and Rural Development: Akmal Hussain, Overcoming Poverty Through Providing Land to the Landless, Note submitted to the Ministry of Local Government and Rural Development (Mimeo), April 30, 2001.

1. Undertake a diagnostic survey of the areas in which the beneficiaries and the lands to be transferred to them are located. The objectives of these diagnostic surveys would be:

   (a) To evaluate the cultivable status of the land and the potential uses for which the land could be utilized.

   (b) Identification of the main physical constraints to utilizing the land for the purpose of achieving a sustainable livelihood for the poor. (Examples of such constraints are: saline soils, poor quality of ground water, poor management of torrent water or an absolute non availability of irrigation water).

   (c) Identification of physical infrastructure interventions that could be made through participatory development projects involving partnership between government departments, NGOs and organizations of the landless poor in the concerned areas (examples of such interventions could be, minor land forming and land reclamation schemes, provision of tube wells where possible, check dams, water lifting devices and water harvesting schemes).

   (d) Identification of micro enterprise projects which individual households or groups of households of the poor could undertake in order to achieve a diversified economic base for their livelihoods. For the identification of such micro enterprise schemes the survey would involve consultations with organizations of the poor and with individual poor households from amongst the potential beneficiaries.

   (e) Estimates of credit needs of those poor households who are targeted as beneficiaries of the newly allotted lands.

   (f) Socio economic profiles of the landless poor in the specific areas where they are expected to acquire the land under the scheme. This profile would identify the mechanisms through which poverty of the concerned households is reproduced, their current major sources of income, debt and actual or potential skills.

2. The provincial governments would facilitate the local governments in the specific areas where the relevant state lands are located to initiate a process of social mobilization of the landless poor. This mobilization would be essential to enabling the landless poor households to begin using the newly acquired land in a productive way and to position themselves for acquiring skill training, credit and technical support from both government departments and NGOs.

   This social mobilization could be conducted by local governments through partnership with community based organizations at the local level, NGOs at the district and provincial levels and with support from apex organizations such as the Pakistan Poverty Alleviation Fund and also from donor agencies.

3. Training of social mobilisers/catalysts could be undertaken by specialized NGOs such as the South Asia Partnership, NRSP, PRSP and SAPNA (South Asian Perspective for new Alternatives).

4. After specific local level infrastructure projects for improving the productivity of state allotted lands have been identified, the provincial governments in collaboration with Pakistan Agricultural Research Council could mobilize the technical expertise for implementing the projects through organizations of the poor. The financial resources necessary for these infrastructure projects could be mobilized from Asian Development Bank, World Bank, Small Business Finance Corporation, The Khushhali Bank, Pakistan Poverty Alleviation Fund.

5. The provision of technical training and credit for micro enterprise projects could be undertaken by networking the following organizations: (a) PPAF and Khushhali Bank for credit. (b) For organizing technical training and technical support for micro enterprise projects of the poor the following organizations could be networked: NGO Federation (BINGOF), Punjab NGO Coordination Council,

Sarhad NGO Ittehad, Sind NGO Federation, the Pakistan NGO Forum and SUNGI.

The scheme of providing state lands to the landless poor can lead to a sustainable increase in incomes of the beneficiaries if the provision of state land is combined with the following elements: (1) social organization of the poor, (2) development of local infrastructure for increasing land productivity, (3) development of micro enterprise projects of the poor and (4) provision of training, technical support and micro credit to the poor in order to develop a diversified economic base for overcoming their poverty. If such a scheme for participatory development of poor landless households could be undertaken then the government could set a new example not only for Pakistan but for developing countries as a whole, that could demonstrate how the landless poor can be enabled to overcome their poverty.

III.4 **Enabling Tenant Households to Buy Land**

While the transfer of state owned land (2.6 million acres) could provide land to 58 percent of the existing tenant farmers, the remaining 42 percent could be enabled to buy land through credit and institutional changes in the land market. Thus *all* the existing tenant households could become owner operators who could play a strategic role in generating a faster and more equitable agriculture growth.

Out of a total of 897,000 pure tenant farmers, 377,000 households could be enabled to acquire ownership rights over 5 acre farms through purchase of land. This would create the institutional basis of providing both the incentive and the ability for tenant farmers to increase yields per acre. This objective could be achieved through four sets of policy actions:

(a) Through a consortium of government, donors and commercial banks a credit fund for providing land to the landless amounting to about Rs.332 billion (USD 4.24 billion) could be created. The purpose would be to: (i) provide targeted credit to enable about 377,000 tenant farm households to purchase 5 acres per household of cultivable land with a total cost of approximately Rs.283 billion (USD 3.62 billion), (ii) allocate Rs.50 billion (USD 0.64 billion) for follow up extension services to enable efficient cultivation of purchased land.

(b) Update, systematize and computerize the land revenue records. The objective would be to establish clear ownership rights of existing owners/claimants such that owned land could become legally transferable without the market transactions being subject to crippling litigation.

(c) Facilitate the formation of small farmer associations at the union council and tehsil levels with a view to providing small farmers with the leverage to get equitable access over the markets for seed, fertilizer, tube well water and pesticides. At the moment markets for these inputs are asymmetric with respect to the large and small farmers respectively. Local power structures mediate local markets so that the small farmers get poorer quality of seeds, fertilizer and pesticides, and have to pay relatively high prices for these inputs compared to the large farmers.

(d) Strengthen extension service organizations of the Ministry of Rural Development at the union council and tehsil levels and re-orient their operations to provide high quality support to small farmers for: (i) soil testing to enable the farmer to determine the precise composition of the chemical fertilizers that is congruent with the nutrient requirements of the soil, (ii) improved on farm water management to increase water use efficiency, (iii) improved agricultural practices based on new scientific knowledge to reduce salinity and improve the organic profile of the top soil.

III.5 Sustaining Small Farmer Growth through the Small Farmer Development Corporation (SFDC)

The institutional framework for a small farmer led agriculture growth strategy could be to establish a Small Farmer Development Corporation (SFDC) in which farmers operating below 25 acres of land could have the opportunity of becoming shareholders. The following types of farmers could be eligible to become shareholders of such a corporation:

a) All those who will receive state owned land or have in the past received state owned land.

b) All owner farmers, owner-cum-tenant farmers and pure tenant farmers operating less than 25 acres of land could also be offered equity stakes in the SFDC.

III.5.1 *How to float the SFDC*

One way of floating the SFDC is for the PPAF to sponsor the establishment of the SFDC while ensuring that the ownership and control of the corporation lies with the small farmer shareholders.

III.5.2 *How to Provide Equity to Small Farmers*

- The PPAF out of its own resources or by accessing donor funds, provide to the recipients of the 2.6 million acres state owned land, a loan of Rs.65 billion to the 520,000 small farmers who are recipients of 5 acre packages of land. Each such small farmer would get Rs.125,000 as a loan to be invested in the SFDC.

- This loan should be deposited in the corporation as equity of Rs.25000 per acre of owned land by the recipients of State land, i.e. Rs.125,000 per five acre package.

- Small farmers who are not recipients of state land should also be enabled to become shareholders in the SFDC.

III.5.3 *The Organizational Functions of the SFDC*

The equity could be leveraged to acquire loans from the domestic commercial banking sector as well as from the World Bank and ADB to be used for:

(a) Land Development of the land operated by the shareholders.

(b) Provision of extension services to the shareholder farmers for:

(i) Improving the quality of top soils.

(ii) Efficient on-farm water management through laser based land leveling for accurate gradient, improved water channels and where required, drip irrigation.

(iii) Shifting to high value added crops through innovative techniques such as tunnel farming and also dairy farming and livestock development.

(c) Provision of loans to farmers for purchase of inputs, and investments in improving the on-farm water management.

(d) Recent research has shown that rural markets for agriculture outputs and inputs in Pakistan are asymmetric with respect to the large and small farmers[31]. The SFDC could serve to provide more equitable market access to small farmers by facilitating purchase of high quality inputs and arranging marketing of agriculture products.

(e) Investment on behalf of small farmers in agro processing industrial units such as grain milling, cotton gins and oil presses. These investments could be under written by organizations such as PPAF, Khushali Bank, Small Business Finance Corporation as well as aid donors[32].

III.5.4 *Broad Basing Equity to include all Small Farmers*

Those small farmers who are not recipients of State owned land and wish to become shareholders in the SFDC can be provided loans of upto Rs.25000 per owned acre which would be automatically deposited in the corporation as their equity. The loans would be paid back from the dividend earnings of the equity under the loan agreement.

IV. INSTITUTIONAL FRAMEWORK FOR FASTER GROWTH OF SMALL SCALE INDUSTRIAL ENTERPRISES (SSEs)[33].

Since small scale industries have higher employment elasticities, smaller Incremental Capital Output Ratios (ICORs), and shorter gestation periods. Therefore an increased share of investment in this sector could enable both a higher GDP growth for given levels

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31 Akmal Hussain, Poverty, Power and Economic Growth, Pakistan Country Study for the SACEPS Poverty Project, 2008. (Forthcoming)

32 We are grateful to Professor Rehman Sobhan, President of Grameen Bank and Chairman, Centre for Policy Dialogue, Dhaka for this suggestion.

33 This section has been drawn from Akmal Hussain: Poverty, Power and Economic Growth, Pakistan Country Study for the SACEPS Poverty Project, 30th September 2008. pages 115 to 119.

of investment as well as higher employment generation for given levels of growth. At the same time if the institutional conditions could be created for enabling small scale industries to move into high value added components for both import substitution in the domestic market and for exports, Pakistan's balance of payments pressures could be eased. 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. These SSEs include high value added units in light engineering, automotive parts, moulds, dyes, machine tools and electronics and computer software.

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

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.[34] 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.

IV.1 Constraints to the Rapid Growth of SSEs

Small scale enterprises in small towns of Pakistan face the following major constraints:

(i) Inability of small units to get vending contracts for the manufacture of components from the large-scale manufacturing sector (LSM).

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

(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.

IV.2 **Overcoming the Constraints to the Growth of SSEs**

Overcoming the aforementioned constraints would involve providing institutional support in terms of credit, quality control management, skill training and marketing. This could be done by facilitating the establishment of Common Facilities Centers (CFCs) located in the specified growth nodes in selected towns where the entrepreneurial and technical potential as well as markets already exist. Such support institutions (CFCs) 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 Common Facilities 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 CFCs 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 CFCs 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 CFCs 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 Common Facilities 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 CFC 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 CFC 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 CFC 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 CFCs would establish at their premises plants for forging, heat treatment and surface treatment. The SSI units could come to the CFC 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 CFC.

(v) Credit

The CFC would provide credit to the SSEs for purchase of new equipment and raw materials. In cases where raw materials are available in bulk supply, the CFC 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.

V. INCLUSIVE GROWTH THROUGH EQUITY STAKES FOR THE POOR IN LARGE CORPORATIONS

The hallmark of underdevelopment or what North calls a Limited Access Social Order, is an institutional structure which systematically excludes the majority of the people from the process of investment, economic growth and access over basic services for human development[35]. If economic growth and political democracy are to be sustainable it is necessary to move towards an institutional framework which provides opportunities to all of the people rather than a small elite to participate in the process of investment, growth and human development. In this section we will examine some of the innovative new institutional forms that have been tried and tested in a number of South Asian countries for mainstreaming the poor into the economy.

Apart from recent work by Muhammad Yunus and Rehman Sobhan respectively, the concept of enabling ownership rights to the poor in the mainstream large scale corporate sector has not yet been adequately addressed in the literature on development policy[36].

35 Douglass C. North, John Joseph Wallis and Barry R. Weingast, Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History, Cambridge University Press, July 19, 2008 (Forthcoming).

36 (i) Muhammad Yunus, Creating a World Without Poverty: Social Business and the Future of Capitalism, Public Affairs (A Member of the Perseus Books Group), USA, 2007.

The poor can be included in the process of investment and economic growth not merely through micro enterprises, but can be engaged into the mainstream corporate sector as well.

V.1 Financing the Entry of the Poor into the Capital Market

Investments in the capital market have often been made by pledging the stocks being purchased. A down payment of say 20 percent of the value of the asset is usually made by the investor and the residual amount of the stock purchased is covered by the bank which then holds the stock as collateral.

There is no reason why such loan financing for under writing investment in the capital market should not be made available to organizations of the poor. Their small savings can be pooled and then used as down payments on investments in the corporate sector. The poor can thereby become eligible for bank loans to buy into the initial public offering (IPO) by the corporate sector. They can also be directly inducted as equity partners in existing large corporations.

There are clearly issues of risk assessment and risk reduction, as well as how such groups of the poor can be mobilized into sufficient numbers to empower them to become partners in the corporate sector. The methodology of group formation of the poor and its dynamics, have been discussed in section-II.

VI. SOME STRATEGIC INITIATIVES TO ACHIEVE GROWTH BY THE POOR AND FOR THE POOR

There are three sectors which have considerable potential for stimulating GDP growth, poverty reduction and increasing Pakistan's foreign exchange earnings: (i) Milk and dairy products, (ii) Livestock and the production of meat and meat products, (iii) Marine fisheries. In this section we will briefly discuss the institutional form that can be deployed in the case of milk and dairy products on the basis of public private partnership to establish corporate enterprises with equity stakes for the poor. Similar institutional

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(ii) Rehman Sobhan, Challenging the Injustice of Poverty: Agendas for Inclusive Development in South Asia, SAGE Press, New Delhi, 2010.

structures can be established for livestock and production of meat, and for marine fisheries.

Milk Production Potential of Poor Peasants. With over 177 billion rupees worth of milk being produced annually in Pakistan, milk is Pakistan's largest product in the agriculture sector. Unlike agriculture crops the production of milk can be accelerated sharply within a couple of years. Currently Pakistan's milch cattle yield per animal is one fifth the European average. Demonstrable experience in the field has shown that the milk yield per animal in Pakistan can be doubled within two years through scientific feeding, breeding and marketing. What is required is an institutional framework for training the farmers in scientific feeding and breeding, and for establishing the logistics to collect milk from the farm door by means of refrigerated transport, domestic marketing as well as arrangements for refrigerated storage at airports and subsequent airfreight to export markets. Such an initiative could have a significant impact not only on the incomes of poor peasants but also on exports and overall GDP growth[37].

Marine Fisheries Potential and Constraints. 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 in 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 $7^{o}C$ temperature during transportation. An export

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[37] Akmal Hussain, A Policy for Pro Poor Growth, paper in Towards Pro Poor Growth Policies in Pakistan, Proceedings of the Pro-Poor Growth Policies Symposium, 17th March 2003, UNDP-PIDE, Islamabad. page 72.

potential of 300 million dollars exists over the next three years if such improved management of the marine fisheries industry could be achieved[38].

Proposed Institutional Structure for Milk and Milk Products. It is proposed that the Pakistan Poverty Alleviation Fund (PPAF), its NGO partner organizations at the district level and provincial Dairy Development Boards be brought together into a consortium to establish a Pakistan Dairy Corporation (PDC). The institutional framework for the PDC could be as follows:

- This corporation should be a public limited company, run by a professional management with poor peasants as its shareholders.

- International donors and the government of Pakistan can contribute to establishing a special fund within the PPAF which can be used to give either grants or loans to poor peasants to enable them to buy the equity in the PDC and also to acquire additional milch animals.

- The objective of the corporation should be to generate profits through establishing milk collection centers in each Union Council to collect milk, from its shareholders, arrange refrigerated transport, establish milk pasteurizing and packaging facilities at the provincial level, and a marketing and export infrastructure.

- The PDC should also establish an infrastructure at the village level for directly collecting milk from poor peasant milk producing shareholders, testing the milk and immediate payment to the milk producers.

- A computerized data base platform should be established at the Union Council level to keep a record of the profile of each milk producer with respect to the following data: percentage of milk that passes the quality test; payments for milk supplied; extension services provided; increases in yields per milch animal;

[38] Ibid. page 73.

changes in the stock of milch animal, initial level of and changes in household income resulting from increased milk sales.

- The profits of the corporation should be used partly for re-investment and growth and partly for disbursing dividends to the poor peasant shareholders.

- The PPAF should develop new partner organizations at the Union Council, Tehsil and District levels which would be exclusively devoted to forming special purpose community organizations (COs) of poor peasants. The objective of the COs would be to enable its members to increase production and sale of milk, access credit for increasing the stock of milk animals at the household level and undertake scientific feeding and breeding of milch animals for increasing milk yields.

- The PPAF could also be tasked to provide credit to the milk producing share holders of PDC, arrange for extension services to the community organizations of milk producers for testing and inoculating animals against disease and scientific feeding and breeding practices.

CONCLUSION

In the ongoing struggle against militant extremism and the process of building democracy the economic dimension is a vital element. Establishing the institutional structure for inclusive growth in which the people of Pakistan could participate in the process of growth would enable a higher and at the same time, sustained growth with equity.

An essential feature of inclusive growth is to provide access to the poor over productive assets through a variety of institutional mechanisms so that they can become both the subjects as well as the beneficiaries of growth. In this context four main institutional mechanisms were discussed: (i) A process of localized capital accumulation involving micro enterprise development, sustainable livelihoods and local infrastructure construction through the Participatory Development methodology. (ii) A small and medium farmer strategy for accelerated growth through the provision of land ownership rights to the landless with supportive institutional mechanisms for increasing yields per acre. (iii) Accelerated growth of small and medium scale industrial enterprises through an institutional framework for increasing production and export of high value added goods in high growth sectors. (iv) Provision of productive assets to the poor through equity stakes in large corporations owned by the poor and managed by professionals in the fields of milk production, livestock, and marine fisheries.

The institutional structure for inclusive growth would enable growth through the provision of economic citizenship to the people of Pakistan and thereby constitute a vital element in strengthening democracy.

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