

Priority Policy Initiatives for Development¹

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The new PTI government has made a break from the past by announcing that the centerpiece of its economic strategy will be Human Development. It can be argued that focusing on the development of human capabilities can enable individuals to lead the kind of life they consider meaningful. In so doing, the potential of a nation for enterprise, innovation and creativity can be actualized to enrich not only the economy, but human civilization itself. The economic strategy required to achieve this aim involves a new growth process that is based on equity and the conservation of the environment for sustainable development.² In this essay³ we will indicate four specific policy initiatives to begin the process of inclusive and sustainable development.

Universal Provision of Health, Education and Social Security

If human beings are to be the driving force of development, then a necessary condition is the provision for all citizens of quality healthcare, quality education and social security which includes state pensions and unemployment benefits. These services are important for the development of human capabilities.

Basic Services, Human Capabilities and Economic Growth. It can be argued that in an economy and society where the enabling conditions for the development of human capabilities are institutionalized, there will be greater human welfare and higher long term growth. This is simply because, if all citizens have the opportunity to actualize their potential and the institutional structure enables them to get livelihoods in accordance with their developed capabilities, then long term productivity growth and thereby economic growth can be sustained.

Implications for State, Society and Economy. The universal provision of these basic services have implications for state, society and economy: (i) these services for all citizens further the objective of equity which is an end in itself. It is also integral to the idea of a democratic state and social justice. This is why equity is part of the vision⁴ of Pakistan itself and indeed

¹ Article published in *Development Advocate Pakistan*, Volume 5, Issue 3, UNDP Pakistan, September 2018.

² For details of such a strategy, see: Akmal Hussain et al., *Inclusive and Sustainable Development, Analytical Basis and Policy Framework*, UNDP, Islamabad, 2018.

³ This essay is largely drawn from, Akmal Hussain, *A Framework for Inclusive Development: Growth through Equity*, Chapter 2 of the UNDP Report, Op. Cit., 2018.

⁴ Quaid-e-Azam Muhammad Ali Jinnah considered equality to be a foundational principle of Pakistan. During his address at the public meeting in Chittagong on 26 March, 1948, Jinnah declared: *"The great ideals of human progress, of social justice, of equality and of fraternity constitute the basic causes of the birth of Pakistan..."*

of the Constitution⁵. (ii) They facilitate social cohesion which is necessary for the stability of the society and its resilience in the face of exogenous shocks. Equally important, as recent research shows, social cohesion is a key factor in sustaining long term economic growth. (iii) The universal provision of health and education have a direct relationship with the economic growth objective. If the labour force of society is healthy, and has high quality education, then given an inclusive institutional structure, those engaged in employment or enterprise, will be more productive thereby laying the basis of long term economic growth.

Can Pakistan Afford the Universal Provision of Health and Education? The idea that Pakistan cannot afford the universal provision of health and education is erroneous when considered in the light of historical experience of countries which have undertaken such a policy. Many of the countries that have sustained high economic growth on the basis of the universal provision of health, education and social security gave a commitment to provide these services at a time when their per capita incomes were lower than that of Pakistan today. For example Japan under the Meiji dynasty in the mid-19th century, Germany under Bismarck in the late 19th century, Scandinavian countries in the early 20th century and China in the mid-20th century.

The per capita income of Pakistan in 2010, measured in terms of the Geary-Khamis (GK) 1990 dollars was \$2,494. By contrast, that of Norway in 1848 was \$912, Finland in 1866 was \$958, Sweden in 1891 was \$1856 and Germany in 1880 was \$1991.⁶

The Water Scarcity Challenge and Policies for addressing it

Pakistan is facing a water crisis. Water availability per capita has declined from 5,000 cubic meters per person per year in 1951 to 1,100 cubic meters per person per year now. The problem of reduced water availability is compounded by the low irrigation efficiency and a water use efficiency that is amongst the lowest in the world. The overall irrigation efficiency is 36 percent, which means 64 percent of the water pulled out from the rivers is lost during transportation to the farm gate. In terms of water use efficiency (economic productivity of water), the value of agriculture production per acre foot of water in Pakistan is USD 250 compared to USD 3,000 in California⁷. To make matters worse, the irrigation system has

⁵ The Constitutional requirement of preventing the concentration of wealth and productive assets is clearly stated in Article 38(a) of the Constitution: *"The state shall secure the wellbeing of the people irrespective of sex, caste, creed or race by raising their standard of living, by preventing the concentration of wealth and means of production and distribution in the hands of a few to the detriment of the general interest..."* The stipulation of reducing the disparity of incomes is specified in Article 38(e) of the Constitution: *"The state shall reduce disparity in the income and earnings of individuals, including persons in the various classes of the service of Pakistan"*.

⁶ The historical estimates of per capita incomes are taken from The Maddison Project dataset and are in terms of Geary-Khamis international 1990 dollars. The Geary-Khamis method uses a hypothetical unit of currency that has the same purchasing power parity that the U.S. dollar had in the United States at a given point in time.

⁷ Khalid Mohtadullah, A Policy Framework for Addressing Pakistan's Water Crisis, Chapter 6 in UNDP Report, Inclusive and Sustainable Development: Analytical Basis and Policy Framework, UNDP, Islamabad, 2018.

been allowed to deteriorate due to the fact that the funds allocated for the repair and maintenance of the water infrastructure have been only 5 to 10 percent of the annual requirement of USD 600 million. Failure to maintain Pakistan's water infrastructure is a serious neglect, because the replacement cost of this asset is USD 60 billion.⁸

Facing the water scarcity requires a new mindset in policy making where water is seen as capital, so that the policy framework involves storage of water, reduction of water losses during transportation in the irrigation system, more efficient use of groundwater resources, improving the application efficiency of irrigation water on the farm, and increasing water productivity, i.e. the GDP generated per unit of water used. Pursuant to these strategic aims, Pakistan needs to develop a comprehensive plan for the rehabilitation and management of its water infrastructure. The following policy initiatives are required:

- i. Consequent upon global warming, river flows are beginning to decline on average. This makes it incumbent on society and state to increase water storage. At the moment, only 15 percent of the annual river flow is stored. Out of the total 145 MAF of surface water available to Pakistan, as much as 31 MAF is allowed to flow into the sea.⁹ It is clear that more large, medium and small dams must be built without further delay, which at the same time would generate cheap electricity through hydroelectric power.
- ii. Of the 102 MAF of water that is diverted into the irrigations system, as much as 64 percent is lost during transportation to the farm gate, because of poor maintenance of canals and unlined water courses. Of the water available on the farm, a similarly large proportion is wasted because of poor on farm water management. In a water scarce situation, it is crucial to reduce these water losses by the following measures: (a) Improved repair and maintenance of the irrigation infrastructure by increasing the financial allocation for this purpose to the required USD 600 million annually. These funds can be used for reinforcing of crumbling canal banks, planting trees and lining of canals wherever possible. At the same time, trapezium shaped lining of water courses is required to reduce water losses through seepage. (b) The Water wastage on farms can be reduced by enabling farmers to use laser levelling and drip irrigation technologies.
- iii. Due to water shortages faced by farmers from the surface irrigation system, there is increasing dependence on ground water usage. At the moment as much as 50 percent of the farmers' needs are being fulfilled through uncontrolled extraction of ground water. Percolation of toxic chemicals into the water table, endangers this precious resource. It is crucial therefore to manage groundwater resources in terms of economic rationality and environmental sustainability.

⁸ Khalid Mohtadullah, Ibid.

⁹ Engr. Mushtaq Ahmed, The daily Nation, 14 February, 2017.

- iv. In the face of water scarcity, it is important to generate a much higher GDP per unit of water used than at present. Pakistan's water productivity is amongst the lowest in the world, with the value of agriculture production per acre foot of water used being only USD 250, compared to USD 3,000 in California.¹⁰

Pakistan's Hydropower Potential and the Problem of Sedimentation

Pakistan has a vast hydroelectric potential of 100,000 MW, which has remained substantially unutilized due to delays over many decades in the construction of dams which can not only increase irrigation water availability, generate employment and incomes, but also provide cheap electricity, that could enhance Pakistan's export competitiveness and grant relief to citizens from the misery of electricity outages.

A major constraint to water storage in dams and the operation of turbines for hydroelectric power, is decreasing reservoir capacity due to sedimentation. It is estimated that the Indus and its tributaries carry about 0.35 MAF of sediment annually, of which 60 percent remains in the system. As much as 5.9 MAF of total gross storage capacity was lost till the year 2010 due to sedimentation of dams. It is a matter of serious concern that the live storage capacity of Tarbela and Mangla reservoirs is expected to be reduced by 33 percent due to sedimentation by the year 2020.¹¹

Urgent measures should be undertaken to reduce the sedimentation that is currently squeezing an already water scarce nation. Therefore, the rapid deforestation estimated at 7,000 – 9,000 hectares annually has to be reversed and in fact the net forest cover, particularly in watershed areas, increased.

Another policy initiative to protect existing dams from disastrous sedimentation is to build upstream dams, like Bhasha Dam, which could increase the life of Tarbela by up to 40 years.¹²

Sustained Growth *through* Equity

In conventional economic thinking, inequality was considered to be a concomitant of growth, at least in its early stages, because it was thought that the rich could save and invest a larger proportion of their incomes and thereby drive growth. Recent research shows, that even the lower and middle income groups can also save if provided investment opportunities. It can now be argued on the contrary, that a higher and a more sustained economic growth can be achieved *through* equity. This can be done by establishing an institutional structure through which the middle and lower income groups can get access

¹⁰ Khalid Mohtadullah, Op. Cit.

¹¹ Imtiaz Qazilbash, Institutional Constraints in the Utilization of Pakistan's Hydro-Power Potential, Chapter 7 of the UNDP Report, Op. Cit.

¹² Imtiaz Qazilbash, Ibid.

over productive assets, credit, skill training, and equitable access over input and output markets.

We can identify the outlines of high growth through equity in terms of the following elements:

1. A Small and Medium Farmer Agriculture Growth Strategy.

Pakistan's agriculture growth is characterized by increasing fluctuations in output and a declining trend in the crop sector growth. Since the mid-1960s, an elite farmer growth strategy has been followed. This has been a key factor in growing rural inequality as well as the declining trend in the crop sector growth rate as the yield potential of the large farms approaches a ceiling and input productivity declines. At present, about 94 percent of the total number of farms and over 60 percent of the total farm area is operated by farms below 25 acres. It is clear therefore that if agriculture growth is to be increased and sustained, then the considerable yield potential of the small and medium farm sector (less than 25 acres) would have to be utilized. It is time now to change this trajectory of agriculture growth through a new small and medium farm growth strategy.

The key initiative towards this goal is to enable small farmers to acquire ownership of land on the one hand and enabling them to use it efficiently on the other. Such a strategy would have four elements. (i) Enabling landless tenant households in this sector to acquire land. A critical constraint to increasing yields of tenant farms is that since they lose almost half their output to the landlord, the small farm tenant has neither the incentive nor the ability to invest in increasing yields per acre. (ii) The small farmer typically does not have access over high quality seeds; soil testing to determine the chemical composition of fertilizers that would be congruent to the nutrient requirements of the soil; appropriate type and quality of pesticides. An appropriate institutional mechanism is required to give small farmers access over quality inputs. (iii) The small farmers in most cases do not have access over technologies for increasing their water use efficiency in situation of water scarcity and nor do they have access over technologies for producing high value added crops. (iv) Small farmers do not have equitable access over markets which are configured in favour of the large landlords in areas where there are asymmetric power structures at the local level.

It is proposed that 2.6 million acres of agriculture land that is state owned at the moment may be distributed to the landless tenants in 5 acre packages for each household. If this could be done then 58 percent of farmers below 25 acres, who are currently landless tenants, would become owner farmers. After the appropriate institutional changes in the land market, the remaining 42 percent of landless tenants may be provided credit to buy 5 acres each. This would involve creating credit fund for landless tenant farmers of about Rs.350 billion. Thus, an institutional basis can be created for enabling landless tenants to

become owner operators and thereby acquire both the incentive and the ability to increase the yield per acre in the small farm sector.¹³

2. Accelerating Small and Medium Farmer Growth through a Small Farmer Development Corporation (SFDC).

Farmers below 25 acres could be provided credit which could be placed initially in the names of individual farmers as equity in an SFDC registered as a public limited company with high quality professional management made responsible for operating it. The dividends earned from the SFDC could be used to return the loans to the government that had been provided to the small farmers as equity.

The SFDC could have the following functions aimed at increasing the yield per acre of small farms and their diversification into export based dairying, meat production and inland fisheries. In pursuit of these aims, the SFDC would provide integrated support services to the small farm sector through the following functions:

- i. Land development, including laser leveling for better on-farm water management.
- ii. Drip irrigation to increase water use efficiency.
- iii. Soil testing and provision of composite fertilizers to small farmers to achieve congruence between the chemical composition of fertilizers used and the nutrient requirement of the soil.
- iv. Provision of high quality seeds and appropriate pesticides.
- v. Provision of credit and equitable access over markets.
- vi. Providing focused extension services to improve farm practices and adoption of new technologies such as tunnel farming for off-season vegetables and flowers and bee keeping for honey production.
- vii. Linking up high value production of fruits and vegetables on small farms with a supply chain, involving international standards of safety and quality in the production process, grading, packaging, storage, certification and then linkup with a database for getting export orders.
- viii. Diversification of the farm sector such that the SFDC develops export based production of milk, milk products, meat and inland fisheries.

¹³ This sub-section is based on an earlier work of the author: Akmal Hussain, Strengthening Democracy through Inclusive Growth, Chapter 8 in, Akmal Hussain and Muchkund Dubey (eds.), Democracy, Sustainable Development, and Peace, Oxford University Press, New Delhi 2014.

Pakistan is already the fifth largest producer of milk but has a yield per milch animal that is one fifth of the European average. Field experience has shown that with better feeding, the milk yields can be doubled within a short period. Pakistan is at the hub of a crescent of milk deficit countries in West Asia, Central Asia and East Asia. If an increase in the milk output could be exported to these regions, an estimated 4 to 5 billion US dollars could be generated in terms of foreign exchange. The export earnings could be much larger if poor peasants could be provided with credit and extension services to increase the number of animals as well as their milk yields. Further increases in export earnings could be achieved by producing and exporting high value added milk products through the SFDC.

Thus, a new trajectory of sustained export led growth in agriculture could be achieved on the basis of increased productivity and enterprise of small farmers.

SFDCs could be established in each province, each with multiple divisions to cater to the variety of its functions.

3. An Institutional Framework for the Rapid Growth of Small and Medium Enterprises (SMEs)

Accelerating the Growth of Small and Medium Sized Enterprises for Equitable Growth and Higher Export Earnings. Small and medium industries in the manufacturing sector in most cases have shorter gestation periods, require a lower investment per unit of output increase and have higher employment elasticities compared to the large scale industries. Therefore, an increased share of total investment in this sector can enable a higher GDP growth for given levels of investment a higher employment and at the same time improve the distribution of income. The Small and Medium Enterprises Development Authority (SMEDA) has taken a number of important steps in facilitating and providing institutional support to SMEs. It would be extremely beneficial for the economic progress of Pakistan if special emphasis is given to the development and facilitation of SMEs in the high value added and export oriented sectors such as electronics, software, automotive parts, moulds, dyes as well as other high value added sectors. If the commendable performance of SMEDA so far could now be catalyzed and incentivized to focus on creating an institutional framework for the growth of SMEs in these sectors, higher and more equitable growth could be accompanied by higher export growth.

Training of software experts supported by credit and market access could induce the rapid growth of software companies which would not only enable self-employment for educated youth, but also accelerate and change the composition of Pakistan's exports towards knowledge intensive products and services. In this regard, the establishment of Information Technology University (ITU) in Lahore is an important initiative by the Government of Punjab. Apart from giving world class training in information technology in the fields of software and electronics, humanities and social sciences, ITU is making a significant contribution to E-Governance in the Punjab. ITU has also facilitated a number

of startups in the IT and software sectors. As ITU expands and the scale of this new pool of IT experts is enlarged, it can have a significant impact on moving Pakistan's economy and governance in a knowledge intensive direction.

Policy Suggestions to Accelerate the Growth of High Value Added SMEs. In the Punjab and KPK provinces, there is a substantial untapped potential for the growth of high value added small scale enterprises manufacturing automotive parts and components in the engineering goods sector. Yet, in many cases these units are producing low value added items like steel shutters, car exhaust pipes and water taps. This results in low profitability, low savings and slow growth. Based on an earlier research¹⁴ by the author, the following six initiatives could greatly help in accelerating the growth of SMEs in high value added sectors:

(i) Building and strengthening the institutionalized mechanisms for the large scale manufacturing sector to outsource the manufacture of components and automobile spare parts. Many small scale units which have a potential in this sector in terms of basic technical skills, find it difficult to get orders and therefore resort to producing low value added items for the retail market.

(ii) Improving the management skills to ensure quality control on the production line to meet orders on a regular basis from the large scale manufacturing sector.

(iii) Improving the advanced skills in millwork, metal fabrication and precision welding, all of which are needed for producing high quality products with low tolerances and precise dimensional control.

(iv) Overcoming the problems of access over input markets in large cities and lack of credit for working capital faced by small units in getting good quality raw materials which often can only be ordered in bulk.

(v) Providing access over financial resources for capital investment in modernizing their stock of machines and difficulties in getting credit facilities from the commercial banking sector due to lack of collateral.

(vi) Facilitating the creation of fabrication facilities, such as forging, heat treatment and surface treatment which are required for the manufacture of high value added products but are too expensive for any one small unit to set up.

Overcoming the Constraints: Common Facilities Centres (CFCs). The Common Facility Centre idea is based on the fact that a number of small scale units have shown a great potential for skills development, innovation and entrepreneurship. To release this

¹⁴ Akmal Hussain, Poverty Alleviation in Pakistan, Vanguard Books, Lahore, 1994, Annexure II.

potential, CFCs could be set-up in specified growth nodes in small towns where clusters of small scale manufacturing units already exist. SMEDA has already initiated the process of establishing a number of CFCs in order to provide machinery to SME clusters so that they can upgrade their businesses. In this regard, CFCs for honey processing, marble processing, CNG cylinder testing and agriculture processing will be established in Swat, Chitral and Naran. However, it is essential that more CFCs are established which specifically facilitate the SMEs in high value added and skill intensive sectors with export potential such as electronics, software, automotive parts, and moulds. To further strengthen these initiatives, the work of SMEDA could be deepened by enabling the CFCs to constitute a decentralized support system for providing access to a comprehensive package of services such as:

(i) Institutionally linking up with the small scale units with the large scale manufacturing sector for outsourcing contracts.

(ii) Provision of credit.

(iii) Raw material banks to enable small units to buy in small lots.

(iv) Training in technological skills and diffusion of new technologies.

(v) Prototype development.

(vi) Facilities for forging, heat treatment and surface treatment.

(vii) Managerial training for setting up quality control procedures.

The CFCs would house advanced machines for forging, heat treatment, surface treatment, and computerized milling machines operated by high quality engineers and trainers. The small scale industrial units could then access this equipment on a rental basis as and when required.

The CFCs could thus play a catalytic role in accelerating the growth of small scale enterprises in the automotive parts and electronics sectors and unleashing the potential talent of the lower middle classes to produce skill intensive, high value added goods for the domestic and export markets. They could also help in developing new growth nodes in the smaller towns and thereby contribute to reducing regional economic disparities.

Conclusion

We have argued in this essay that achieving the aim of Human Development involves initiating a new growth process that is based on the enterprise and innovation of broad sections of society, rather than just the elite. In this context, we have outlined some of the key policy initiatives that need to be undertaken to achieve growth for the people and by

the people. These initiatives include the universal provision of health, education and social security; urgent measures to face water scarcity; development of hydropower as the primary source of cheap energy and conservation of Pakistan's water resource; a growth strategy based on unleashing the considerable potential of medium and small farms as well as high value added small and medium industrial enterprises. These policy initiatives can play a critical role in placing Pakistan on a new trajectory of equitable and sustainable development.