

Truth about poverty

By Sartaj Aziz

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AT THE recent meeting of the Pakistan Development Forum, representatives of the donor community, led by the World Bank, said: "Poverty in Pakistan is not simply a development issue but an issue of national security". They also urged Pakistan to devote more attention and resources to the objective of poverty reduction to create an environment that reduces tensions and provides jobs to the youth of the country.

The government of Pakistan has formulated a three-year poverty reduction strategy for the period of 2003-2006 as a follow-up to an Interim Poverty Reduction Strategy Paper (PRSP) prepared in November 2001 for the period of 2001-03 as a basis for financial assistance from the IMF under its Poverty Reduction and Growth Facility (PRGF) programme.

Surprisingly, the draft document on the full PRSP released in May 2003, does not give any specific target for poverty reduction. It does however admit that during the IPRSP period (2001-2003), poverty has actually increased. According to official estimates incorporated in the strategy document, the level of poverty under the basic needs approach, having remained almost stable at 29 per cent during 1986-98 (with a modest decline to 26.5 per cent in 1990-93), has now gone up to 32 per cent in 2002-2003. The increase in rural poverty has been even sharper, from 24.6 per cent in 1992-93 to 35 per cent in 2002-03.

The poverty reduction strategy is based on five main pillars: (i) accelerated growth and macroeconomic stability; (ii) investing in human capital; (iii) augmenting targeted interventions; (iv) expanding social safety nets and (v) improving governance. These, in turn, are supported by specific macro-economic and social targets in each sub-sector and include the following main targets for the three-period up to 2005-06:

(a) Real GDP to be accelerated from 4.5 per cent in 2002-03 to 5.2, 5.5 and 5.8 per cent respectively in the next three years, (b) Development expenditure will increase from Rs 130 billion to Rs 155, to Rs 180 and then to Rs 207 billion, (c) PRSP expenditure will increase from Rs 160 billion in 2002-03 to Rs 187, Rs 215 and Rs 246 billion (or from 4 to 4.6 per cent of GDP), (d) The literacy rate is expected to increase from 51 to 60 per cent, (e) The rate of population growth is estimated to decline from 2.07 per cent in 2002-03 to 1.87 per cent in 2005-06, (f) The rate of unemployment is likely to decline marginally from 7.82 per cent of the total labour force to 6.69 per cent.

These and other targets for education, health, housing and food support programmes are highly desirable and on the whole realistic. The PRSP document's conceptual attempt to combine economic growth and stabilization objectives and place the overall strategy in the context of human

on the cake in the form of social safety nets or targeted interventions to counter any negative fallout of these strategies on the poor. But when fiscal space is squeezed by the adjustment process and the process of growth promotes inequality and more poverty, a separate poverty reduction programme, which only creates limited employment opportunities, can hardly reverse the overall trend.

Another major flaw in the present conceptual framework, based on the Washington Consensus, concerns the role of governments. Even if the superiority of the market system in determining resource allocation and prices is accepted, we cannot deny the important role which the state must play in protecting the rights of the weaker and poorer segments of the population and in meeting their basic needs.

The inherent inadequacies of the market are in fact fully understood in the more

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advanced societies. That is why they have created laws and institutions against monopolies to protect the consumer and the small businesses; they have developed an elaborate system of taxation and social security to protect the weak and assist the poor. But at the global level, they refuse to recognize the impact of inappropriate globalization policies on the poor and evolve similar compensating mechanisms and policies.

The rethinking that is required cannot just stop at marginal adjustments that will increase the residual resources, spared by the adjustment process, for social development or for education and health services. What is required is a new development paradigm:

- * that recognizes the role of the state in safeguarding the wellbeing of the rural population against the adverse impact of globalization and agricultural subsidies and in protecting the rights of the weaker and poor segments of society;

- * that accepts balanced social and human development as a basic and essential prerequisite for sustainable development that is meaningful for the large majority of the population; and

- * that regards the poor as a part of the solution and not just as a part of the problem, by evolving pro-poor growth policies under which overall growth of the economy can be accelerated by raising the productivity and incomes of the poor.

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per cent reduction in the family's meagre income, but additional expenditure on treatment, often requiring sale of an animal or other assets the family may have.

A more meaningful poverty reduction strategy will have to bring about a paradigm shift in development policy to reverse the vicious circle of this unfavourable social and economic environment in which the poor are caught and, at the same time, alter the structure of growth in favour of the poor.

A pro-poor growth strategy has to be an essential element in any meaningful poverty reduction strategy. In the current socio-political environment, a major paradigm shift in Pakistan's development and environment policy may not be feasible, but in view of the emphasis on poverty reduction, many policies and priorities can be reoriented in favour of the poor. These priorities will have to include the following:

a) A major reorientation of the macro policy framework in favour of agriculture and within agriculture in favour of the small farmers. In the past 15 years, the agriculture sector achieved a satisfactory annual growth rate of 4.5 per cent because of favourable macro policies. But now under pressure from the IFIs, the agriculture sector is being left at the mercy of the market forces although agricultural markets are highly distorted by large subsidies in the developed countries.

Pro-poor macroeconomic policies are needed to (i) prevent a recurrent deterioration in the terms of trade for agriculture, as a result of large agricultural subsidies provided by developed countries, through a combination of price support measures and selective productivity enhancing subsidies; (ii) improve distribution of irrigation water, so that small farmers can receive their fair share of water; (iii) ensure doubling of agricultural credit from Rs 30 to 60 billion in the next three years, with at least 40 per cent, channelled to small farmers, particularly for value-added agriculture like horticulture, livestock and fisheries.

b) A programme of rural industrialization to create employment opportunities in rural areas on a large scale and to reduce rural-urban inequalities. This in turn will require substantial improvement in rural infrastructure.

c) Major improvements in the delivery of education and health services to the poor. The relevant standing committees of the National Assembly and the Senate should thoroughly dissect the proposed pro-poor expenditure of Rs 180 billion in the next budget to ensure that at least 50 per cent actually reaches the poor. According to reports, only 20 per cent might trickle down and the rest may go to higher education, cadet colleges, modern hospitals and other facilities for the rich and middle income groups.

d) A multi-dimensional process of empowering the poor must be initiated, so that as a minimum, they can organize themselves into viable community organizations to be able to compete in the labour and product markets on an equitable basis and eventually participate effectively in decisions that affect their

almost stable at 29 per cent during 1986-98 (with a modest decline to 26.5 per cent in 1990-93), has now gone up to 32 per cent in 2002-2003. The increase in rural poverty has been even sharper, from 24.6 per cent in 1992-93 to 35 per cent in 2002-03.

The poverty reduction strategy is based on five main pillars: (i) accelerated growth and macroeconomic stability; (ii) investing in human capital; (iii) augmenting targeted interventions; (iv) expanding social safety nets and (v) improving governance. These, in turn, are supported by specific macro-economic and social targets in each sub-sector and include the following main targets for the three-period up to 2005-06:

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These and other targets for education, health, housing and food support programmes are highly desirable and on the whole realistic. The PRSP document's conceptual attempt to combine economic growth and stabilization objectives and place the overall strategy in the context of human development is certainly commendable. However, the quantitative targets, embodied in the strategy are not bold enough to make a major difference and qualitatively, the strategy does not go far enough to address many of the real and structural causes of poverty in Pakistan.

In other words, even if all the macroeconomic and social targets given in the strategy can be achieved over the next three years, there will be only a marginal reduction in the level of poverty, probably to 28-29 per cent — the same as in 1986-87. This is a serious challenge not just for the government but for all stakeholders to explore more decisive policy options that could reduce poverty at a much faster rate.

The poverty reduction strategies being adopted by developing countries under the guidance of the World Bank / IMF primarily focus on stabilization policies, in the expectation that lower budget deficits and low inflation will automatically lead to higher investment and growth. There is some icing

advanced societies. That is why they have created laws and institutions against monopolies to protect the consumer and the small businesses; they have developed an elaborate system of taxation and social security to protect the weak and assist the poor. But at the global level, they refuse to recognize the impact of inappropriate globalization policies on the poor and evolve similar compensating mechanisms and policies.

The rethinking that is required cannot just stop at marginal adjustments that will increase the residual resources, spared by the adjustment process, for social development or for education and health services. What is required is a new development paradigm:

- * that recognizes the role of the state in safeguarding the wellbeing of the rural population against the adverse impact of globalization and agricultural subsidies and in protecting the rights of the weaker and poor segments of society;

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- * that regards the poor as a part of the solution and not just as a part of the problem, by evolving pro-poor growth policies under which overall growth of the economy can be accelerated by raising the productivity and incomes of the poor.

The chronically poor are poor because they have no land or other income-generating assets. They have limited access to education and health services and are therefore unable to improve their skills or income earning capacity. These inherent causes of poverty are further compounded by man-made or policy-induced factors, such as discrimination on the basis of ethnicity, tribal affiliation or gender and economic policies that favour urban areas at the cost of the rural population and have a sustained bias against the agriculture sector.

In such an unfavourable environment, the poor are often caught in a vicious circle of adversity in which they do not receive a fair wage for their labour nor a fair price for the goods they may be able to sell. Landlords, *artis*, officials all play their part in accentuating poverty.

Inadequate access to health services in rural areas and in the slums of urban areas has become a major cause of increasing poverty. A recent survey has revealed that the breadwinner in poor families, on the average, loses 80 to 90 working days in a year because of illness. This means not only a 20

policies are needed to (i) prevent a recurrent deterioration in the terms of trade for agriculture, as a result of large agricultural subsidies provided by developed countries, through a combination of price support measures and selective productivity enhancing subsidies; (ii) improve distribution of irrigation water, so that small farmers can receive their fair share of water; (iii) ensure doubling of agricultural credit from Rs 30 to 60 billion in the next three years, with at least 40 per cent, channelled to small farmers, particularly for value-added agriculture like horticulture, livestock and fisheries.

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d) A multi-dimensional process of empowering the poor must be initiated, so that as a minimum, they can organize themselves into viable community organizations to be able to compete in the labour and product markets on an equitable basis and eventually participate effectively in decisions that affect their lives.

Finally, without accelerating and sustaining the overall rate of GDP growth to six per cent, poverty reduction will be difficult to achieve. Correspondingly, the overall ratio of investment to GDP which has declined from 20 per cent in the early 1990s to less than 14 per cent in the period 2001-03, has to be taken back to the previous level of 20 per cent.

But the constraints and obstacles that stand in the way are essentially non-economic in nature, namely the law and order situation, tensions with India and the spillover effects of the war in Afghanistan, leading to large-scale closures of foreign banks and airlines and advisories to many foreign nationals not to visit Pakistan. A more tranquil regional security environment and a stable political situation at home will in the end be equally necessary for poverty reduction.

The writer is a former finance and foreign minister of Pakistan.