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Government of Pakistan
Planning Commission

PREFACE

The Planning Commission constituted a Panel of eminent economists of the country in September 2008 to come up with both short and medium term policy actions to address the economic challenges facing Pakistan especially in the context of global economic downturn.

The Panel of Economists met the Prime Minister on 13 September 2008 during which the Panel was advised to suggest a short term policy package to restore macro-economic stability which is efficient and equitable.

The Panel had a series of meetings and consultations with senior policy makers, academia, experts and stakeholders.

This Interim report "Economic Stabilization with a Human Face" proposes stabilization measures that preserve economic growth to the possible extent and suggest specific steps that would protect the poor and vulnerable groups.

I would like to express my gratitude to Dr. Hafiz Pasha, Chair of the Panel of Economists and its distinguished members for considerable hard work they put in producing this Interim Report in a short time span. Here, I would also like to thank Dr. Rashid Amjad, Chief Economist and other officials of the Planning Commission who supported this exercise.

Islamabad
Dated: 31 October, 2008

(M. Salman Faruqui)
Deputy Chairman

EXECUTIVE SUMMARY

ECONOMIC STABILIZATION WITH A HUMAN FACE

ANALYTICAL FRAMEWORK

1. The Panel is of the view that Pakistan must take decisive action to restore macroeconomic stability, while protecting the vulnerable citizens. This is essential to restore investor confidence, both domestic and foreign, and garner domestic political support to resume robust growth.

2. The current crisis reflects both adverse short-term developments caused by an unprecedented increase in global oil and food prices and the festering structural economic weaknesses that have resulted in bursts of stop-go cyclical growth (viz. a fragile budget, loss of international competitiveness and fragmented social protection). A difficult domestic political transition and taking the fight to the militants has heightened these challenges.

3. Given the size of accumulated imbalances, the needed adjustment in aggregate demand to reduce the trade and fiscal deficits will be substantial. The proposed measures thus will curtail growth and employment and will increase poverty. These adverse outcomes, therefore, need to be cushioned with cost effective and well targeted social protection measures.

4. The Panel regards the crisis also as an opportunity to address the core structural weaknesses of the economy. The proposed stabilization measures have been designed such that, in conjunction with reforms that address the structural weaknesses, economic growth will rebound quickly to a higher and a more stable trajectory in the medium term.

5. In the absence of an orderly stabilization process, a strong package of reforms and external support, the burden of stabilization will fall on the exchange rate and inflation will be substantially higher. This will inflict severe welfare loss on the society and a large number of people will slip into poverty. Given the difficult security situation, the adverse consequence of this for the social fabric should not be underestimated.

6. The current economic crisis should not distract from the inherent resilience of the economy. Foreign investors, bilateral donors and International Financial Institutions know well that historically and in the recent past, the economy has responded sharply to investments and economic management, by and large, has been good. We are thus confident that with appropriate stabilization and reform measures and with adequate

financial support, macro-economic stability will be achieved and the economy will resume the growth path consistent with its inherent strength.

7. The proposed stabilization and reform programme is based on the following principles:

- Mobilization: No effort to be spared to mobilize domestic resouces and cut expenditures to reduce the resource gap to manageable levels.
- Protection: The stabilization programme has to ensure that the vulnerable and the poorest are protected via cost-effective social safety nets.
- Prioritization: Stabilization and the reform programme built on it have to demonstrate our ability to utilize domestic and external resources well.
- Integrated Strategy: short term measures have to be part of an integrated economic package that can pave the way for sustainable and equitable economic growth in the medium term.

8. The global economic scenario is fast changing and fragile. The Interim Report takes into account both positive developments in terms of reduction in oil and commodity prices as well as the slowing down of the US and other industrial economies which will adversely affect our export prospects. That said, we need to be fully prepared to respond to a more volatile global economy. Flexibility in policy response and a credible financial cushion will thus need to be built-up.

9. The measures we have outlined will cut down our financing gap in the balance of payments in 2008-09 to close to US$ 4.5 billion compared to US$ 6.2 billion in 2007-08. In addition, an immediate injection of around US$ 4-5 billion is required to provide cover of 3 months imports. We believe that with the credible stabilization programme that the Panel has drawn up will attract the needed support.

10. The reform programme must draw upon broad-based support to ensure national ownership. Parliamentarians, Provincial governments, civil society and the private sector must be taken on board and their counsel sought in monitoring the implementation of the programme.

PART I: SHORT TERM STABILIZATION PROGRAMME: 2008-2010

1.a: Proposed stabilization measures

11. Short term stabilization requires that the large balance of payments gap be reduced to manageable levels. This will require adjusting downward aggregate demand. The key policy instruments for achieving this are: public expenditure and revenue, the exchange rate and the interest rate.

Reducing current expenditure

12. The Panel recommends curtailment of current expenditure by Rs 115 billion in relation to the level projected without stabilization package; this can be achieved with savings in defense expenditure, in subsidies, in debt servicing and in other expenditure.

Mobilizing revenue

13. The Panel recognizes that many revenue mobilization measures recommended below will have their full impact in the medium term. None-the-less, implementing them as part of the stabilization package will begin to capture revenues and will also send the right signal regarding sharing of the burden of adjustment

14. The Panel recommends revenue mobilization of Rs 75 billion through additional taxation proposals including the following:

- Imposition of a broad-based regulatory duty on non-essential imports (excluding wheat, edible oil, pulses, pharmaceuticals, fertilizer and POL products) on which such a duty has not been imposed already, at a rate of either 4% on machinery and 8% on other items.

- Broad basing of the tax system through the levy of the following:

    i. Services tax (of the Indian type) by January 1, 2009 on 12 selected services initially

    ii. Levy of an excise duty on non-essential consumer goods and durables.

    iii. Capital gains tax on properties by provincial governments

    iv. Withdrawal of some exemptions from income tax

- Development of the agricultural income tax by the provinces (since farmers are now getting world prices)
- Equating top marginal rate of income tax with the corporate tax rate
- Reduce threshold companies for the purpose of corporate taxation
- Reduction of the tax thresholds pertaining to sale taxes.

Financing the deficit and monetary measures

15. Increased reliance on non-bank borrowing to finance up to Rs 250 billion of the budget deficit and to reduce borrowing from SBP will necessitate an increase in the average return on national saving schemes of up to 2 percentage points beyond the recent increase.

16. Enhancements in the SBP Discount Rate in one go by 2 percentage points.

Restructuring Public Sector Development Programme, 2008-09

17. In the considered view of the Panel, events since the announcement of the Budget (2008-9) have rendered some of the expenditure proposals unrealistic. These need to be revised.

18. It is proposed that the Public Sector Development Programme (PSDP) be reduced in a manner that social programmes are safeguarded, and that adjustments in allocations in public projects allow growth to bounce back quickly. The guiding principle is a short sharp reduction in growth in the short term and a quick rebound back to a higher trend growth rate.

19. The required reduction in the PSDP consistent with the macroeconomic stabilization programme is Rs 63 billion (equivalent to 10% of the federal and provincial government PSDP). We, however, recommend a larger cut of Rs 100 billion in this year's PSDP allocations. This is to allow for a cushion for social protection measures needed to soften the impact of the harsh (but needed) stabilization measures on the vulnerable citizens and also to protect carefully selected, cost-effective programmes in least developed provinces and regions.

20. We also recommend that a review of actual expenditures and new commitments in the PSDP takes place in March 2009 to determine what amount if any is available from the Rs 37 billion "cushion" for reallocation to ongoing projects.

21. The suggested criteria for restructuring the current year's PSDP are:

- Give priority to projects that have incurred at least 50 percent of total cost
- Protect and enhance the refined and fine-tuned Benazir Income Support Programme
- Give priority to projects for special regions and those that enhance national security.

22. We estimate that Rs 165 billion of current year's PSDP will be used up applying these criteria. The Panel recommends that the remaining Rs 106 billion be allocated applying the following additional criteria:

- defer all new projects (i.e. projects starting this year)
- give priority to agriculture/livestock, water, power, health and education
- prioritise allocation to projects in less developed areas
- remaining projects be allocated minimal amount necessary

Institutional Reforms

- Request that a parliamentary resolution be passed renewing its commitment to the Fiscal Responsibility and Debt Limitation Act (2006) and enacts an amendment limiting the extent of government borrowing from the State Bank of Pakistan.

- Strengthen financial management by completing ongoing reforms on priority basis concerning the flow and utilization of funds in various line ministries.

- Establish an independent Federal Bureau of Statistics (FBS) headed by a professional that directly reports to the Parliament and not to the government.

- Establish independent Panel of experts to engage in the consultative process in the design, implementation and monitoring of donor supported projects critical to the medium-term economic recovery. This will ensure transparency, rigour and relevance.

1.b: Macroeconomic Framework and Impact of the Proposed Measures

23. The proposed stabilization measures will have the following impact on the economy[1]:

1. In tracing the macro effects, the Panel has combined the Planning Commission Consistency Macro Model with behavioral equations estimated from the SPDC growth model. We believe that the resulting model is robust and values of estimated key elasticities are realistic.

- GDP growth will fall to 4.4 percent in 2008-09 (compared to 5.8 percent in 2007-08) against 5.5 percent planned for 2008-09. This will increase to 5.1 percent in 2009-10.
- Balance of payments gap reduced to US$ 4.5 billion in 2008-09 (from US $ 6.2 billion in 2007-08) and be largely eliminated in 2009-10. Growth of exports will take exports to $ 23.5 billion by 2009-10. Imports are expected to decline to $ 31.4 million in 2008-09 from the target of $ 35.4 billion in 2008-09. Remittances will continue to show rapid growth, foreign investment is expected to fall in 2008-09 and rise once again in 2009-10 to $ 5 billion.
- Fiscal deficit falling to 4.5 percent of the GDP in 2008-09, from 7.4 percent in 2007-08 and further to 4.0 percent in 2009-10.
- No real growth in PSDP 2008-09 (as compared to 2007-08) resulting in a nominal reduction of Rs.63 billion in current PSDP in 2008-09 (covering both federal and provinces).
- Unemployment increases to 6.5 percent in 2008-09 (from 5.3 percent in 2006-07) adding 1 million to the number of unemployed.
- Poverty incidence increases, mainly due to high inflation and higher food prices.
- Price inflation (CPI) is estimated at around 22 percent in 2008-09 falling to below 17 percent in 2009-10.
- Exchange Rate is expected to depreciate over 2008-09 and remain stable in 2009-10.

1.c. Protecting the Vulnerable: The Human Face of Stabilization

24. The recent down turn in economic growth rate with its adverse repercussions for employment and the unprecedented hike in price level, particularly of food items, has had a severely negative impact on the lower income strata. The proposed measures in the stabilization package will also lower GDP growth and employment. Thus those at the margin of poverty will fall below it. Initial estimates suggest that the increase in the number of poor will be about five million.

25. Allocating adequate funds for social protection thus will be critical. The PSDP restructuring discussed above provides a cushion of resource to achieve this, and also suggests restructuring expenditure to give priority to employment intensity.

26. Given the multiple dimensions of uncertainty in the global, national and household economy, it is essential that the highest priority for protection be afforded to the most vulnerable segments of the household economy where uncertainty can lead to irreversible damage – in the shape of high

morbidity and mortality, decline in the nutritional status of children and women, and withdrawal from school.

27. The programmes announced by the government-Benazir Income Support and the Punjab Food Support programmes- cover about 5 million households. The programme will have to increase from Rs. 56 billion to about Rs. 84 billion to mitigate the impact of the stabilization programme and reduce the number of people below the poverty line. The expansion of the BISP should be conditional on a review and improvement of its targeting and implementation mechanism to ensure coverage of the poorest. The additional resources could become available from the reduction of PSDP

28. In addition there is an urgent need to tackle the rise in unemployment. The proposal is to start employment intensive public work programmes initially in districts with high poverty levels. Given resource constraints these need to be made part of the existing People Works Programmes in an operational way on which Rs 28 billion have already been allocated.

29. The government may need to allocate initially around Rs 10 billion from the PSDP for a national employment guarantee programmes in poor districts at a wage below the market wage so as to target the poor.

30. Existing rules for the design of public works programmes (in the PSDP) can be reviewed to increase the visibility and verifiability of the employment generation component of these projects. PSDP rationalization should take into account the intensity of casual labor employment in projects.

31. Funding for existing nutritional support programmes must be ensured and enhanced. Pilot school nutritional support programmes can be initiated in districts/regions identified as being vulnerable to nutritional shock. This will require an adding 500 million, up from 100 million already allocated in the budget. The programme design is already there. It needs to be expanded, perhaps to the poorest districts.

32. Incentivise microfinance and housing finance credit line, by commercial banks through a special tax credit on the quantum of annual lending.

33. There is need on an urgent basis to build-up a National Social Policy Platform that must be used to implement targeted social protection measures, based on the principles of targeting from a well-defined universe using transparent, verifiable and dynamic criteria with in-built channels of beneficiary exit. The preparatory work for the National Social Policy Platform must begin in financial year 2008-2009 with support from donors who have already expressed an interest in improving the governance of social policy measures in Pakistan. The basic infrastructure

of the National Social Policy Platform will be in place by the end of the stabilization phase (2009-2010), when its activities can be diversified to improving the implementation and accountability of all social policy measures.

PART II: GROWTH RECOVERY AND DEVELOPMENT PRIORITIES

II.a. Restructuring the Public Sector Development Programme (PSDP)

34. Consistent with this Panel's view that the current crisis is also an opportunity to correct endemic distortions, we recommend that a more comprehensive framework be adopted for the prioritization of projects in the PSDP. This requires a restructuring of the existing portfolio of projects to reduce the throw-forward to five years or less. In addition, in any given year, at least 70% of the budget allocation for the PSDP should be for ongoing projects.

35. The guiding principles for restructuring and inclusion of new projects in the PSDP should be: High growth impact, Employment intensity, Social protection and human development, Export intensity, Regional equity and Inter-sectoral harmony.

36. An over-arching principle should be maximum leveraging of scarce public resources by exploring all potential avenues for public/private partnerships in the public development programme.

37. The Panel recommends that fiscal policy to level the playing field between tradable and the non-tradable sectors; the current incentive structure favours investment in the non-tradable sectors. This should be corrected by expanding the tax net to include the services sector, make property taxes realistic and levy capital gains tax to prevent asset price bubbles in the non-tradable sectors.

II.b: Promoting international competitiveness

38. A core structural weakness of the economy highlighted by the current crisis is the lack of international competitiveness that retards an export-led growth strategy. A large part of the lack of competitiveness is embedded in relative prices that encourage consumption over production for export. The proposed exchange rate adjustment as part of the macro-economic stabilization programme will help remove one critical relative price distortion making it profitable for firms to export rather than import.

39. The Panel strongly recommends that other relative prices also be reviewed comprehensively to remove systemic discrimination against industry, especially those with export potential. The review should span

energy pricing policies (that currently favor consumption over production), policies for the transport sector that favor passenger traffic over cargo and credit allocation priorities in the banking sector.

40. Additional, more medium term measures proposed by the Panel to move to a higher growth trajectory are:

- The structure of incentives to promote export-led growth needs to be revised; the guiding objective here should be the promotion of higher value addition in exports and, to that end, incentives should be linked to the rate of increase in exports rather than the level; exports at the low value addition end of the spectrum such as yarn and gray cloth should be ineligible for rebates.

- Government's role in providing marketing information and producing to international standards needs to be revamped; the potential for twinning arrangements with private marketing firms with local knowledge of potential export markets should be explored and utilized.

- Within country logistics costs should be reduced which will require investment in upgrading infrastructure and institutional and regulatory reform; public/private partnerships should be the guiding principle in designing the infrastructure upgrading programme.

- Worker skills are critical to give our firms a competitive edge in international markets; programmes for skill upgrading need to be modernized adapting, where relevant, similar experience from East Asia; a combination of public subsidy and a levy on firms provides the financing of the skills development fund; firms receive vouchers for utilization of training funds, accredited private/private training institutions provide the training and receive payments from the fund upon submission of vouchers.

- the current debilitating power shortages have to be redressed quickly and a well thought through medium term power plan needs to be in place that provides reasonably priced and good quality power to industry; a communication strategy should be in place to inform industry as to when improvements in power can be expected.

II.c. Accelerating agriculture growth with equity and employment

41. Given our natural comparative advantage in agriculture, i.e. the world's largest contiguous canal irrigation system, diversity of agro-climatic zones, good soil conditions and cheap labor with a centuries old farming tradition, poor crop yields and absence of high value added agricultural exports, is a

glaring example of unfulfilled promise. Maintenance, modernization and expansion of key rural infrastructure spanning water, roads and electricity is in urgent need of policy and institutional reform. A separate task force has been assigned the responsibility of designing a programme for the country's food security. The focus of this Panel is on promoting agricultural growth with greater equity and employment generation even in the short term. To that end we recommend, as an immediate policy focus:

- An initiative is proposed to establish the institutional framework for accelerating the growth of small and medium farms (less than 5 acres and 5 to less than 12.5 acres) where there is considerable potential for increasing yields per acre and employment generation. At the same time, through a public-private partnership, an initiative may taken for providing credit, refrigerated transport and market access be provided to the small and medium farm sector for the development of milk, livestock, and high value added crops such as vegetables, fruits and flowers.
- replacing the existing out-dated and inefficient provincial agricultural marketing acts with a modern legal and regulatory framework that allows greater room to the private sector to develop agricultural markets, particularly for fruit, vegetable, meat and dairy in a way that ensures internationally accepted phyto-sanitary requirements.
- to catch up with the rest of the world in adopting new seed technology to increase yields and value addition on a priority basis, partnerships with major international seed companies need to be forged: the recent agreement with Monsanto for large scale adaptation of BT cotton is a step in the right direction and should guide other similar agreements for other crop seeds.
- Agricultural research and extension should be guided by a farming systems perspective to modernize agriculture rather than the current four major crop specific approach. This will improve the design of interventions and increase their cost effectiveness. This approach will facilitate the focus on small and medium farms while designing interventions (the current crop specific focus does not) and thus will increase system-wide productivity growth and will also help achieve equitable growth.

II.d. Addressing sub-regional inequalities

42. The growth strategy has to proactively aim to reduce regional as well as sub-regional inequalities by actively targeting less-developed areas of the country. In this context, the Baluchistan government has prepared an Economic Report which has detailed a strategy for the provinces development. The Baluchistan government must be provided the resources to implement its strategy. In addition, similar strategies need to

be developed for NWFP/tribal areas, rural Sindh as well as for southern Punjab.

43. A critical issue which must be addressed, in our view, in any growth strategy relates to coordination between the Federal and provincial planning agencies. In the development of any provincial strategies, greater ownership of the concerned province must be ensured. This should not be limited to the case of development initiatives for a province taken at the federal government level, but, importantly, in a wider sense should include greater decentralization of resources and setting of development priorities by the provinces themselves.

II.e. Promoting cross-border regional trade

44. Geo-political developments provide an opportunity to open up new vents for sustained long term growth by exploiting scale and agglomeration economies arising from opening regional trade, in particular trade with India. This has the potential for unleashing productivity and income enhancing export led growth, which would be similar in scale to the earlier major growth vents such as import-substitution industrialization following partition, the spread of green revolution technology in the 1960's and the 70's and the flow of remittances in the 1980's and '90's. The Panel thus recommends:

- Encourage investment by China in Pakistan through development of infrastructure and appropriate incentives to tap South Asian markets.

- Liberalize trade with India and as a first step replace the existing system of trade in goods/services based on a "positive list" by one based on a "negative list" of those goods/services that cannot be imported. Other suggested measures include:

    - Remove non-trade barriers including restriction on the number of goods traded over land; set up joint commissions for certification to meet safety and health standards.
    - Allow Indian investors to compete with other foreign investors in specific sector (eg. Power) on a case by case basis, keeping in view Pakistan's overall national interest.
    - Increase and modernize land trade routes, including investment in infrastructure and allowing each others trucks and containers to carry cargo to market destinations.
    - Allow clearing of payments and setting up of appropriate financial institutions to facilitate banking transactions.
    - Liberalize visa regimes to facilitate travel for business and tourism.

- Similar trade facilitation including upgrading of infrastructure for over-land trade with other neighbors, Afghanistan and Iran should be promoted to make Pakistan trading hub of South Asia.

PART III: INSTITUTIONAL REFORMS

45. Pakistan's institutional and economic structure continues to constrain its ability to achieve long-term poverty reduction and inclusive economic growth; and sustains an unequal distribution of income and opportunities for its male and female citizenry. Therefore to provide equitable market access for the poor and enable them to contribute to GDP growth through sustainable livelihoods, it is proposed that: (i) access over productive assets be provided to the poor; and (ii) improved access to input and output markets be provided through facilitating community based organizations for the poor. Institutional decline in Pakistan has resulted in a failure of effective public service delivery, denied provincial and local governments an equitable share in the country's resources; and continues to deny the majority of its citizenry access to critical economic and social assets. Sustained and inclusive long-term growth and poverty reduction can only be built on the edifice of effective institutions and a more inclusive economic structure.

46. Equally importantly the foundations of a strong and effective federal state structure can only be built on the foundations of an institutional structure that strengthens federal democracy. Given the nature of institutional reforms a more comprehensive set of measures will be part of the medium-term strategy report. However, some immediate measures are being proposed to assist social protection and poverty-reduction measures and the broader macro-economic stabilization exercise.

III a. Strengthening an inclusive economic structure:

- Lack of access to land and falling productivity of small and medium-sized farmers, on account of asymmetrical market and local power structures that provide inequitable access to essential productive resources, are important correlates of poverty in Pakistan. In order to offset this constraint we propose programmes for the distribution of state land to landless and tenant households that are complemented by institutional interventions that support production and provide extension services.
- Main Streaming the Poor: Provision of credit to the poor, particularly small farmers, to become equity holders in mainstream corporate enterprises and fields such as milk, livestock, marine fisheries, processed food and even industries like

telecommunications, apparel and software. This policy has been successfully tried out Grameen Bank, Bangladesh, and Amul milk products industry in India.

- Government (federal and provincial) schemes will be reviewed, renewed, and enhanced for residential security for the poor in rural and urban areas.
- Health and education sector reform programmes are proposed that strengthen and modernize the service-delivery systems of these services.
- Protect announced government plans for expanding Lady Health Workers programme, and enhance the Lady Health Workers remuneration to at least the national minimum wage.
- Existing work done on gender budgeting (revenue and expenditure) needs to be developed and adapted on a fast-track basis for the rationalization of expenditures cuts.
- Support the design of social protection measures that discriminate positively in favor of women beneficiaries. The BISP is notable in this case for creating entitlements in the names of women members of beneficiary families.

Federal/provincial fiscal assignments

- Expenditure assignments contained in the Concurrent List, need to be transferred in line with the honourable Prime Minister's maiden speech, to the provinces; arrangements for this should commence with immediate effect.
- Capital Value Tax (CVT) on immovable properties needs to be devolved to the provinces and converted it into a Capital Gains Tax (CGT).
- The GST on all Services needs to be reverted through straight transfer to the provinces even if it continues to be collected by the Federal Board of Revenue.
- Stabilization must ensure that: (a) the federal government gives up its expenditure assignment with regard to all services that the Constitution suggests lie with the provinces; (b) provincial social sector expenditures are given priority during stabilization; (c) where the federal government has designed new programmes that encroach on constitutionally determined provincial expenditure mandates and/or there is duplication between federal and provincial government expenditures provincial projects and programmes should be given priority.

- There is a need to seek buy-in during the stabilization policy phase from the provinces and to get them to commit to expenditure cuts and/or undertake complementary measures that support the stabilization. This can be achieved by creating provincial buy-ins for the stabilization and by bringing the policy for discussion and agreement in the Council of Common Interest.

III.b. Local Government

- The lack of evidence on the success of different components of the reform suggests that it should not be whimsically abandoned because: (a) it has created considerable space for democratic governance at the sub-national and sub-provincial levels; (b) it has introduced citizen-based governance at the local government level; and (c) it has effectively created spatial voice in tehsil and district legislatures that ensures that all union councils have representation in this governance.
- Creating political ownership for the system among mainstream political parties, which is essential for the long-term sustainability of the system, by: (a) empowering the Election Commission to regulate all matters related to local government elections including the delimitation of constituencies; (b) holding local government elections on a party basis; (c) moving away from the first-past-the-poll election rule and introducing proportional representation in the election of the local government legislature by adopting a suitable voting rule.
- Local Government Ordinances have a number of citizen-centric institutions that have not been enacted and these should be enacted with immediate effect, in particular the village/neighborhood councils, public safety commissions etc.
- Rule-based PFC awards need to be instituted and awarded by the PFC secretariats in all four provinces. Institutional linkages need to be created between the provincial Planning and Development departments and the provincial PFC secretariats for the purposes of regional planning and development.

TABLE 1
MACROEONOMIC FRAMEWORK
Annual Growth Rates (%)

	Items	Actual 2007-08	Projected	
			2008-09	2009-10
(1)	GDP (fc)	5.8	4.4	5.1
(2)	Indirect taxes	8.9	5.3	4.0
(3)	GDP (mp)	5.9	4.4	5.0
(4)	Net factor income from abroad	25.4	10.0	10.0
(5)	GNP (mp)	6.2	4.5	5.1
(6)	Imports of goods and non-factor services	-2.1	-10.8	4.6
(7)	Exports of goods and non-factor services	-8.9	4.8	5.6
(8)	**Total Resources**	**7.2**	**1.9**	**4.9**
(9)	Private Consumption Expenditure	8.4	3.9	4.6
(10)	General Government Consumption Expenditure	5.1	-2.5	0.0
(11)	Private Investment	0.9	-6.1	8.5
(12)	Public Investment	9.7	0.0	10.0
(13)	Change in Stocks	6.2	4.7	4.8
(14)	**Total Uses**	**7.2**	**1.9**	**4.9**
(15)	National Savings	-0.7	10.2	9.2

CHAPTER 1

THE SHORT-TERM MACROECONOMIC FRAMEWORK

The objective of this chapter is to highlight the difference in short-term macroeconomic projections for the economy of Pakistan in the absence and in the presence of a strong and credible stabilization programme. In the process, the key elements of a 'home-grown' stabilization strategy are identified and distinguished from a conventional stabilization programme.

Section I of the chapter describes the global economic conditions and focuses on the turmoil in financial markets. Implications for Pakistan of these global developments are identified. Section II reviews the recent assessments of Pakistan's economic prospects by IFIs, various rating agencies, think tanks etc. Section III presents indicators of the recent performance of Pakistan's economy as observed during the first quarter of the current financial year and determines the extent of divergence from the targets embodied in the Annual Plan for 2008-09. Section IV assesses the budgetary projections for 2008-09 made at the time of presentation of the Budget for the year and quantifies the extent to which the size of the fiscal deficit may have been under-estimated. A similar exercise is undertaken in Section V of the projected balance of payments in the Annual Plan.

Following these review sections, the case for a strong and credible stabilization programme which reduces the unsustainable macroeconomic imbalances is made in Section VI. The past experience with stabilization efforts is highlighted in Section VII while the key elements of a home-grown stabilization strategy are described in Section VIII. The impact of implementation of such a strategy is quantified in Section IX. Finally, the impacts specifically on the budget and the current account deficits are given in Sections X and XI respectively.

GLOBAL ECONOMIC CONDITIONS

The global economic situation has taken a dramatic turn for the worse starting with the implosion of the so-called 'sub-prime' mortgage market in the US, which has led to the collapse of major US investment banks such as Merrill Lynch, Lehman Brothers and Bear Stearns, the insurance giant AIG, and the government-sponsored mortgage lenders and guarantors Freddie Mac and Fannie Mae, all since August 2008. This has resonated rapidly to financial systems from Iceland to Japan. With increasing inter-connectedness of the global financial system, the contagion effect has been substantial. Stock markets in most emerging economies of Asia have also been severely hit.

Despite concerted and large-scale efforts on the part of the G-7 countries, including a $ 700 billion bailout package in the US, it is unlikely that a fairly deep and protracted impact on the real sector can be avoided. Indeed, the IMF has warned that the global economy is on the "cusp of a major recession", and has

downgraded its prospects not just for the G-7, but for world economic growth. The revisions are substantial. The IMF now expects global growth to moderate from 5 percent in 2007 to 3.9 percent in 2008 and 3.0 percent in 2009 – its slowest pace since 2002. Economic growth in *advanced economies* is projected to decelerate sharply from 2.6 percent in 2007, to 1.5 percent in 2008 and 0.5 percent in 2009. Overall prospects for global economic growth are uncertain, any recovery is likely to be gradual, and downside risks are substantial.

Implications for Pakistan

Given the severity and likely duration of the stresses facing the world economy, it is clear that, on balance, there could be adverse consequences for developing countries such as Pakistan. The different channels via which any potential impact may be transmitted include the following:

Impact on exports: With nearly 60 percent of its exports directed to the *advanced economies*, a significant and protracted downturn in these markets could adversely impact Pakistan's export earnings.

Availability of financing: Over the past few years, in particular between 2004 and 2007, a significant feature of Pakistan's balance of payments position has been the 'financing' of its rising current account imbalance, mainly in the form of strong private capital inflows such as FDI and portfolio investment. A potential downturn in FDI inflows could have significant negative implications for investment as well as growth over the medium-term and put additional pressure on the balance of payments.

The ongoing financial markets turmoil could hasten or make "inevitable" a reversal of portfolio investment made in prior years (once the "floor" on the KSE index is removed). Given that the estimated remaining stock of foreign portfolio investment in the Karachi Stock Exchange is around US$2.3 billion, any such outflows will have major repercussions for Pakistan's foreign exchange reserves position as well as for the exchange rate.

Remittances: Touching nearly US$6.5 billion in FY08, worker remittances are not only substantial but are critical in "financing" the external account. In addition, remittance flows have significant externality beyond the balance of payments given that they are an important element of aggregate disposable income. As such, any adverse impact of global economic developments on remittance inflows to Pakistan could have serious implications not just for the BOP, but for growth, investment and employment-generation as well.

The two largest regions accounting for the bulk of the remittances into Pakistan are North America and the Gulf. Any protracted downturn in the US will also drive international commodity prices lower, especially of oil. Hence, the threat of the global slowdown impacting the oil-exporting countries in the Gulf is significant,

which may possibly with a lag translate into a knock-on impact on remittance flows to Pakistan.

***Global commodity prices*:** A decline in global commodity prices, especially of oil and food, could have a significant positive impact on Pakistan's balance of payments situation. At current levels of import demand, it is estimated that each US$10 per barrel drop in the international oil price lowers Pakistan's oil import bill by approximately US$1.4 billion. In addition, Pakistan imports significant amounts of edible oil, fertilizer, as well as raw cotton. A significant decline in the import prices of these commodities could have substantial positive implications for the external account as well. However, a decline in global commodity prices will adversely impact Pakistan's export earnings from rice, which are in the region of US$1 billion per annum.

Overall, there are no grounds for complacency. While the current account may be favourably impacted by the fall in commodity prices, financing the balance of payments deficit will become more difficult.

RECENT ASSESSMENTS OF PAKISTAN'S ECONOMIC PROSPECTS

The sharp deterioration in Pakistan's economic, political as well as security situation, especially the growing vulnerability of its external account, as reflected in the rapidity of the decline in reserves, has not only led to widely-watched downgrades of Pakistan's sovereign credit rating by Standard and Poor's as well as Moody's, but also to unprecedented pricing levels on insuring against a sovereign default by the country. The latter measure, commonly referred to as CDS (Credit Default Swap), has crossed over 25% in the case of Pakistan, while other "high-risk" countries such as Argentina and Lebanon are at less than half this level. At this level, and at S&P's recent CCC+ rating assignment for the sovereign, the markets are essentially signaling the likelihood of default by Pakistan over the coming months.

This message is being reinforced by commentaries in the international press and other specialized publications, and in recent investment bank research reports on Pakistan. At the same time, it has fuelled speculation regarding Pakistan's eventual entry into a formal IMF programme, perhaps as early as by December 2008.

In its latest *Asian Development Outlook* published in September 2008 the Asian Development Bank has emphasized that for Pakistan to move forward, a credible and coherent short-to medium-term stabilization and reform programme needs to be adopted and implemented. The growth rate of GDP projected for 2008-09 is 4.5% with the inflation rate at 20%.

The Economist Intelligence Unit, in its latest brief on Pakistan as of 24th of September 2008, has forecast GDP growth of 4.2% in 2008-09 rising to 4.8% in

2009-10. The rate of inflation is expected to be 21.6% in 2008-09. Rapid growth in money supply, higher import duties and increases in utility prices are expected to stoke inflation. The fiscal deficit is projected to fall only slightly to 6.4% of the GDP and the current account deficit to remain high at 6.8% of the GDP.

RECENT PERFORMANCE OF PAKISTAN'S ECONOMY

Pakistan's economic situation further worsened in the first quarter of the current fiscal year, 2008-09. The high rate of inflation continues unabated. On a year-to-year basis, the increase in the consumer price index was 24.3% in July, 25.3% in August and 25.4% in September 2008, whereas food inflation was higher by about 10 percentage points. Pressure continues to be exerted on monetary expansion with government borrowing from SBP rising to Rs 225 billion.

The situation has also further worsened in external sector in the current fiscal year. The trade deficit for July-August 2008 reached US$ 2.9 billion as compared to US$ 1.6 billion in July-August 2007. This has resulted in rapid depletion of foreign exchange reserves and depreciation of the Rupee. Reserves of SBP dropped to US$ 4.89 billion by end September 2008, while the exchange rate depreciation in nominal terms has been almost 16.3% since June 30, 2008. It is estimated that 63% of the increase in imports is due to the higher oil import bill.

However, there are some positive indications also. First, the inflation rate which was rising by over 2% monthly from May 2008 onwards, due primarily to the large upward adjustment in prices of petroleum products, has increased by about 1% in September 2008. Second, exports have shown some buoyancy in the first two months of the current financial year with a growth rate of 18.7% while home remittances continue to demonstrate rapid increase of 21%. Third, foreign direct investment has almost doubled, although this may be a reflection of past agreements.

The FBR figures of tax collection in September 2008 have not yet been finalized, but the first indications are that the quarterly target in close to being met. Indirect tax collections have been buoyant while the growth in direct taxes has been disappointing. The high rate of inflation and the large increase in the rupee value of imports have clearly helped in raising indirect tax collections. The lack of buoyancy in direct tax collection is, however, an indicator of emerging problems in the corporate sector of Pakistan.

BUDGETARY PROJECTION FOR 2008-09

The Panel has examined in depth the budgetary projections for 2008-09. The basic conclusion is that the reduction in deficit from 7.4% of the GDP in 2007-08 to 4.7% in 2008-09 is unlikely to be achieved under present assumptions. In particular, the assumptions that the inflation rate will be 12% only and the GDP growth rate will reach 5.5% are unlikely to materialize.

The target of tax revenues will probably be achieved, even though the tax- to-GDP ratio is unlikely to demonstrate any rise, due primarily to the higher rate of inflation. Provincial tax revenues are likely to be lower because of the overoptimistic budgeted growth rate of 40 percent as compared to the ten year average growth rate of 9 per cent. On the non-tax side, federal revenues are partly conditional on profits of SBP, which will depend on the level of government borrowing from the central bank. Overall, consolidated federal and provincial revenues are likely to be somewhat higher than budgeted as shown in table 1.

TABLE 1
FISCAL OUTLOOK FOR 2008-09
(Federal and Provincial Governments Combined)

(Rs in Billion)

	Provincial Actual 2007-08	**Budgeted 2008-09**	**Projected***
Total Revenue	**1499**	**1809**	**1817**
Tax Revenue	1051	1308	1316
Non-Tax Revenue	449	501	501
Total Expenditure	**2276**	**2393**	**2670**
Current	**1853**	**1876**	**2045**
Interest Payments	490	523	595
Subsidies	378[a]	268	268
Defense	285	296	347
Others	700	789	835
Development and Net Lending	**423**	**517**	**625****
Budget Deficit	**-777**	**-584**	**-853**
GDP	10478	12280	13346
Budget Deficit as % of GDP	**-7.4**	**-4.7**	**-6.4**

a = revised estimates
*If government essentially does not implement more adjustment measures
**allowing for higher PSDP by provinces

But, the basic problem is that current expenditure is understated and budgeted to increase by only 1 per cent. This is unlikely due to the following reasons:

- Debt servicing is budgeted to increase by only 7 per cent, but is likely to increase at a higher rate because of faster growth in domestic debt and higher interest rates offered to attract higher non-bank borrowing (a high proportion of which is short term) and faster currency depreciation which implies higher interest payments on foreign debt. These factors are likely to increase expenditure on debt servicing by about Rs 72 billion over the budgeted amount.
- Defense expenditure is budgeted to increase by only 4 %, but could be higher because of the cost of military operations in the North and salary hike of military personnel of 20% announced in the budget, leading to extra expenditure of Rs 50 billion.
- Other federal and provincial current expenditures are also likely to be higher due to salary hike of 20%, by about Rs 46 billion.

Therefore, the overall growth rate of current expenditure is likely to be closer to 10 per cent, exceeding budgeted estimates by Rs 169 billion.

In the case of development expenditure, these are likely to be higher than budgeted as the provincial PSDPs combined are only Rs 150 billion while provinces have already budgeted Rs 283 billion in their respective budgets.

It appears, therefore, that the fiscal deficit is significantly understated. Instead of 4.7% it could approach 6.4% of the GDP. This is despite the gain of 0.5% of the GDP that can be achieved due to the higher inflation.

BALANCE OF PAYMENTS IN 2008-09

BoP projections in the Annual Plan appear to be exceedingly optimistic. The following observations can be made on these projections:

i) A 14% growth in exports will now be difficult to realize in view of the recently emerging prospects of a severe downturn in the economies of major trading partners like USA, EU and Japan.

ii) Despite the extraordinarily large current account deficit in the previous year, no import compression is proposed, with imports expected to increase by 5%, presumably reflecting the expectation of higher oil prices, which have come down substantially recently.

iii) Financing of the projected current account deficit of $ 12.7 billion is based on extremely optimistic assumptions about foreign direct investment, portfolio funds, privatization proceeds and flotation of bonds, collectively

approaching as much as $ 10 billion. Given the emergence already of negative trends in 2007-08 and heightened risk perceptions about Pakistan's economy such a large inflow is highly unlikely.

Overall, the official BOP projections for 2008-09 are seriously flawed and the short-term stabilization package being proposed by the Panel has to be geared towards achieving significant import compression and reducing the size of the current account deficit.

THE NEED FOR A STRONG STABILIZATION PROGRAMME

The emergence of very large and unsustainable macroeconomic imbalances coupled with a high and rising rate of inflation necessitate the resort to a strong stabilization programme in the short run if the country is avoid a default eventually on its international obligations and to prevent inflation from acquiring a runaway character, leading to a social breakdown in an already difficult security situation.

The terms of reference of the Panel require the following:

> *"to develop a credible stabilization programme for achieving macroeconomic stability which ensures a respectable growth rate and is both efficient and equitable."*

Therefore, the stabilization programme has to be designed in such a manner that the trade off with respect to growth is essentially of a short term character and it is possible for the economy to get back to a relatively high growth path in a medium run. The Panel is also of the view that the package of reforms should be developed independently of the quantum of external assistance that is likely to become available. There is need to avoid any perception that the reform effort will be weaker if more foreign resources are forthcoming.

The economy has deep-rooted structural problems which have come sharply under focus during the last few months as the economic difficulties emerged. These structural problems need to be tackled if we are to avoid the 'stop-go' cycle of growth linked to the level of foreign assistance. The Panel has accepted the responsibility of preparing a 'home grown package' to achieve stabilization of the economy and remove the structural imbalances.

The case for stabilization can be made powerfully by developing a 'counterfactual' scenario of the economy in which strong policy actions are not taken and we essentially continue for the next few months with 'business as usual'. There is very prospect of increasing panic in the markets and fast continued erosion of business confidence, some of which we have seen already. The rupee is plummeting while the rate of foreign reserves depletion intensifies. It is conceivable that if no concerted action is taken to stem the slide the rupee it

could depreciate much further as the foreign exchange markets attempt to equalize the demand and supply for foreign currency. This will lead to a severe import compression of over 20% and not only create a dislocation in production processes but also lead to shortages and lack of affordability by bulk of the population of essential food and other items.

The overall inflation in prices in this scenario could be almost treble the last year's rate of 12%. Private investment could fall by over 25%, worsening greatly the prospects for gainful employment of the large number of new entrants to the labor force. Over two million additional workers could be unemployed and as many as ten million people could fall below the poverty line. The consequences are too horrendous to comprehend, leave alone accept. We have no other option but to adopt a strong domestic stabilization programme if we are to avert a national crisis, especially at a time when there are serious security threats to the country.

PAST EXPERIENCE WITH STABILIZATION

Pakistan has faced financial crisis before. Perhaps the best most recent example is the situation after the sanctions imposed upon us following the nuclear blasts of 1998. In the presence of extremely low foreign exchange reserves, Pakistan had to negotiate an IMF stabilization programme, with a series of tough conditionalities.

The key elements of the stabilization strategy agreed with the IMF in January 1999 included a severely contractionary monetary policy characterized by very high real interest rates and strong curbs on private sector credit; exchange rate policy involving a transition from a dual exchange rate (with the lower rate on essential imports) to a unified, but significantly depreciated rate; continued process of trade liberalization with declining import tariffs; major public expenditure containment, especially of development expenditure and no significant measures of social protection during the adjustment process due to lack of 'fiscal space'.

The stabilization programme did succeed in converting the current account deficit into a surplus by 2000-01 and in bringing down the fiscal deficit to sustainable levels. The inflation rate which was double-digit in 1994-97 fell to low single digit by 1999-2000. But this strategy imposed a high cost in terms of the decline in the rate of growth of the economy, which fell to a low below the average of 3.5% in the first four years after the launching of the programme.

The central message from this stabilization episode is that while the strategy followed under the aegis of an IMF programme was instrumental in removing the macroeconomic imbalances it was achieved at too high a cost in terms of the growth foregone and rise in poverty. Clearly, there is need to develop an alternative, perhaps more 'home grown,' strategy, which does not fundamentally

impair the medium-run prospects for growth and avoid placing more of the burden of adjustment on the relatively weaker and more vulnerable sections of society. What we require is 'stabilization with a human face'. Given below are the principal features of such a strategy.

A HOME-GROWN STABILIZATION STRATEGY

The principles underlying a 'home-grown' stabilization strategy with a human face are as follows:

a) Preserve the growth momentum by protecting levels of public and private investment to the extent possible and aiming for pro-poor growth.

b) The policy actions and reforms should be designed in such a manner as to insulate the poor to the extent possible from negative impacts.

c) A strong social protection strategy needs to be put in place to reach out to particularly vulnerable groups at this time.

The macroeconomic framework of the stabilization programme should be developed especially on the basis of the size of the current account deficit that can be financed. This will involve a two-pronged strategy of managing aggregate demand as well as direct measures for achieving the desired degree of import compression and simultaneously stimulating exports. We believe that stabilization strategy which has the capability in the current Pakistani context to reduce macroeconomic imbalances without impairing the future growth prospects will have the following components:

Strong fiscal policy: the resort to strong fiscal policy to manage aggregate demand is justified on the grounds that there is significant 'policy space' currently in this area, as demonstrated by the low existing burden of taxation and extravagance hitherto in current expenditure. Also, one of the roots of high inflation recently lies in the high rate of 'monetization' of the fiscal deficit by resort to extraordinarily high levels of borrowing by government from SBP.

The emphasis in fiscal policy has to be more on current expenditure containment and resource mobilization, rather than cutting development outlays. Protection of the core investment programme is important for expansion of infrastructure to sustain the process of growth and for increasing the coverage of services to the poorer segments of the population. Within the resource mobilization strategy, the primary thrust has to be on broad basing the taxation system through withdrawal of exemptions or taxing more the undertaxed sectors. Enhancements in tax rates should be considered essentially as a temporary expedient, only if they contribute to greater progressivity of the tax burden and/or reduce imports.

The strategy for financing the fiscal deficit should rely primarily on concessionary external assistance and non-bank borrowing. Bank borrowing from the central bank must be avoided to the extent possible to minimize the inflationary consequences of fiscal policy. Also, borrowing from commercial banks should be restricted to the level which prevents significant 'crowding-out' of the private sector.

Moderate monetary policy: given the recent crisis in the financial sector in developed countries and the possibility of 'contagion' effects via a loss in confidence in the banking system of developing countries and the liquidity shortage that has emerged in the commercial banks of the country, there is need at this time to avoid disruption of the financial sector. The issue, in particular, of a withdrawal of FE-25 foreign currency deposits leading to a flight of capital from the country needs to be carefully managed.

As such, an aggressive monetary policy is not recommended in the short-run. The policy should be one of raising rates of interest an advances (via the SBP discount rate) to the point only of matching the underlying rate of inflation (corresponding to the 12-month moving average of the rate of inflation, which is 15% currently) in order particularly to avoid speculation in foreign currency or commodities. A policy of moderate interest rates, implying a non-negative real rate of interest, is also justified on the grounds that too large a jump could lead to an exponential increase in NPLs, especially in the area of consumer financing and industrial lending, affecting thereby not only the health of the financial sector but also of the real economy.

Strong exchange rate and import containment policies: the motivation here is that the current account deficit can only be controlled in the short run more by import compression and less by export promotion, especially in light of the emerging prospects of a severe downturn in the economies of Pakistan's major trading partners (USA, EU, Japan, etc.). Imports have to be controlled not only by measures to enhance landed costs but also by regulatory steps like deferment of imports for defense purposes and for government projects or state enterprises.

There is need also for major downward adjustment in the real effective exchange rate (which has already depreciated by over 6% since January 1, 2008). Part of this, of course, represents a response to the virtual nominal stability of the rupee over the last five years, which probably implied significant overvaluation of the currency.

However, there is a need to minimize the negative implications of pass through effects of a depreciating exchange rate on prices of essential imports. As such, it is proposed to impose a regulatory duty or imports other than that of essential items like wheat, pulses, edible oil, petroleum products, fertilizer and medicines. This will reduce the pressure on the exchange rate and put more of the adjustment on non-essential imports. This will also limit the increase in rupee

terms of foreign debt servicing liabilities as well as confer a much needed 'fiscal dividend' in the form of larger tax revenues. Of course, the rate of regulatory duty can be varied in light of the underlying current account deficit.

Strong policy on administered prices: the policy must be one of transferring higher costs into higher prices as soon as possible, unless the impact is disproportionately on lower income groups. If falling commodity prices in coming weeks reduce the subsidy required, for example, on POL products, then at least initially the benefit should be taken in the form of a reduction in the subsidy rather than transferred to consumers. The exception is imported wheat, where the benefit of any reduction in international price ought to be translated into a lower issue price, keeping in view the support price.

Adjusting the PSDP: adjustment in the Public Sector Development Programme (PSDP) will be needed to achieve the macro-economic stabilization objectives. It is proposed that the cuts be applied in a manner that social programmes are safeguarded and that adjustments in allocations in public projects allow growth to bounce back quickly. The guiding principle is a sharp reduction in growth in the short term and a quick rebound back to a higher trend growth rate.

The required reduction in the PSDP consistent with the macroeconomic stabilization programme is Rs 63 billion. We recommend a larger cut of Rs 100 billion in this year's PSDP allocations. This is to allow for a cushion for social protection measures needed to soften the impact of the harsh (but needed) stabilization measures on the vulnerable citizens and also, given the current political configuration, to protect carefully selected, cost-effective programmes in least developed regions.

We also recommend that a review of actual expenditures and new commitments in the PSDP takes place in March 2009 to determine what amount if any is available from the Rs 37 billion "cushion" for reallocation to ongoing projects.

The criteria for restructuring the current year's PSDP are:

- Give priority to projects that have incurred at least 50 percent of total cost.
- Protect the refined and fine-tuned Benazir Income Support Programme.
- Give priority to projects for special regions and national security concerns.

These three criteria are use to the current adjusted PSDP which results in total allocations of Rs 165 billion (see table below).

Short Term Priority Allocations
(Federal)

	Rs billion
I. Total PSDP (Budgeted)	371.0
Adjustment	100.0
II. Adjusted PSDP	271.0
III. A) Protected criteria: 50% of project cost incurred	
Projects Rs. 1 billion and over	99.5
Projects From Rs. 0.5 to Rs. 1 billion	3.4
Projects From Rs. 0.04 to Rs. 0.5 billion	8.9
Sub-total	111.8
B) Other protected	19.4
Special projects	12.0
Projects less than Rs. 0.04 billion	7.4
C) BISP	34.0
IV. Total protected (A+B+C)	165.2
V. Unallocated Balance (II minus IV)	105.8

The Panel recommends that the remaining Rs 106 billion be allocated applying the following additional criteria:

- Defer all new projects (i.e. projects starting this year).
- Give priority to agriculture/livestock, water, power, health and education.
- Prioritise allocation to projects in less developed areas.
- Remaining projects be allocated minimal amount necessary.

Strong social protection strategy: the 'fiscal space' has somehow to be found through expenditure-switching for launching an expanded programme of social safety nets either in the form of cash transfers and or employment generation to enable vulnerable and marginalized groups, especially in the backward areas, to face up to the problems of rising prices and worsening employment prospects.

Institutional Reforms: (i) Request that a parliamentary resolution be passed renewing its commitment to the Fiscal Responsibility and Debt Limitation Act (2006) and enacts an amendment limiting the extent of government borrowing from the State Bank of Pakistan. (ii) Strengthen financial management by completing ongoing reforms on priority basis concerning the flow and utilization of funds in various line ministries. (iii) Establish an independent Federal Bureau of Statistics (FBS) headed by a professional that directly reports to the Parliament and not to the government. (iv) Establish independent panel of

experts to engage in the consultative process in the design, implementation and monitoring of donor supported projects critical to the medium-term economic recovery. This will ensure transparency, rigour and relevance.

A comparison of the above stabilization strategy with a more conventional strategy based on the Washington Consensus is given in Chart 1. The principal differences are, first, greater emphasis on fiscal policy rather than monetary policy, second, focus on direct management of imports by use of regulatory duties rather than primarily by management of aggregate demand and, third, mitigation of the impact on the poor by implementation of a social protection strategy which does not usually figure prominently in conventional stabilization programmes.

CHART 1
DIFFERENCES IN STABILIZATION STRATEGY

	Earlier (1998-99 to 2001-02	**Recommended package (2008-09 to 2009-10)**	**Implemen-tation Already (2008)**
FISCAL			
• Fiscal Effort in taxation	Weak	Strong	Moderate
• Expenditure Containment:			
Current	Moderate	Strong	Weak
Development	Strong	Moderate	Weak
• Financing of Deficit:			
Bank Borrowing	Low	Low	High
Non-Bank Borrowing	High	High	Moderate
MONETARY			
• Real Interest Rates	High	Moderate	Moderate
• Containment of Private Sector Credit	Strong	Moderate	Weak
TRADE AND BOP			
• Depreciation in Real Effective Exchange Rate	Moderate	High	High
• Trade Liberalization	On-Going	Reversal	Limited Reversal
ADMINISTERED PRICES	Weak	Strong	Strong
SOCIAL SAFETY NETS	Weak	Strong	Moderate

The government has been implementing stabilization policies since induction into power six months ago, albeit in a 'piecemeal' and somewhat uncoordinated manner. The apparent absence of a strong and comprehensive stabilization programme has been reflected in increasing uncertainty and loss of confidence in the markets.

However, we recognize the strong actions by the government in the area of administered prices, especially of petroleum products, electricity and gas. These actions will, no doubt, help in significantly improving the fiscal position. In addition the launching of food support programmes by the federal government and the provincial government of Punjab will provide some protection to the poor from higher food prices. The combined outlay of Rs 56 billion is over five times the annual allocation by the previous government.

But meanwhile the continuing high level of borrowing from the SBP adds to inflationary pressure and progressive depreciation of the exchange rate is also contributing to domestic inflation without succeeding yet in achieving significant import compression. The government has to move decisively in strengthening the fiscal policy posture to inspire confidence in the markets.

IMPACT OF STABILIZATION PROGRAMME

The stabilization programme will need to be announced simultaneously for maximum impact on market confidence. It will include detailed announcements on cut in current expenditure and PSDP; package of taxation measures; levy of a more broad-based regulatory duty on imports; regulation of defense and public sector imports, enhancement in the SBP discount rate and in the return on National Saving Schemes; future policy on administered prices and subsidies (especially if international commodity prices continue to fall) and an expanded programme of social safety nets.

The intensity of use of the various policy instruments has been related to the extent of impact on the growth process in the economy, on the level of unemployment and on the level of poverty. In other words, the stabilization effort is limited by the sustainability of the adverse economic and social impacts. The Panel was particularly concerned that if there was too large an increase in unemployment and poverty in the country this could exacerbate an already difficult security and law and order situation. As opposed to this, there was the view that a strong stabilization effort is necessary to demonstrate the commitment to reform before an appeal can be made for support to the international community.

The impact of the stabilization programme has been simulated with the help of an abridged version of the large, econometric Integrated Social Policy and Macroeconomic Model (ISPMM) developed by the Social Policy and Development Centre (SPDC) and the Consistency Model of the Macroeconomic

Framework of the Planning Commission. The Panel would like to thank SPDC for giving ready access to the model.

Based on a series of simulations the Panel has calibrated the following stabilization package on the basis of impacts:

(i) Negative real growth in general government current expenditure of 2½%, amounting to a percentage cut of about 6% on the projected level of expenditure (see Table 1).
(ii) Constant real public investment (PSDP) at the 2007-08 level, representing a cut of 10% on the projected level (see Table 1).
(iii) Imposition of a broad-based regulatory duty on imports, excluding essential items, at two rates of 4% to 8%, alongwith some deferment of defense and public sector imports.
(iv) Managed float of the rupee to so as to average in the early 80s to the dollar during 2008-09.
(v) Enhancement in the SBP discount rate of 2% percentage points, preferably in one step, and a rise of up to 2% points in the average return on National Savings Schemes in two steps.

The impact of the stabilization programme on the key macroeconomic magnitudes is given in Table 2 below for 2008-09 and 2009-10. Projections for 2009-10 are based on the following assumptions:

(i) General government current expenditure to remain fixed at the real level attained in 2008-09.
(ii) 10% increase in the real level of public investment over the level in 2008-09.
(iii) Continuation of the regulatory duty on imports.
(iv) Depreciation of the rupee during 2009-10 only to the extent that the REER remains constant at the level attained at the end of 2008-09.
(v) Nominal interest rates to adjust in order to preserve real interest rates at the level of 2008-09.

Therefore, the stabilization programme essentially continues for two years. In 2009-10, in an effort to raise the rate of growth, the level of public investment (PSDP) is enhanced in real terms by 10%.

Table 2 indicates that there will be a significant loss of growth in 2008-09. The GDP growth rate is expected to fall below 4 1/2 %. However, the economy starts recovering in 2009-10 and the growth rate rises once again to above 5%. This is predicated especially on a rise in private investment, which should respond favourably to an improvement in the macroeconomic environment. The rate of

inflation could rise to 22% in 2008-09 on the back especially of a substantial depreciation of the rupee and rise in utility prices. But the gap between inflation in food prices and the general price level is expected to narrow in 2008-09, especially if commodity prices continue to drop in global markets. Inflation persists at about 16.7% in 2009-10, due particularly to inflationary expectations, which will take some time to change fundamentally. Inflation may fall to a single digit rate only in subsequent years.

TABLE 2
MACROECONOMIC FRAMEWORK
(following stabilization programme)
Annual Growth Rates (%)

	Items	Actual 2007-08	Projected	
			2008-09	2009-10
(1)	GDP (fc)	5.8	4.4	5.1
(2)	Indirect taxes	8.9	5.3	4.0
(3)	GDP (mp)	5.9	4.4	5.0
(4)	Net factor income from abroad	25.4	10.0	10.0
(5)	GNP (mp)	6.2	4.5	5.1
(6)	Imports of goods and non-factor services	-2.1	-10.8	4.6
(7)	Exports of goods and non-factor services	-8.9	4.8	5.6
(8)	**Total Resources**	**7.2**	**1.9**	**4.9**
(9)	Private Consumption Expenditure	8.4	3.9	4.6
(10)	General Government Consumption Expenditure	5.1	-2.5	0.0
(11)	Private Investment	0.9	-6.1	8.5
(12)	Public Investment	9.7	0.0	10.0
(13)	Change in Stocks	6.2	4.7	4.8
(14)	**Total Uses**	**7.2**	**1.9**	**4.9**
(15)	National Savings	-0.7	10.2	9.2

The stabilization programme enables a sizeable improvement in macroeconomic imbalances. The current account deficit (details given below) is expected to come down from 8.4% of the GDP in 2007-08 to 5.5% in 2008-09 and to 4.4% in 2009-10. The budget deficit falls from 7.4% of the GDP in 2007-08 to 4.5% in 2008-09.

The degree of import compression in 2008-09 is large at 10.8%, although this is not adequate to close the financing gap. This is followed by some expansion of 4.6% in 2009-10. But the level of imports projected in 2009-10 remains below that achieved in 2007-08. Private investment also falls in 2008-09 by over 6% but is expected to show a strong recovery of 8.5% in 2009-10. National savings rise sharply in each year by 9 to 10%.

What are the implications of the stabilization programme on poverty and employment? As highlighted above, these place limits on the intensity of the programme. The impacts, however, are sizeable as follows:

(i) Poverty incidence is expected to increase by 2.7% points in 2008-09 and by 2.0% points in 2009-10. It is estimated from ISPMM that poverty increased by 3.5% points in 2007-08, due particularly to the explosion in food prices. Therefore, by the end of the two-year stabilization programme the incidence of poverty in the country may have risen significantly.

(ii) Employment is expected to grow cumulatively by about 3% over the two year period. The labor force will expand by almost 3.3% per annum. Consequently, the number of unemployed is projected to increase by about 1.8 million by 2009-10. This will imply an increase in the unemployment rate by over one-thirds.

Therefore, the process of adjustment in the face of very large and unsustainable macroeconomic imbalances does impose high social costs, especially in terms of rising poverty and unemployment. But, as emphasized in the counter-factual scenario, when no significant attempt is made to stabilize the economy, the outcome could be much worse. Additionally, the stabilization programme will have to include a strong component of social safety nets to mitigate against the rise in unemployment and poverty.

IMPACT ON BUDGET DEFICIT

The Panel recommends a three pronged strategy to lower the budget deficit to about 4.5 percent of GDP in 2008-09. The strategy is based on three key principles: first, the state of the economy requires that all citizens in Pakistan contribute to the effort of putting the economy on a stable and sustainable path. However, the burden of adjustment should be more on those who have a higher ability to pay; second, to bring the economy back on its natural growth path faster the measures should be such which do not have a long term impact on economic buoyancy but are more in the nature of short term adjustment; third, the

stabilization measures should enable the changes required to remove the structural short comings that have compromised growth and its sustainability over long time periods in Pakistan.

Translating these principles into strategy implies that budget deficit reduction should be achieved through (1) higher resource mobilization, which principally aims at bringing those segments of the economy in the tax net which are currently either outside the tax net or are undertaxed (2) cuts in current expenditure aimed at minimizing waste and (3) development expenditure rationalization to maximize "value for money". Details of the strategy are as follows:

- Mobilize additional resources of 1.5% of GDP by 2009-10 through:
  - Broad basing to tap under taxed sectors through the levy of:
    - Service Tax of the Indian type on key services like import cargo handling services, custom house services, general insurance, banking and other financial services, etc.
    - Sales tax on undertaxed manufacturing sectors like textiles (possibly at the yarn stage), iron/steel(possibly as presumptive sales tax at the import stage).
    - Reduction of thresholds for sales tax and corporate income tax
    - Levy of a higher minimum corporate income tax on turnover
    - Higher excise duty on non-essential consumer goods and durables like ACs, refrigerators, etc.
    - Capital gains tax on properties by provincial governments.
    - Withdrawal of exemptions/concessions, especially in Second Schedule of the Income Tax Ordinance.
    - Development of agricultural income tax (especially following the current increase in procurement prices, bringing them close to international prices) by the provincial governments.
  - Increase in Tax Rates through:
    - imposition of regulatory duty on non-essential imports (where essential imports include POL products, edible oil, wheat, pulses, fertilizer and medicines). The proposed rate is 4% on machinery and 8% on other imports. Of course, imports on which regulatory duty has already been imposed are excluded from this proposal.

- Equating top marginal rate of income tax with the corporate tax rate and enhancing the rate on private companies to promote corporatization.

Proposals for base broadening, which may take some time to implement may be introduced in 2009. During 2008-09, bulk of additional revenue will be generated from the broad-based regulatory duty on imports. Also, some proposals are for resource mobilization by the provincial governments. The federating units need to also play their due role in improving the state of the economy.

- Rationalization of Development Expenditure, both at federal and provincial level, leading to a cut of 10%.
- The freeze on non-salary current expenditure of federal and provincial government ministries/departments will have to be enforced strictly, yielding savings of upto Rs. 40 billion (a cut of 5%). Also, expenditures on subsidies can comedown if the international price of POL products continues to decline, as per recent trends, and stabilize around US$ 85 per barrel. Interest payments will show a slower growth if the budget deficit is successfully reduced to 4½ per cent of GDP, implying a reduced need for borrowing. The defence establishment will also have to demonstrate a willingness to tighten the belt and exercise economy cuts of upto Rs 30 Billion (a cut of 8.5%).

Overall, the plan for budget deficit reduction in 2008-09 in relation to the level projected in the absence of the stabilization programme is as follows:

Additional Resource Mobilization of which:	Rs 75 Billion
- Regulatory Duty	Rs 55 Billion
- Other Proposals	Rs 20 Billion
Cutback in Development Expenditure	Rs 63 Billion
Containment of Current Expenditure	Rs 115 Billion
Fiscal Deficit Reduction	**Rs 253 Billion**

This will result in a reduction in the budget deficit to about 4.5% of the GDP from the projected level of 6.4% of the GDP (see Table 1).

The strategy to finance the fiscal deficit should essentially be the same as that budgeted for 2008-09, with reliance on non-bank borrowing, as follows:

	2008-09 (Budget)	**2008-09 (Proposed)**
External	165	170
Domestic	392	405
Non-Bank	243	255
Bank	149	150

Privatization Proceeds	25	25
Total	**582**	**600**

The enhancement in non-bank borrowings is substantially higher than the level achieved in 2007-08. This will require a further increase in the rates of return over and above the enhancement recently announced. Research shows that national saving schemes in Pakistan are affected primarily by nominal rates of return. It appears that additional mobilization of upto Rs 155 billion would require an enhancement of upto at least 2 percentage points in the rate of return above the rates announced recently. In addition, access to these savings instruments may be increased by allowing non-profit organizations to invest in these schemes. Needless to say, resort to non-bank borrowing, even at a higher cost, at a time of high inflation is desirable compared to bank borrowing not only because it is anti-inflationary in character but also could contribute to raising the rate of saving in the country.

IMPACT ON BALANCE OF PAYMENTS

Following the implementation of the stabilization programme, the details of the projected balance of payments are given in Table 3.

TABLE 3
PROJECTED BALANCE OF PAYMENTS
(following stabilization programme)
2008-09 AND 2009-10

(US $ Billion)

	Actual 2007-08	**Projected**	
		2008-09	**2009-10**
I. Current Account Balance	**-14.0**	**-9.0**	**-7.8**
Trade Balance	**15.3**	**-10.5**	**-9.5**
Exports	20.1	21.1	23.5
Imports	-35.4*	-31.6	33.0
Invisible Balance	1.3	1.5	1.7
II. Capital Account	**7.8**	**4.5**	**7.5**
FDI	5.2	4.0	5.0
FPI	0.0	-1.5	0.0
Other Investment (Aid, etc.)	2.6	2.0**	2.5
III. Financing Gap	**-6.2**	**-4.5**	**-0.3**
Reserves Depletion	5.8	-	-
Others	0.4	-	-

*FOB imports, in cif terms imports are close to $ 40 billion.

**Net IFIs: 1.5 billion; IDB etc: $ 0.5 billion

The salient features of these projections are as follows:

(i) Imports are projected to fall to $31.6 billion from $35.4 billion in 2007-08. This is partly facilitated by the recent fall in commodity prices, especially of oil, and partly by the strong measures taken for import compression.

(ii) Export growth in 2008-09 is limited by the prospects of a severe downturn in the global economy despite the stimulatory effect that should be exerted by the sharp fall in REER during the year. Faster growth is expected next year as the world economy recovers.

(iii) The trade deficit is expected to fall from $15.3 billion to $10.5 billion in 2008-09, and further to $9.5 billion in 2009-10. The decline should become visible in the next few months as the measures for import compression begin to take effect and the import bill is contained by the fall in commodity prices. However, despite being large, the reduction in trade deficit is not enough to close the financing gap.

(iv) Prospects for inflow in the capital account may worsen considerably for Pakistan in 2008-09, due to the continued erosion of market confidence and adverse global developments in the form of a 'credit crunch. We expect significantly smaller inflows of FDI and a sizeable outflow of portfolio money, depending upon how this process is managed.

(v) The normal aid inflow in net terms in 2008-09 is assumed at about $ 1.5 billion from IFIs and about $ 0.5 billion from IDB and bilateral.

(vi) The current account deficit in 2008-09 of $ 9 billion can be financed to the extent of 50% by anticipated capital inflows leaving a residual financing gap of $4.5 billion. The position could improve substantially in 2009-10 when the process of adjustment could leave only a small residual financing gap. However, the rupee remains fragile unless the reserve cover is enhanced.

(vii) The financing needs of Pakistan for 2008-09 can be derived, first, on the basis of the residual financing gap of $4.5 billion, and, second, on the basis of the need to bolster foreign exchange reserves by about $5 billion to at least ensure three months import cover and thereby enable an orderly process of adjustment, including in the value of the rupee.

(viii) Consequently, the total external financing needs of Pakistan in 2008-09 are $9.5 billion. The strong stabilization programme of the type described above which seeks to remove macroeconomic imbalances to the extent possible should enhance the prospects for Pakistan being able to get significant support from the international community.

CHAPTER 2

THE HUMAN FACE OF STABILIZATION: SOCIAL PROTECTION

At a time when high inflation and a balance of payments crisis calls for stabilization of the economy, its human and social consequences have to be necessarily addressed. High inflation continues to erode real incomes and policies to reduce the budget deficit and aggregate demand will result in reducing employment opportunities. Poverty and unemployment, therefore is expected to increase precipitously. It is, therefore, imperative that the most disadvantaged and vulnerable sections of society are protected in these adverse conditions.

Social protection can be broadly defined as provisions that "society provides to individuals and households through public and collective measures to guarantee them a minimum standard of living and to protect them against low or declining standards of living arising out of a number of basic risks and needs." Social protection is also increasingly seen as having a "transformative" role – creating entitlements that lead to the realization of citizenship rights and social equality. It is also explicitly mentioned as a citizenship right in Pakistan's Constitution.

On paper Pakistan has a fairly elaborate network of direct and indirect social protection mechanisms. Direct provisions include employment based guarantees (such as the EOBI, WWF and provincial social security benefits), direct transfers (Zakat and Baitul Maal) and market based interventions (microfinance). Indirect provisions include the provision of the minimum wage, subsidy on petroleum products, electricity, subsidy on the price of flour and food subsidies through the Utility Stores Corporation. However, governmental commitment on direct subsidies has been minimal till recently and indirect subsidization has proven to be unsustainable and fiscally counterproductive. The quality of any short-term social protection response during the crisis will be a critical determinant of the credibility and sustainability of the stabilization effort proposed in this report.

After analyzing the situation as it exists in the short run – the quantum of poverty and vulnerability and existing social protection commitments by the state – we assess the shift in policy from generalized to targeted subsidies. We then move on to analyze the strengths and weaknesses of existing targeted programmes initiated by the government, specifically the Benazir Income Support Programme (BISP) and the Punjab Food Stamp Programme (FSP). Based on this assessment, we recommend measures that need to be taken in the short run. Although some of these measures are institutional in nature and therefore have a medium term horizon, it is imperative that short-term social protection response can and must be geared towards a broader, medium-term social policy reform agenda.

PRELIMINARY ESTIMATES OF POVERTY AND VULNERABILITY AND STATE RESPONSE:

In the absence of up to date data, only preliminary estimates based on informed judgments about poverty and vulnerability are possible. We first present quantitative estimates of those below the poverty presently as well as in the near future. We then move to construct a typology of those who are likely to have fallen in the category of the poor and the vulnerable.

There is considerable controversy surrounding the poverty figure on the PSLM data base for 2004-05 and 2005-06. Since 2004-05, although growth has been buoyant (ranging around 6% per annum), inflation and particularly food inflation has remained high in Pakistan. As the share of food in the consumption basket of the poor is relatively high, the poor were proportionately more affected by the pattern of inflation that prevailed between 2004-05 and 2007-08.

Food and fuel inflation started increasing precipitously since September 2007. According to some estimates, between January 2007 and January 2008, roughly10 to 12 million more people would have slipped below the poverty line. Inflation has increased at a much higher rate since January 2008. Increase in poverty headcount as a result of high inflation is expected to have increased faster since January 2008. Moreover, simulation results also show that inflation is expected to remain in the 20% plus range for the rest of the fiscal year.

Apart from inflation, a high rate of unemployment because of the economic downturn will further deepen once stabilization measures set in. This will not only result in increasing poverty but also the rate of chronic poverty. The Planning Commission-SPDC model predicts that 2 million more individuals will be unemployed and by the end 2008-09 unemployment rate will go up from around 6% in 2006-07 to around 8%.

If we add the inflation and unemployment effects together, the preliminary estimate indicates an addition of 6 percentage points to poverty incidence since 2004-05. Using either 2004-05 or 2005-06 poverty figures based on PSLM, preliminary estimates are that roughly 15 million additional individual fell below the poverty line up to 2008-09. This means approximately 8 to 10 million additional households below the poverty line in 2008-09.

Besides quantitative estimates, existing research also provides us with some qualitative markers on poverty and vulnerability. The list of identified groups is not exhaustive, but it is indicative of the broad contours of poverty (i.e. long to medium term deprivation) and vulnerability (i.e. short-term risk), given the economic and social structure of our country.

Table 1
Qualitative Understanding of Increase in Poverty and Vulnerability

Most vulnerable	• Casual laborers • Low-capital self-employed • Low-rank formal sector workers/pensioners on fixed incomes • Women • Children • Those without family / community support	• Mid rank formal sector workers/pensioners on fixed incomes • Women • Children • Those without family / community support • Urban workers
Less vulnerable	• Small farmers • Medium capital self-employed	• Medium/large farmers • Mid-upper rank formal sector workers / pensioners on fixed incomes

The table above implies four immediate steps to be taken if the trend of poverty and vulnerability is to be addressed:

- Direct immediate support to the most vulnerable through cash grants.
- Direct interventions to protect women and children – e.g. through nutritional programmes.
- Protection of fixed nominal incomes of low salary workers – e.g. through minimum wages and public sector salary increase.
- Counter-cyclical support programmes – e.g. employment guarantee schemes targeted towards casual labourers.

Committed Direct and Indirect Social Protection Allocations

Table 2 provides broad estimates of social protection allocations made in the 2008-09 budget. The element of untargeted subsidies dominates the allocations. Increase in the pay scale of government servants and in the minimum wage is measures to protect against vulnerability of fixed income groups. Increase in the minimum wage from Rs. 4500 to Rs. 6000 denotes an increase of 30% and is meant to protect the real incomes of unskilled workers employed in the private sector. Although the People's Works Programme is not strictly a social protection measure, it can potentially provide the bedrock for the Employment Guarantee Scheme identified above as one response to the prevalent trend of poverty and vulnerability identified above. Of the four areas of vulnerability that our qualitative

assessment shows in Table 1, at least two of them have been addressed by indirect allocations on social protection.

The major change that has occurred this year is a six fold increase in targeted social protection allocations. In 2007-08, Rs. 11.9 billion were provided for targeted subsidies compared to the Rs. 66.6 billion allocated in 2008-09. In addition to the existing Zakat and Baitul Maal, the Benazir Income Support Programme (BISP) initiated by the Federal Government and the Food Support Programme (FSP) of the Punjab Government have together allocated Rs. 56 billion for this purpose. This represents a trend break – quantitatively and qualitatively - in terms of government commitment to social protection. The intended scale of these programmes sends out a clear signal of changed priorities. The timing too is significant – contrary to economic logic, during previous periods of crisis and stabilization, social protection expenditures have been actually reduced.

Table 2
Targeted and Untargeted Social Protection Allocations for 2008-09

	Allocation (Rs. Billion)
Targeted Schemes	
Benazir Income Support Programme (BISP)	34
Punjab Food Support Programme	22
Zakat	4*
Baitul Maal	6.6
Sub Total	*66.6*
Untargeted Schemes	
Utility Stores	2.7
Subsidy on Wheat, Sugar and Fertilizer	61.3
Subsidy on Sale of Wheat and Sugar in FATA and Gligit Agency	0.8
People's Works Programme	28
Increase in Pay and Pensions of Federal Government employees	22
Increase in the Minimum Wage	
Sub Total	*114.8*
Grand Total	**181.4**

Source: Information provided to the Panel of Economists by CPRID, Planning Commission, September 27, 2008, Islamabad.

If we compare the number of beneficiaries – provided in Table 3- with our ball park estimates of those below the poverty line, a small fraction of those below the poverty line are being covered. There are three-four important implications that arise from this comparison. First, while the six time increase in fiscal commitment to targeted schemes is positive, more resources need to be committed for this

purpose. Second, the quantum of benefits varies a great deal. It will be important that duplication of beneficiaries between the BISP and the FSP should be avoided. (There is perhaps no harm if duplication of either of the two new schemes with either of the two old ones takes place as benefits of the older schemes in a high inflation context is miniscule). Third, given fiscal constraints, it is not possible for targeted cash grants to reach all poor individuals or households. This implies that rationing amongst the poor will have to be done. This makes the task of targeting all the more onerous and in the absence of transparent and verifiable criteria; the schemes run the risk of losing credibility.

Table 3
Estimated Number of Beneficiaries of Targeted Social Protection Schemes

Scheme	No. of Beneficiaries (Individuals)	Benefit (Rs. Per Month)
Zakat	87000	250
Pakistan Baitul Maal	1.46 million	300
BISP	10 million*	1000
FSP	6.5 million**	1000
Total	**18 million**	

*The scheme will provide benefits to 3.4 million families and not households. We take the average size of the family to be 3.5 individuals.
** Taken proportionately to the BISP on allocated amount.
Source: Information provided to the Group by CPRID (Planning Commission), Ministry of Social Welfare and BISP Coordinator, September 27, 2008, Islamabad.

FROM UNTARGETED TO TARGETED SUBSIDIES: POLICY SHIFT IN THE RIGHT DIRECTION

The Government of Pakistan has made an important policy shift in moving away from general subsidies to targeted ones. The reduction in subsidy on petroleum products and electricity are demonstrative of this change in policy. While some untargeted subsidies, such as those on agricultural inputs and food items through the Utility Stores have been carried over, the fiscal and policy commitment of the federal and provincial governments is explicitly in the direction of targeted subsidies directed towards the poorest and most vulnerable sections of society.

This shift in policy is sensible on both economic and equity criteria. Given the low tax-GDP ratio the only way in which untargeted subsidies can be provided is for the government to run large budget deficits. Budget deficits are financed either through medium or long term borrowing or through resort to borrowing from the central bank. The former crowds out private investment and creates liabilities for the future while the latter is inflationary in character. In fact part of the problem in terms of high rates of inflation being experienced presently is due to the unprecedented spike in bank borrowing done by the previous government.

Untargeted subsidies are also inequitable. In a country where incomes are low and the taxation structure is far from progressive, there is no justification to subsidize the rich through petroleum and electricity subsidies. But this is only one side of the coin. For a responsible democratic government, it is imperative that the poor are protected through targeted subsidies.

TARGETING CRITERIA: DO EXISTING SCHEMES MATCH UP?

The success and credibility of a targeting system depends on the ability of the state to: a) identify the poor/vulnerable in a credible, reliable, transparent and verifiable manner; b) reach the target group efficiently and cost-effectively; and c) maintain the ability to monitor progress dynamically so as to graduate those who do not need help anymore and enroll those who may have fallen into bad times.

Currently the state machinery does not have such a targeting system in place. Although the National Social Protection Strategy approved by the government in 2007, it was never put in practice. The utility of such a system can be gauged from the shortcomings of Zakat and Baitul Maal, the two cash transfer schemes that have been in existence for several years;

- Concept of universe: We have sample surveys which tell us the percentage of poor in Pakistan, and even the percentage of poor in each province. We also have district ‘poverty’ or ‘development’ rankings based on co-relates of poverty such as provision of schooling, health facilities, water and sanitation, infrastructure and so on. However, we do not have any data base that identifies each household as poor or non-poor, or identifies each poor household, whatever the definition, as poor.
- No means-testing: Given the lack of the universe, identifying the poor has been a problem for all social protection programmes so far. Zakat and Bait ul Maal have had to resort to self-selection and/or nomination mechanisms supplemented by inspections based on subjective factors. The process that both follow has been similar: people can apply for support or they can be nominated by the local committee. The local committees, for both, have people from the locality as well as some ex-officio members (DCO and Nazim in the case of Bait ul Maal).
- No Independent checks: Currently there is no system of regular and independent verification of recipients. PBM has had external checks once or twice as a special case but this is not built into the design of the programme.
- Dualism: Currently Zakat and Bait ul Maal have independent data sets and these are not compatible. Though Pakistan Baitul Maal and Zakat Committees, this is not sufficient to check for overlaps. More importantly, the lack of compatibility means one cannot check for overlaps and it does not allow for specialization either. In fact both PBM and Zakat sometimes

run the same kind of smaller programmes as well (support for education, one-time grants for setting small businesses, and so on) where each programme pays set up cost but runs small inefficient programme. Specialization could allow for removal of these multiple fixed costs.

Given this tenuous base for targeted provisions, the new government has increased allocations and attempted to rectify some of the arbitrary methods adopted in the above two schemes. A detailed assessment of BISP and FSP are presented below.

Benazir Income Support Programme (BISP)

The BISP is the flagship safety net programme of the government with a commitment of Rs 34 billion, and an estimate 3.4 million beneficiary families. Selected families will receive a monthly cash grant of Rs 1,000, at least for the remainder of the fiscal year 2008-09. The BISP uses a combination of two methods for targeting. Beneficiaries must apply through forms distributed by local MNAs.

Forms require applicants to provide information on a number of socio-economic characteristics such as income, employment, formal sector employment/pensions, disability, asset ownership, household members abroad etc. which match with the targeting criteria for the scheme. This information is verified partly by the nominator (i.e. MNA) and partly by the information held for or provided by the applicant to the National Database Registration Agency (NADRA).

Selected beneficiaries must possess NADRA CNICs which will be provided free of cost and expeditiously in case a beneficiary is without a card. Benefits will be made out in the name of a woman member of the beneficiary family. This is one of the strongest features of scheme design and responds to the transformative role of social protection.

The BISP definition of a family is around a married couple (average size 3.5 persons) – i.e a nuclear family. Its 3.4 million beneficiaries are expected to constitute around 10 million individuals. If <u>all</u> of BISP beneficiaries are from among the poor the scheme will cover around 6 per cent of the national population, and between 15-20% below the poverty line.

Following issues will require attention with respect to scheme design. It is recommended that work on these begin immediately:

- Like all other safety net programmes this scheme too is not based on a well-defined universe. The fact that beneficiaries must be NADRA card holders immediately disqualifies at least a quarter of the national population who do not possess CNICs. It is known that those disqualified

includes most of the poorest. This is a very serious design flaw that might be rectified to a great degree through the process of MNA selection – as long as MNAs do select non-CNIC poor and facilitate their acquisition of CNICs. This design flaw can be rectified as people get greater incentives to apply for NADRA which the scheme provides.

- While some selection criteria are logical and transparent, others are less so. There is no clear or rational way of prioritizing from amongst the poorest – this is mostly left to MNA discretion.
- Criteria for exit from the scheme are not responsive to actual economic and life-cycle changes – since information held with NADRA is only rarely updated.
- The targeting mechanisms have no in-built system of independent checks – clearly not at several levels. Information provided by an applicant to NADRA is only vetted by the MNA who nominates an applicant. This creates a recursive rather than independent check.

Punjab Food Stamp Programme

The Punjab government's Food Stamp Programme is also a cash grant scheme with a monthly pay out of Rs 1,000 to beneficiary households. The scheme design in this case suffers from all of the main problems highlighted in existing social safety nets and the BISP. It is recommended that the targeting mechanism of the FSP be reviewed and that the BISP and FSP be coordinated to ensure the non-duplication of beneficiaries.

CREATION OF A SOCIAL POLICY PLATFORM

The absence of an *integrated* institutional mechanism for implementing and monitoring social policy can be seen from the fact that virtually every sub-system dealing with the population has its own way of counting people. We have good data – from the Population Census, the Agricultural Census, and various surveys of the Federal Bureau of Statistics. The problem is not the dearth of good social sector data. It is about having mechanisms on the ground at the local level, that are linked upwards to the district, province or national levels, and that <u>continuously generate</u> and update <u>actionable information</u> on a range of social policy goals and objectives.

Moreover, the local school sometimes conducts a survey of children in its catchment. The LHW is supposed to maintain her own list of families. Zakat and Bait-ul-Maal lists emerge from other methodologies altogether. Electoral rolls record people in yet other ways. The NADRA system has its own definitions, and its not linked explicitly to territorial units.

The absence of a *comprehensive* institutional mechanism for implementing and monitoring social policy can be seen from the fact that apart from the decennial

Population Census there is no system of keeping an account of the population that can claim to even attempt complete and comprehensive coverage. The NADRA system requires mandatory registration, yet acknowledges incomplete coverage. Other systems are even less complete, because they rely on voluntary registration. This problem is starkly illustrated by the failure of successive polio immunization campaigns to cover everyone, or even record those who might have been missed.

A **Social Policy Platform** is an essential institutional intervention if Pakistan is to make any serious attempt at overcoming its social and economic under-development. The word "platform" is used here in the sense of computing where it means "a framework on which applications might run".

There can be different "applications" – e.g. different priorities in social policy – but for any of them to "run" a platform is a precondition.

For example, there can be a debate between school vouchers and noon-meals as alternative ways of ensuring universal enrolment. But neither of the two alternatives can be implemented or monitored to scale in the absence of reliable and regularly updated information and monitoring at the local level and its integration in a vertical chain.

The platform also allows different "applications" to run simultaneously. A social policy platform can be used to generate lists of potential beneficiaries for educational stipends, and also for ensuring complete coverage of an immunization drive, as well as the targeting of a food subsidy to vulnerable households.

Operational details of a Social Policy Platform including the cost of setting it up and maintaining it need further elaboration. Some basic points are:

- Presence at UC level.
- Linked to district level upwards vertically.
- Population registration.
- Updating basic socio-economic data down to household/individual level.
- Use across social sectors and programmes.
- Participatory methods of data verification.
- Systems of monitoring and validation.
- Approximate annual cost of operation Rs 10-15 billion.
- Approximately 33,000 full-time employees nationwide including social mobilizers, computer operators, managers, support staff.
- Synergy with existing, ongoing, proposed projects and programmes.
- Distinct from but synergy with local government.
- Linked with NADRA.

A Social Policy Platform – costed in the range of Rs 10-15 billion per annum will represent less than 4 per cent of social policy spending. This means that even if it improves the efficiency of all other social policy spending by a factor of 4 per cent, it will have paid for itself. In practice the advantages of a Social Policy Platform are obvious, since it helps to fulfill the first condition identified above for efficient design of social safety nets – i.e. targeting based on a universe.

RECOMMENDATIONS

i) Move Towards Improved Targeting System for BISP and FSP

Shortfalls in the targeting design of the BISP have been identified above. Some of these concerns can be addressed in the short run by initiating the creation of a social policy platform that determines a universe of the poor. The first concrete measure for this purpose can be the development of a 'score card' for rationing amongst the poor. This should be initiated in at least four districts, one in each province.[2] The Rural Support Programmes (RSPs) are already using such a method for identification of beneficiaries for their programmes and the Government of Sindh has also enlisted their help in identifying landless peasants to whom state land will be granted. They can be enlisted to help design and implement this programme.

ii) Increase the Fiscal Envelope of the BISP and FSP to Cover an Additional 2.3 Million Families

As demonstrated in section 2 of this chapter, the gap between those below the poverty line and those envisaged to be covered by the targeted schemes is large. Given the fiscal remedies suggested in this report, it is possible to increase the total allocation of the two schemes from Rs. 56 billion to Rs. 84 billion in the current fiscal year. This will add an additional 2.3 million families or 8 million individuals in the beneficiary net. Additional beneficiaries should be drawn primarily from Balochistan and the NWFP where food prices are higher and because of violence, vulnerability is greater.

iii) Coordinate with the Punjab Government to Minimize Duplication of BISP and FSP Beneficiaries

To spread the benefits widely, it is important that duplication between the two programmes is minimized in the Punjab. The Federal and Punjab Governments will require coordinating through sharing each others lists to minimize this occurrence. Lists of both schemes should also be made public so that independent third party verification can also take place.

[2] In a meeting with the sub-group on social protection, Ms. Shahnaz Wazir Ali, the Special Assistant to the Prime Minister on Social Sectors, endorsed this suggestion.

iv) Initiate an Employment Guarantee Scheme

High and increasing rates of unemployment are an economic and social concern. Employment Guarantee Schemes have been successfully implemented in India and elsewhere and it was also part of the Prime Minister's 100 day programme announced on 29 March, 2008. The following measures are suggested:

- The Rs 28 billion allocated for the People's Works Programme should be focused on employment intensive infrastructure development.

- In addition Rs 10 billion should be allocated to launch a National Employment Guarantee Programme from the savings of the PSDP. This scheme should be started in the poorest 10-15 districts of the country.

- Existing rules for the design of public works programmes in the PSDP can be reviewed to increase the visibility and verifiability of the employment generation component of these projects.

- PSDP rationalization should take into account the intensity of casual labour employment in projects.

v) Initiate a Nutrition Support Programme

High food inflation has increased the risk of malnutrition amongst the poor. International and domestic evidence suggests that at highest risk on the nutrition status is the girl child. In the current fiscal year, the government has allocated Rs. 100 million for a nutrition programme of primary school girls. In the first quarter of the current fiscal year, no money has been released for this programme as yet. This allocation should be enhanced to at least Rs. 500 million and the programme should be modified to initially target the districts/regions that are identified as being most vulnerable to nutritional shock.

vi) Incentivise microfinance and housing finance

Incentivise microfinance and housing finance credit line, by commercial banks through a special tax credit on the quantum of annual lending.

CHAPTER 3

GROWTH STRATEGY AND DEVELOPMENT PRIORITIES

Since independence, Pakistan has experienced numerous growth episodes which have always ended in a balance of payments crisis. The underlying reason is that economic policies and resulting incentive structure have always favored consumption and production for the domestic market over exports. This bias is seen in almost every aspect of the economy. The broadest reflection of this is the over-valuation of the exchange rate which all governments have maintained since the 1950s. But it is also reflected in pricing of power and allocation of gas shortages across households and industrial consumers; in compulsory procurement of wheat at below market prices and the restrictions imposed from time to time on export of various agricultural commodities to keep domestic prices low and, the focus in railway services and airport infrastructure on passengers traffic at the expense of cargo. Therefore, it is not surprising that the strongest growth in the recent growth episode was in the consumer goods industry (automobiles, electrical appliances) and non-tradable sectors (financial and telecommunication services, real estate and construction).

The episode of above-trend growth that Pakistan experienced over the 2003-2007 period was also not sustainable because of the low domestic savings and a less-than-buoyant tax base. The growth spurt led to a massive increase in both the internal as well as external imbalance. The exogenous shock experienced in the form of an unprecedented increase in international commodity prices in all probability hastened the inevitable balance of payments difficulties.

Another major weakness in the growth strategy has been the neglect of the less developed regions of the country. The growing regional inequalities have contributed to the instability and internal conflicts evident today. Thus any future growth strategy must address these two weaknesses if we are to achieve sustained and equitable growth. Therefore, while accepting that growth has to be reduced in the short term because of the need to squeeze aggregate demand due to balance of payments constraint and the need for macroeconomic stabilization, the recommendations in the Interim Report aim to initiate the process of reorienting the growth strategy as well.

RESTRUCTURING THE PUBLIC SECTOR DEVELOPMENT PROGRAMME

Consistent with this Panel's view that the current crisis is also an opportunity to correct endemic distortions, we recommend that a more comprehensive framework be adopted for the prioritization of projects in the PSDP. This requires a restructuring of the existing portfolio of projects to reduce the throw-forward to five years or less. In addition, in any given year, at least 70% of the budget

allocation for the PSDP should be for ongoing projects. The short term needed measures for prioritization are outlined in Chapter 1.

The guiding principles for restructuring and inclusion of new projects in the PSDP should be: High growth impact, Employment intensity, Social protection and human development, Export intensity, Regional equity and Inter-sectoral harmony.

An over-arching principle should be maximum leveraging of scare public resources by exploring all potential avenues for public/private partnerships in the public development programme.

LAYING THE FOUNDATIONS FOR SUSTAINABLE AND EQUITABLE GROWTH

The exchange rate is an important "price" that determines the export orientation of the economy. On the one hand, an appropriate exchange rate shifts domestic demand to domestically produced goods and discourages imports. On the other hand, it promotes exports, thus having a dual impact on the balance of payments. Therefore, we recommend that the present crisis be seen as an opportunity to address the chronic overvaluation of the exchange rate for most of Pakistan's history and its implications for international competitiveness. We recommend further that the exchange rate be allowed, over the coming year, to depreciate to the level at which the trade imbalance is eliminated. As the discussion in the macro section shows, a combination of prudent fiscal and monitory policy measures will help avoid excessive burden on the exchange rate to reduce the current account deficit. Therefore, to spur export-led growth, exchange rate over-valuation should be monitored regularly after the crisis and adjusted as needed to ensure stable and realistic exchange rates.

As stated above, a core structural weakness of the economy highlighted by the current crisis the lack of international competitiveness that retards an export-led growth strategy. A large part of the lack of competitiveness is embedded in relative prices that encourage consumption over production for export. The proposed exchange rate adjustment as part of the macro-economic stabilization programme will help remove one critical relative price distortion making it profitable for firms to export rather than import. But the Panel strongly recommends that other relative prices also be reviewed comprehensively to remove systemic discrimination against industry, especially those with export potential. The review should span energy pricing policies (that currently favor consumption over production), policies for the transport sector that favor passenger traffic over cargo and credit allocation priorities in the banking sector.

Additional, more medium term measures proposed by the Panel to move to a higher growth trajectory are:

The structure of rebates as an incentive to promote export-led growth needs to be revised; the guiding objective here should be the promotion of higher value addition in exports and, to that end, rebates should be linked to the rate of increase in exports rather than the level; exports at the low value addition end of the spectrum such as yarn and gray cloth should be ineligible for rebates.

Government's role in providing marketing information and producing to international standards needs to be revamped; the potential for twinning arrangements with private marketing firms with local knowledge of potential export markets should be explored and utilized.

Reduce the within country logistics costs which will require investment in upgrading infrastructure and institutional and regulatory reform; public/private partnerships should be the guiding principle in designing the infrastructure upgrading programme.

Worker skills are critical to give our firms a competitive edge in international markets; programmes for skill upgrading need to be modernized adapting, where relevant, similar experience from East Asia; a combination of public subsidy and a levy on firms provides the financing of the skills development fund; firms receive vouchers for utilization of training funds, accredited private/private training institutions provide the training and receive payments from the fund upon submission of vouchers.

The Panel recommends that fiscal policy to level the playing field between tradable and the non-tradable sectors; the current incentive structure favors investment in the non-tradable sectors. This should be corrected by expanding the tax net to include the services sector, make property taxes realistic and levy capital gains tax to prevent asset price bubbles in the non-tradable sectors.

Given our natural comparative advantage in agriculture, i.e. the world's largest contiguous canal irrigation system, diversity of agro-climatic zones, good soil conditions and cheap labor with a centuries old farming tradition, poor crop yields and absence of high value added agricultural exports, is a glaring example of unfulfilled promise. Maintenance, modernization and expansion of key rural infrastructure spanning water, roads and electricity is in urgent need of policy and institutional reform. A separate task force has been assigned the responsibility of designing a programme for the country's food security. The focus of this Panel is on promoting agricultural growth and to that end we recommend, as an immediate policy focus:

- replacing the existing out-dated and inefficient **provincial agricultural marketing acts** with a modern legal and regulatory framework that allows greater room to the private sector to develop agricultural markets, particularly for fruit, vegetable, meat and dairy in a way that ensures internationally accepted phyto-sanitary requirements.

- to catch up with the rest of the world in adopting **new seed technology** to increase yields and value addition on a priority basis, partnerships with major international seed companies need to be forged: the recent agreement with Monsanto for large scale adaptation of BT cotton is a step in the right direction and should guide other similar agreements for other crop seeds.

- Agricultural research and extension should be guided by a farming systems perspective to modernize agriculture rather than the current four major crop specific approach. This will improve the design of interventions and increase their cost effectiveness. This approach will facilitate the focus on small and medium farms while designing interventions (the current crop specific focus does not) and thus will increase system-wide productivity growth and will also help achieve equitable growth.

Geo-political developments provide an opportunity to open up new vents for sustained long term growth by exploiting scale and agglomeration economies arising from opening regional trade and investment, in particular trade with China and India. This has the potential for unleashing productivity and income enhancing export led growth, which would be similar in scale to the earlier major growth vents such as import-substitution industrialization following partition, the spread of green revolution technology in the 1960's and the 70's and the flow of remittances in the 1980's and '90's. The Panel thus recommends:

- Encourage investment by China in Pakistan through development of infrastructure and appropriate incentives to tap South Asian markets.

- Upgrade the trade relations from positive to negative list with India. Other measures:

    - Remove non-trade barriers including restriction on the number of goods traded over land; set up joint commissions for certification to met safety and health standards.

    - Allow investment from India to compete with other foreign investors on a case to case basis in specific sectors (eg. Power) while protecting national interest.

    - Increase and modernize land trade routes, including investment in infrastructure and allowing each other's trucks to carry cargo to market destinations.

    - Allow clearing of payments and setting up of appropriate financial institutions to facilitate baking transactions.

    - Liberalize visa regimes to facilitate travel for business and tourism.

- Similar trade facilitation including upgrading of infrastructure for over-land trade with other neighbors, Afghanistan and Iran should be promoted to make Pakistan trading hub of South Asia.

Finally, the growth strategy has to proactively aim to reduce regional as well as sub-regional inequalities by actively targeting less-developed areas of the country. In this context, the Baluchistan government has prepared an Economic Report which has detailed a strategy for the provinces development. The Baluchistan government must be provided the resources to implement its strategy. In addition, similar strategies need to be developed for NWFP/tribal areas, rural Sindh as well as for southern Punjab.

The final issue which must be addressed, in our view, in any growth strategy relates to coordination between the Federal and provincial planning agencies. In the development of any provincial strategies, greater ownership of the concerned province must be ensured. This should not be limited to the case of development initiatives for a province taken at the federal government level, but, importantly, in a wider sense should include greater decentralization of resources and setting of development priorities by the provinces themselves.

CHAPTER 4

INSTITUTIONAL FRAMEWORK FOR DEVELOPMENT

ANALYTICAL PERSPECTIVE

It can be argued with reference to the latest literature on the New Institutional Economics (NIE) and applied research in Pakistan[3], that Pakistan's stop-go pattern of economic growth is located in the limited access nature of its social order. Limited access social orders are characterized by rent creation, privileged access over economic and political power for the elite, and the exclusion of a large proportion of citizens from equal access over markets, resources and governance. Such limited access social orders as North, et.al have argued "preclude thriving markets and long term economic development"[4]. By contrast open access social orders provide equality of economic opportunity on the basis of systematic competition, innovation, merit and mobility. Consequently, the institutional framework of open access social orders constitutes the basis of efficient markets and sustained economic growth.

It can be argued that the development challenge for Pakistan is to establish an institutional framework for achieving sustained economic growth by providing equality of economic opportunity to all citizens, and enabling them to achieve through their innovation and enterprise, a sustained, broad based and equitable growth process.

The policy challenge therefore is to undertake the structural changes and establish the institutional framework necessary for sustained growth with rapid poverty reduction.

The Report of the Working Group presents the institutional framework and policy design for enabling Pakistan to embark on a path of development that has been called *economic democracy*[5]. It is a path of development which enables all the people, rather than only the elite to participate in the process of income generation, investment and innovation within competitive markets. Such a path of development would achieve sustained growth with equity.

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3 Akmal Hussain, Power Dynamics, Institutional Instability and Economic Growth: The Case of Pakistan, The Asia Foundation, Islamabad, 14th April 2008.

4 Douglass C. North, John Joseph Wallis, Barry R. Weingast, A Conceptual Framework for Interpreting Recorded Human History, National Bureau of Economic Research, Working Paper Series, Cambridge (Mimeo), 2006.

5 The term economic democracy has been developed in the book: Ponna Wignaraja, Susil Sirivardana and Akmal Hussain: Economic Democracy through Pro Poor Growth, SAGE Press (Forthcoming).

ECONOMIC GROWTH, EQUITY AND EMPLOYMENT THROUGH THE SMALL-MEDIUM FARM SECTOR[6]

An important factor in the current economic crisis is the food deficit and the underlying stagnation in yield 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 small and medium farm sector (less than 25 acres) is achieved, food shortages can be converted into food surpluses.

Today, after almost four decades of the elite farmer strategy the imperative of a small-medium farm growth strategy has emerged. As large farms begin to experience declining growth of input productivity, further growth in agriculture output increasingly depends on establishing the institutional structure for actualizing the yield potential of small-medium farms (5 to 25 acres). The evidence suggests that this sector also has a greater labour absorption potential than the large farm sector.

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. 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 tenant farms in this size class have neither the incentive nor the ability to increase yields.

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, and asymmetric markets for agriculture inputs and outputs.

INSTITUTIONAL FRAMEWORK FOR THE SMALL-MEDIUM FARMER GROWTH STRATEGY

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.

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6 This section is drawn from Akmal Hussain Pakistan: Poverty, Power and Economic Growth, South Asia Center for Policy Studies (Mimeo), 25th September 2008.

State Land for the Landless[7]

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 farm land (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 (896,000) as many 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. (For details of the institutional policy initiatives required to meet these objectives, see the Report of the Working Group on Institutional Framework for Development, pages 10-13).

Enabling Tenant Households to Buy Land[8]

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 896,000 tenant farmers, 376,000 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 to tenant farmers to increase yields per acre. This objective could be achieved through four sets of policy actions:

(i) Through a consortium of government, donors and commercial banks a credit fund for providing land to the landless and follow up extension services, amounting to about Rs.332 billion (USD 4.24 billion) could be created.

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7 This sub-section is based on a policy note contributed by Dr. Akmal Hussain 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.

8 This sub-section is based on a study just completed by Dr. Akmal Hussain as part of the South Asia country studies on poverty, which is a Research Programme of the South Asia Center for Policy Studies (SACEPS), being coordinated by Professor Rehman Sobhan.

(ii) Update, systematize and computerize the land revenue records to establish clear ownership rights of existing owners/Claimants.

(iii) 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.

(iv) Establish village level small farmer organizations institutionally linked up with the Ministry of Rural Development at the union council and tehsil levels. The farmers organizations in partnership with strengthened and refocused extension service organizations of the Ministry of Rural Development, could provide high quality support to small farmers for soil testing to enable appropriate fertilizers use, improved on-farm water management, and improved agriculture practices to improve the organic profile of the top soil.

LOCAL GOVERNMENT REFORMS

Reforms

An extremely far-reaching local government reform was undertaken in 2001. This reform brought about administrative, fiscal and political decentralization that:

1. Radically redesigned the different tiers of sub-national government and the linkages between them.
2. Engendered bureaucratic accountability by placing the District Coordination Officer (DCO) and the Tehsil Municipal Officer (TMO) under elected mayors (*nazims)* at the level of the district and the tehsil respectively.
3. Transferred a large number of functions from provincial to local governments.
4. Created meaningful expenditure decentralization by devolving almost 40% of provincial allocable resources to local governments.
5. Abolished the rural-urban distinction in the territorial jurisdiction of local authorities.
6. Separated the executive and judicial functions of the Deputy Commissioner. Devolution has resulted in the abolition of executive magistracy and the district and sessions judges now exercise the powers of the judicial Magistrate.
7. The Deputy Commissioner's general direction and control over the Police has been removed and instead the District Police Officer reports directly to the nazim and the Provincial Police Officer.

The Positives

The new system has extended the presence and scope of elected governance at the local level. Post-devolution, most public services that were previously under the purview of the deconcentrated district administration have been transferred to elected local governments. As a result, the scope of local governments in terms of services they are responsible for and how they allocate district-level expenditure across services has increased substantially post-devolution.

Another important change has been the devolution of key provincial functions to the district and tehsil levels, whose scope has been considerably increased by assigning them important provincial functions. Most significantly, budgeting, planning and development functions that were previously performed by provincial secretariats have been transferred to the district and tehsil levels. These changes have meant a considerable increase in the local government share of consolidated provincial and local government expenditure and have reduced the distance between service providers and citizens, which is expected to improve accountability through better citizen monitoring.

By far the most significant change has been the strengthening of the union as a foundation of the local state. The union council is the only directly elected tier of a more empowered local government system. Nazims (mayors), naib nazims (deputy mayors) and councillors are directly elected at the union level, which is a multi-village electoral ward consisting of an agglomeration of villages. Although because of the multi-ward nature of union elections there is no village-level reservation in the union councils, seats are, nonetheless, reserved for women, minorities, labourers and peasants.

Reforms at the union level are expected to increase accountability in a number of ways. First, the introduction of elections is expected to expose the old local level un-elected patron to electoral competition and, thus, create a direct link of accountability between these patrons and the union level citizenry. Second, the mechanism of reservation is expected to increase accountability to the marginalized and powerless. Third, political bargaining over development funds now not only occurs between levels (the union and the district/tehsil) that are closer to citizens but that all the actors involved in this bargaining are either directly or indirectly elected, and therefore, accountable to their voters.

Even more importantly, at least in theory, union councillors and the union executive are now in a position to hold a much more empowered higher tier local government executive accountable because of the manner in which the union has been integrated into the higher tiers of local government. First, union nazims, naib nazims and councillors constitute the Electoral College for the district/tehsil nazims, naib nazims and councillors elected on reserved seats at these higher levels. Second, union nazims are ex-officio members of the district council and union naib nazims are ex-officio members of the tehsil council. The political and

electoral integration of the union into higher tiers of government allows union nazims and naib nazims to play a critical role in the allocation of funds and projects across villages, households and social groups in their respective union councils. This integration has laid the foundation of spatial budgeting that ensures that all union councils irrespective of their level of development continue to have a voice over the allocation of development schemes.

Challenges and Reform

The new system continues to face a number of challenges that include:

i. A lack of ownership among national political parties for the new system. This is because there are doubts about the fairness of the 2005 Local Government Elections. It is also because district and tehsil nazims are seen as competing political tier by MPAs and MNAs
ii. Studies have shown the existence of elite capture at the local level especially in the provision of rural public services
iii. The continued weakness of citizen-centric aspects of the reform
iv. Strengthening the revenue bases of local governments
v. The abolition of executive magistracy is argued to have reduced the regulatory capacity of the state over cartelization; uncompetitive market pricing; and the delivery of poor quality goods and services by the private sector
vi. The decentralization of land revenue and policing functions have led to the excessive politicization of land disputes and policing

As a general point it needs to be understood that there is a paucity of empirical evidence that shows how effectively different components of the reform have worked during the two cycles of local government. Therefore, rigorous evidence-based suggestions, which go beyond casual observation, for reform are hard to bring to the table. Evaluating the reform is also hard because a number of its components have not been enacted or have been enacted ineffectively and because in a number of areas federal and provincial encroachment on local government functions continues. This makes it hard to ascertain whether observed failure is due to systemic design issues or is it because of lack of implementation or lack of autonomy of local governments.

Given this paucity of evidence the best that can be done at this stage is to provide a set of suggestions and some detailed proposals related to challenges 1-4.

Suggestion 1: The lack of evidence on the success of different components of the reform suggests that it should not be whimsically abandoned because: (a) it has created considerable space for democratic governance at the sub-national and sub-provincial levels; (b) it has introduced citizen-based governance at the

local government level; and (c) it has effectively created spatial voice in tehsil and district legislatures that ensures that all union councils have representation in this governance.

Suggestion 2: Its different components should be considered for reform while keeping its basic architecture intact, that is, the principle of separation between the executive and the legislature needs to be retained for effective functioning of the government. In addition, the reforms related to challenges 5 and 6 should happen after great deliberation with all stakeholders.

Proposal 1: Creating political ownership for the system among mainstream political parties.

The challenges here are: (a) that the current local governments are perceived to be politically partisan; (b) the system is perceived to be electorally partisan and, (c) most importantly, the system is seen as a competing tier by provincial and national members of parliament.

The local government system will only achieve longevity if it is seen as politically and electorally non-partisan and if there is faith that politicians in higher tiers of government will not attempt to use the local government system to support their electoral prospects.

Actionable 1: Measures need to be taken to strengthen the autonomy and independence of the Election Commission and all such measures that increase the confidence of the political parties in the Commission will benefit the local government system. Furthermore, the Election Commission of Pakistan should be made independently responsible for local government elections, including the delimitation of constituencies.

The establishment of an independent election commission, while necessary, will not be sufficient to ensure that the system is not seen as a competitive threat by provincial and national politicians. The current requirement that local government elections be held on a non-party basis weakens the political linkages between local government politicians and members of the national and provincial parliaments who are elected on a party-basis.

Actionable 2: Local government elections need to be held on a party-basis.

The risk of this reform is that it may unleash battles of control for local governments by parties in government at the provincial level. This is likely to happen because local governments are seen to be important mechanisms for the dispensation of patronage. This behaviour has the risk of introducing partisanship in the local government system and making it politically divisive. This challenge can be overcome by introducing proportional representation of political parties in the local government legislatures at all tiers. At the union council level this will

mean moving away from the first-past-the-poll election rule and in favour of a rule that allows proportional representation to be introduced at the level of the union council.

Actionable 3: Move away from the first-past-the-poll election rule and introduce proportional representation in the election of the local government legislature by adopting a suitable voting rule.

Proposal 2: Reducing elite capture in public service delivery

Studies have shown that elite capture persists in the local government system in the targeting of development schemes in rural areas. However, these studies show that this capture is the outcome of weak and ad-hoc planning mechanisms, in particular the practice of dividing development schemes among local politicians. It is also because of the absence of institutions for bottom-up participatory planning and development planning at the provincial, district and tehsil level.

Actionable 4: The degree of elite capture can be reduced by: (a) formulating district and tehsil planning on the basis of objective information mapped at the union council level; (b) by enforcing the requirement that district legislatures or indeed the provincial assemblies establish principles of development planning and the district legislature provides oversight over the proposed development plan prepared by the executive; and (c) members of district legislatures are no longer protagonists in individual scheme selection. Provincial governments can use objective information on performance combined with performance grants to incentivize local governments to allocate resources in a way that achieves desired development outcomes

Proposal 3: Strengthen citizen-centric aspects of the reform

Actionable 5: The reform has a number of citizen-centric institutions that have not been enacted and these should be enacted with immediate effect, in particular the village/neighbourhood councils, public safety commissions etc.

Proposal 4: Strengthening Revenue Bases of Local Governments

Rule-based PFCs need to be awarded and the capacity of the PFC secretariat needs to be strengthened in all four provinces. Part of the work of the PFC secretariat is to undertake analysis for the Provincial Government on the degree of sub-provincial or regional backwardness and inputs into strategies for inclusive growth and development in the region.

Actionable 6: Rule-based PFC awards to be awarded by the PFC secretariats in all four provinces. Institutional linkages need to be created between the provincial

Planning and Development departments and the provincial PFC secretariats for the purposes of regional planning and development.

Actionable 7: The full amount of the UPIT net of actual collection costs should be transferred to TMAs and monies ought not to be withheld in lieu of contingent payments of utilities etc. Duplication and overlap between different governments and agencies in the provision of municipal services to urban areas need to be removed. Local governments should be encouraged to enhance local rates in rural areas in lieu of the agricultural income tax and explore the possibility of levying service related taxes.

Actionable 8: There is a need for provinces to create conditional transfers to tehsil administrations based on local fiscal-effort.

INSTITUTIONS, EXPORT GROWTH AND EXPORT STRUCTURE

Pakistan's slow export growth and the consequent perennial pressures on the balance of payments constitute a structural constraint to sustaining high GDP growth. The evidence shows that in sharp contrast to the export performance of other developing countries, Pakistan's share in world trade has historically been at a low level (0.15 percent) but has declined since the 1970s. In recent years inspite of trade liberalization in Pakistan, the country's share in manufactured exports has not increased over the last four decades as a whole. The most important reason for this, is the failure to diversify Pakistan's export structure beyond textiles in a situation where world trade in textiles is growing at a much slower rate than non-traditional manufactured exports.

Institutional Imperatives for Faster Export Growth and Export Diversification

Textiles and Garments. In the short term faster export growth in textiles and garments can be induced by providing better access over US markets through economic diplomacy. At the same time incentives can be provided to the textile industry to invest in introducing new technologies for achieving export competitiveness and linking up with private sector marketing companies in key export markets to obtain large orders on a regular basis and provide feed back in terms of design and quality to domestic Pakistani manufacturers.

Institutional Constraints to Export Diversification. The current structure of rules discriminates towards non traditional sectors such as high value added manufacturing, agricultural product processing, light engineering, and small scale enterprises including both manufactured and cottage industry items. The discrimination occurs in a number of ways including:

(i) Absence of standard concessions such as duty draw backs and meaningful rebates.

(ii) Lengthy and complicated procedures for exports.

(iii) Inadequate working capital support e.g. low interest export refinance.

(iv) Under provision of public goods such as marketing support and international lobbying for market access.

(v) Export documentation regulations which limit the scope of international, outsourced trading.

(vi) Bureaucratic red tape, graft in governmental departments, weak contract enforcement and lack of protection of private property rights (such as protection of export consignments from bandits during road transportation to the port) raises the costs of business across sectors and limits the development of new markets overseas[9].

An Institutional Framework for Export Diversification[10].

In view of the above a number of changes in the institutional structure can be suggested which can lower the costs of business and facilitate export growth and diversification. These include:

***Targeted Development*.** Selecting sectors and sub-sectors for targeted development over the next 5 years through rebates, tax relief, establishment of a one window export documentation board, infrastructure development, marketing and R and D support, and removal of import restrictions.

Rebates. Rebates should be between 10-15% of invoice value. Furthermore the duties on imported raw materials and semi finished goods for these sectors should be eliminated. This policy intervention is inline with the one pursued successfully by the Chinese over the last decade.

Marketing Support Framework. Marketing support for the selected sectors. The support framework could have the following elements:

(i) Subsidized warehousing facilities.

(ii) Appointment of effective commercial consular officers and free product road shows and sourcing of new buyers. Alternatively, private sector marketing companies could be hired in key export markets to perform these functions.

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9 This sub-section IV.3 has been researched by Mr. Savail Hussain, Research Associate to the Working Group on Institutional Framework for Development.

10 This sub-section IV.5 has been contributed by Mr. Savail Hussain, Research Associate to the Working Group on Institutional Framework for Development.

Private sector link up for outsourced production for exports to new markets. Of particular importance here is facilitating private sector link up with sourcing agents based in India who represent large importers in North America, Latin America and Europe. Rising costs and a stronger currency are inducing many of the sourcing agents to look out side of India to supply orders in Western markets. Facilitation of a private sector link up with India for increased Pakistani exports, includes easing the visa regime for such companies and individuals and allowing them to open offices in major cities in Pakistan.

Infrastructure support for export production. This includes provision of warehousing facilities; facilitating access over export markets and product road shows; interrupted provision of essential utilities at subsidized rates, and packaging solutions through public private partnership.

Import of Raw Materials from India. Import of raw material from India (which is unavailable locally) should be allowed by expanding the negative list. The current DTRE scheme whereby quotas are fixed for raw material imports from India meant specifically for exports suffers from red-tapism and graft. A better solution is to open up raw material imports across the board.

Capturing China's Export Markets. Finally Pakistan can quickly make use of the opportunities offered by international trading in the current global policy environment. The current policy especially in the Americas and increasingly in Europe is toward anti-dumping duties on Chinese products. This combined with the rising Yuan means that countries like Pakistan with a port and cheap, plentiful labor can pick up some of the business that has being routed out of China. This can be done by the following policy action. Allow the tax and duty free import of semi finished goods into special Free Zones for value addition and then export. (For operational details of the Free Zones see Report).

MILK, LIVESTOCK, MARINE FISHERIES AND HIGH VALUE ADDED AGRICULTURE PRODUCTS: THE INSTITUTIONAL IMPERATIVES[11].

Milk and Livestock. Demonstrable experience in the field has shown that the milk yields per animal in Pakistan can be doubled within two years through scientific feeding, breeding, and marketing. If the institutional framework could be established for training the farmers in scientific feeding and breeding. Together with this, if the logistics could be set up to collect milk from the farm door by means of refrigerated transport, milk output in Pakistan could be doubled. Cold storages at airports could facilitate milk exports to the milk deficit countries in West Asia, Central Asia and South East Asia. There is also considerable potential in expanding production and exporting meat and meat products, through the development of livestock farming particularly in the provinces of

[11] This section has been drawn from Akmal Hussain, A Policy for Pro Poor Growth, chapter in Towards Pro Poor Growth Policies in Pakistan, UNDP-PIDE, Islamabad, 2003.

Balochistan and NWFP. This would have a significant impact not only on the incomes of the poor peasants, but also on exports and overall GDP growth[12].

Marine Fisheries. 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.

Fruits and Mineral Products in Balochistan and NWFP. There is considerable potential for income generation for the people in Balochistan and NWFP through the development of orchards and minerals for domestic and export marketing of fruits and mineral products. The development of farmers organizations and marketing companies could help develop this potential.

Mainstreaming the Poor through Equity Stakes[13]. An institutional change that could bring the poor into the mainstream of the market economy could be to establish professionally managed public limited companies in which the poor have a substantial equity stake[14].

In the Pakistan case there may be considerable potential for developing livestock and milk production by the rural poor and providing these products to large private sector corporations for the manufacture and export of milk and meat products. These private sector corporations which would be buying their inputs from the poor could also be owned substantially by the poor. The equity stake to the poor could be initially achieved through the provision of loans which could be paid back from the dividends of the corporations. Similar public limited companies owned by the poor and run by high quality professionals could also be established in key main stream sectors of the economy such as energy, telecommunications and electronics.

Common Facilities Centers for SMEs. A large number of small scale enterprises (SMEs) 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

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12 Akmal Hussain, op.cit., page 72.

13 This section has been drawn from Akmal Hussain, Institutional Imperatives of Poverty Reduction, Institute of Public Policy, Beaconhouse National University, Lahore, 17th April 2008.

14 This concept was first propounded by Professor Rehman Sobhan and successfully tried out in the diversification process of the Grameen Bank in Bangladesh. It was also tried out in India by Dr. Kurien who set up the Amul (originally a cooperative) which is entirely owned by the poor and is now one of the largest manufacturers of milk products in the corporate sector in South Asia.

quality farm implements for the large scale manufacturing sector.[15] 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. The establishment of Common Facilities Centers could help SMEs to accelerate growth of higher value added products by overcoming constraints such as specialized fabrication facilities in the field of forging, heat treatment and surface treatment; quality control; skill and product development; acquisition of vending contracts from the LSM sector and acquisition of high quality raw materials which require bulk ordering. (For details see the Report).

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

PANEL OF ECONOMISTS

1. Dr. Hafiz A. Pasha (Chairman)

Dr. Pasha did his Tripos in Economics, University of Cambridge, Doctorate from Stanford University, USA. Former Advisor on Finance to the Prime Minister, Commerce Minister, Deputy Chairman Planning Commission, and till recently Assistant Secretary General of the UN and Director of Regional Bureau for Asia-Pacific of UNDP. He has served earlier as Vice Chancellor of the University of Karachi and currently Dean Social Sciences, Beaconhouse National University, Lahore.

2. Dr. Rashid Amjad (Convener)

Dr. Amjad did his Tripos in Economics and PhD from Cambridge University. Former Director Policy Planning at the International Labour Organization Geneva and Director South East Asia and Pacific Manila. Also Member National Manpower Commission and Panel of Economists to frame Fifth Five Year Plan. Founder member, Board of Governors of Lahore School of Economics. Currently Vice Chancellor Pakistan Institute of Development Economics.

3. Dr. Akmal Hussain (Member)

Dr. Akmal did his Tripos in Economics from University of Cambridge and Doctorate from the University of Sussex, UK. Former Member on the Prime Minister's Task Force on Poverty Eradication and Employment Generation. Principal Author Pakistan National Human Development Report (UNDP), Member Economic Advisory Board. Member, Governing Board, South Asia Center for Policy Studies (SACEPS). Has authored three books and co-authored/contributed chapters to 15 other internationally published books on development policy. Currently Distinguished Professor Beaconhouse National University Lahore.

4. Dr. Akhtar Hassan Khan (Member)

Dr. Khan did his Doctorate in Economics from Tufts University, USA and visiting Professor at Quaid-e-Azam University. Was former Secretary Planning & Development Division.

5. Dr. Naved Hamid (Member)

Dr. Hamid did his Tripos in Economic from University of Cambridge, PhD from Stanford University, USA. Worked for 20 years with Asian Development Bank. Currently Director, Center for Research in Economics and Business, Lahore School of Economics.

6. Mr. Riaz Riazuddin (Member)

Mr. Riazuddin did his Masters in Economic Policy from Boston University, USA. Specialist on macro and monetary policy and currently Economic Advisor, State Bank of Pakistan.

7. Dr. Kaisar Bengali (Member)

Dr. Bengali did his PhD from AERC, Karachi. Former Director Social Policy Development Centre Karachi and Currently National Coordinator of Benazir Income Support Programme Government of Pakistan.

8. Dr. Ali Cheema (Member)

Dr. Cheema did his B.A. Hon. Oxford and PhD from Cambridge. Was Rhodes Scholar 1989-92. Worked and published widely on development issues and is currently Associate Professor Lahore University of Management Sciences (LUMS) Lahore.

9. Mr. Haris Gazdar (Member)

Mr. Gazdar did his B.Sc and M.Sc Economics from London School of Economics. Working on social policy issues. He worked as lecturer and researcher in UK before returning to Pakistan. Consultant to the World Bank on Poverty and currently Executive Director Collective for Social Science Research Karachi.

10. Dr. Asad Sayeed (Member)

Dr. Asad did his PhD from Cambridge University. Worked on Industrial Growth, Macro Policies, Poverty Alleviation, Employment & Labour Policies and Social Protection. Worked as consultant to the ILO and other international agencies and currently Senior Researcher at Collective for Social Science Research Karachi.

11. Prof. Muhammad Tousif Akhtar (Member)

Prof. Tousif did his MA from Karachi University and Master of Applied Economics (MAS) from Applied Economics Research Centre. Worked on Development issues related to Pakistan special reference to Baluchistan and also completed task with Government of Baluchistan in different capacities and is currently Chairman, Department of Economics, University of Baluchistan, Quetta, Pakistan.

12. Dr. Aisha Ghaus Pasha (Member)

Dr. Ghaus did her Doctorate in Economics from Leeds University with specialization in Public Finance. Former Deputy/Acting Managing Director of the Social Policy Development Centre. Member of several Task Forces on Public Finance, Social Sectors and Poverty Alleviation. Worked as consultant to World Bank, UNDP, ADB. Currently Director Research, Institute of Public Policy, Beaconhouse National University, Lahore.

13. Dr. Naseer Ali Khan (Member)

Dr. Khan did his Masters in Economics from Free University Brussles and PhD from Peshawar University. He has published 18 research papers. Development Specialist, is working with the NWFP Government on capacity building and human resource management with WB, UNDP and USAID. He is currently Director Institute of Management Sciences Hayatabad, Peshawar.

14. Mr. Saqib Sherani (Member)

Mr. Saqib Sherani did his MBA from IBA Karachi. Over the last several years, he has worked closely with government on macroeconomic issues. He heads the Economics Unit of Royal Bank of Scotland Ltd's Pakistan operations, which regarded as among the leading independent economic analysis and research unit in the country. He is currently a member of the Prime Minister's Economic Advisory Council. Prior to this, he was member of the Prime Minister's special group on formulation of economic policy, member of the Task Force on Economic Policy and member of the working group on preparation of the macroeconomic framework 2005-2010 for the Planning Commission, Government of Pakistan. He has also advised the managing boards of some of the world's largest transnational corporations on investment strategy for Pakistan.

15. Dr. Rehana Siddiqui (Member)

Dr. Rehana did her doctorate from Columbia University. Specialist on growth, human resource development issues with special reference to women as well as working on energy and environment concerns. Currently Dean Research, PIDE Islamabad.

16. Dr. Ijaz Nabi (Member)

Dr. Ijaz did his B.Sc Hons. from London School of Economics and PhD from Warwick University. Worked in the World Bank for 22 years on Latin America and East Asia. Last appointment was Manager Economic Policy South Asia. Currently, Dean Social Studies, LUMS, Lahore.

17. Dr. Faisal Bari (Member)

Specialist on development issues especially local area development and devolution. He is Currently Associate Professor at the Lahore University of Management Sciences (LUMS) Lahore.

18. Dr. Qazi Masood Ahmed (Member)

Dr. Qazi, Specialist on Fiscal Policy and Macroeconomics did his PhD from Centre for Fiscal Studies, Bath University, England. He is currently Professor of Economics and Director Research at the Institute of Business Administration (IBA), Karachi.

Co-opted Members of the Group

1. Dr. Azam Chaudhry
   Dr. Chaudhry did his BSc(Hons) from the London School of Economics and his PhD from Brown University, USA. Dr. Chaudhry worked as an economist at the World Bank for 6 years and worked on issues of country macroeconomic risk and project evaluation. Currently Associate Professor of Economics and Dean, Department of Economics, Lahore School of Economics, Lahore.

2. Dr. Ather Maqsood
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   Islamabad

3. Syed Kalim Hyder Bukhari
   Joint Director
   Monetary Policy Department
   State Bank of Pakistan
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4. Mr. Muhammad Sabir
   Social Policy Development Centre (SPDC)
   Karachi

5. Mr. Savail Hussain
   Chief Manager Exports,
   Sayyed Engineers (Private) Limited
   Lahore