

**NINTH FIVE YEAR PLAN  
(1998-2003)  
ISSUES PAPER**

*Policy Paper No. 11*

**Ninth Five Year Plan (1998): Issues Paper**

**1996**

**Social Policy and Development Centre**

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## ISSUES PAPER

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## INTRODUCTION

The Ninth Five Year Plan is being envisaged, and is to be launched at a juncture, when a virtual consensus has developed in favour of the market mechanism as a fundamental tool to achieve efficient resource allocation across sectors, agents and regions. This consensus has roots in the general disillusionment with Plan outcomes involving a substantial role of the public sector, both nationally and globally.

With this heavy reliance on markets to allocate resources, it may legitimately be asked, whether a development planning exercise has any role in the first place? It is argued, that planning does have a role, albeit in a different form than has been conceived in the past, simply because the gap between market determined results and socially desirable outcomes may still remain substantial. Desirable outcomes such as sustained growth and distributive justice are results which the market may not necessarily deliver. At best, allocation of resources through the market takes an economy up to its production possibilities frontier, but who the beneficiaries of growth are will depend on relative resource endowments and prior distribution of income and assets. Thus, distributional outcomes of the market mechanism may serve to reinforce the status quo or even accentuate inequalities. Apart from its ethical implications, such a strategy is politically infeasible as was proved in Pakistan in the '60s. Moreover, reaching the production possibilities frontier also does not say anything about the sustainability of long term growth, because long term growth entails pushing this frontier further outwards. As much of the recent literature in new growth theory has highlighted, this frontier can best be moved through allocating resources to sectors which generate positive externalities that can be captured at a subsequent date.

From the above statement it stands to reason that planning still has a significant role to play in the development process. Since planning through direct controls and severe distortions of prices has not worked because of unfavorable implications on efficiency, new mechanisms for allocating resources into economically desirable sectors and to specially desirable groups, will have to be sought. Thus the theme for future planning will have to be strategic intervention in areas and sectors which have the potential to generate positive externalities, and greater growth, and where the benefits of growth are more widely dispersed.

Whether such externalities are captured and resources are actually diverted to intended beneficiaries will also depend critically on institutional reform. While planning mitigates perceived market failures, effective governance structures are a necessary condition for reducing the scope of government failure. Thus, for effective development planning, economic interventions have to be accompanied by institutional reform. The need for such reforms has never been as obvious and critical as it will be in the Ninth Plan Period as we turn the century.

# 1. THE STRATEGY OF GROWTH

## 1.1 GROWTH

Growth expectations for the Ninth Plan period have to be formulated in light of the variable economic performance in the first half of the decade of the '90s. The annual growth rate has ranged from a low of 2.2 per cent in 1992-93, to a high of 7.7 per cent in 1991-92, with the average of 5 per cent per annum upto 1995-96. This volatility can be attributed primarily to the vagaries in agricultural production (especially cotton) and to the consequences of disturbed law and order conditions in Karachi affecting industrial output. However, it seems that buoyancy has been restored to the economy in 1995-96, with an anticipated growth rate of 6.5 per cent, resulting from a recovery of the cotton crop and return to normalcy in Karachi. This has also improved the prospects for growth in subsequent years.

The growth strategy for the Ninth Plan is predicated on improvements in the macro economic environment resulting from the policy reforms initiated in recent years as part of the process of structural adjustment. These have already yielded some tangible results. The fiscal deficit has been brought down from over 7 per cent to 5 per cent of the GDP. The current account deficit is down substantially from the peak level attained in 1992-93. The inflation rate, which showed a perceptible increase to double digit rates in 1993-94 and 1994-95, is likely to be in single digits once again in 1995-96. While private investment in industry has grown annually in real terms by over 10 per cent during the last four years, Pakistan has also been successful in attracting major foreign investment, especially in sectors like power. Therefore, if the level of macro economic stability can be sustained and risk factors, both political and economic, are minimised, then conditions can be created for relatively rapid economic growth in the Ninth Plan period.

### 1.1.1 Rate of Growth

We expect that the economy can achieve a growth rate of 6.5 per cent during the Ninth Plan period, which is somewhat lower than the growth rate target of 7 per cent in the Eighth Plan, but is more realistic in light of recent trends. The proposed growth rate would require an investment/GDP ratio of close to 21 per cent, implying a jump of about two percentage points from historical levels, with much of the impetus coming from the private sector. The marginal savings rate is expected to be close to 25 per cent, implying that about 10 per cent of the investment will have to be financed by foreign borrowings.

### 1.1.2 Pattern of Growth

The sectoral distribution of likely growth rates is as follows: 4.5 per cent in agriculture, over 8 per cent in manufacturing and 6.5 per cent in services. Within the agricultural sector, the contribution to growth is likely to come more from public investments in the irrigation and drainage systems, farm-to-market roads, electrification, etc., and improvements in factor productivity, and less so from increases in direct inputs like land and fertiliser. Within manufacturing and services, the major source of growth will continue to be increases in the capital stock, followed by gains in factor productivity and increases in labour inputs. It is expected that the fairly rapid increases



occurring in primary and secondary school enrollments will translate into improvements in human capital endowments of the labour force and lead to gains in factor productivity.

Financing of public investments will require significant enhancement in the level of fiscal effort. The tax-to-GDP ratio will have to be increased by at least two percentage points during the tenure of the Ninth Plan. This will imply a reduction in the budget deficit, to less than 4.5 per cent of GDP, and a constancy in the public debt-to-GDP ratio during the plan period.

We turn now to a description of the expected growth patterns in different sectors of the economy.

## **1.2 AGRICULTURE AND RURAL DEVELOPMENT**

Agriculture continues to be the backbone of the national economy as demonstrated by the impact of fluctuations in agricultural production (especially of cotton) on the overall economic growth rate in recent years. During the Ninth plan period achievement of targets related to growth, employment, exports, inflation, etc., will hinge crucially on the performance of the agricultural sector.

Historically, growth in agriculture has been achieved both due to increases in physical inputs, especially of land, water and fertilizer, and because of improvements in yields resulting from better seeds and varieties. In the next few years, increases in physical inputs will be limited and productivity gains will only be possible by improvements in input use efficiency through better farm management practices. However, in recent years, efforts have been made to eliminate net taxation of agriculture through the pricing mechanism. Prices of most crops now correspond closely to international prices. Pricing policy should, therefore, provide a big stimulus to agriculture and during the Ninth plan period a major supply response can be anticipated, which needs to be ensured by adequate provision of complementary inputs and services.

The primary thrust of the Ninth plan in the context of agriculture may be in the following areas. First, on pricing policy, with focus on proper pricing of inputs. Second, on trade policy, with emphasis on liberalisation to ensure full returns to farmers, price stabilisation and efficient allocation of resources. Third, on crop intensification and diversification, with major strategic interventions to develop oil seeds as a mechanism for import substitution and other high value crops for purposes of export promotion. Fourth, on institutional strengthening and greater involvement of the private sector to ensure timely delivery of key inputs and services. Key areas will be efficient management of irrigation and drainage systems, dissemination of improved seeds and distribution of different types of fertilizer and pesticides. Fifth, adoption of different measures to promote the process of diversification of the agricultural economy by development of livestock, forestry and fisheries.

### **1.2.1 Pricing Policy**

Major steps have been made during the Eighth Plan to rationalise the prices of agricultural products and to make them correspond more closely to international prices. The wedge between the domestic and international prices of cotton has been removed by the abolition of export duties. The procurement price of wheat has been raised significantly during the last three years and now approximates to the border price. Sugar cane prices have also risen rapidly with greater

competition among mills. The farmer now has adequate price incentives. The supply response has been encouraging and during 1995-96 growth rate the agriculture sector is likely to exceed 6.5 percent.

However, while output prices have been rationalised and are likely to promote a more efficient allocation of resources which is more reflective of domestic resource costs, there remain significant distortions in input prices. These distortions need to be removed in order to encourage greater efficiency in input use and to generate the resources for sustained provision. The most problematic area is pricing of irrigation water. The present rate of recovery of O&M costs on irrigation and drainage infrastructure is low and the gap is taking its toll in the form of deferred maintenance. Irrigation charges (abiana) and the drainage cess will need to be revised during the Ninth plan period to ensure full O&M cost recovery.

In other areas, input supplies have hidden subsidies where the public sector is responsible either for procurement, processing or marketing. In addition to high cost of operations (due to large overheads) the delivery service especially with regard to timely availability is very poor. This is observed particularly in the case of phosphate imports and seed processing and marketing. There is need to assign a greater role to the private sector in these areas and to allow the operation of market forces in determining prices.

Pricing policy of tractors, which currently enjoy significant subsidies and differential access to credit, needs to be reviewed. Liberal availability of tractors has led to labour displacement and inefficient use. A significant proportion of tractor hours are devoted to non-farm work, like transportation, while the principal beneficiaries are large farm owners.

### **1.2.2 Trade Policy**

The absence of a liberal trade policy with regard to the export or import of agricultural products has accentuated fluctuations in prices and outputs. Government interventions in markets to regulate trade have characteristically been delayed and result in large differentials in benefits or costs among farmers. This is especially pronounced in the case of semi-perishable crops such as onions and potatoes. Fluctuations in such markets can only be dampened by a clear policy commitment to trade liberalisation. This is essential to stabilise the prices and output of such crops.

### **1.2.3 Crop Intensification and Diversification**

Improved farm management practices will be fundamental to productivity gains during the Ninth plan period. Emphasis will have to be placed on use of improved HYV seeds, timely and judicious use of agro chemicals and fertilizers, pesticide and weedicide and application of proper N:P ratio. Developments that have taken place in the area of information technology and communications media provide a unique opportunity for greatly improving the outreach of extension services. TV shows and radio programs may increasingly be used to access to a larger proportion of farmers, even in remote areas.

A key strategic intervention during the Ninth plan in agriculture is the development of oil seed cultivation. The import bill of edible oils is approaching \$ 1 billion and there is an acute need for

import substitution in this area. Special incentives may be provided in this area, including the offer of attractive support prices.

#### **1.2.4 Institutional Strengthening**

The major focus of institutional improvement ought to be in the area of management of irrigation and drainage infrastructure. The role of the On-Farm Water Management Department has been limited to asset creation through civil works and the irrigation extension aspects have been relatively neglected. Water User Associations (WUAs) need to be fostered and developed not only to play a participatory role in the implementation of rehabilitation works but also at the distribution level, apex associations, representing WUAs, should be charged with the responsibility of assessment and collection of water charges, ensuring equity in water distribution and O&M of the canal network.

In the area of management of underground water resources, ground water laws need to be formulated to prevent over exploitation. Divestiture of public sector tubewells should only take place to user groups rather than individuals. To maintain the productivity of soils, and ensure sustainability of the drainage infrastructure, the role of beneficiaries needs to be increased through participation of stakeholders.

The operation of rural land markets can be made more efficient by proper land titling and record keeping. The provincial Boards of Revenue need to be strengthened in this area. Appropriate documentation of the record of rights and tenancy agreements will be a major step in promoting land consolidation and compliance with land reform legislation. Emphasis should be placed on computerisation of land records with proper description of ownership and occupancy status. Recent improvements in information technology have increased the feasibility of this complex exercise.

Agricultural research remains an underemphasised area and budgetary allocations have been enough only to meet the cost of establishment leaving little funds for research materials and equipment. Also, inspite of past investments in improving the linkage between research and extension, extension services have largely failed to improve the productivity of the sector. There is need to revamp institutional arrangements for extension services. During the Ninth plan period, pilot projects may be implemented to test the efficiency of alternative arrangements for provision of extension services through mechanisms like involvement of the private sector on a contract basis or decentralisation to the district council level.

#### **1.2.5 Role of Private Sector**

Public sector control on the trade/marketing of agricultural inputs and outputs has led to inefficiencies and increasing invisible subsidies, while impeding the development of private sector agri-business activities. The private sector needs to be encouraged to assume the responsibilities of procurement, storage and supply of agricultural inputs (seed, fertilisers) and local and international marketing of output. To promote the role of the private sector, the existing parastatals, which are a drain on the exchequer, may have to be phased out during the Ninth plan.

Subsidy on agricultural credit, with poor utilization and recovery rates, generally remains inaccessible to poor and small farmers. It has inhibited the growth of financial intermediation in the rural sector. The general subsidy on agricultural credit may be withdrawn and subsidised loans preferably be extended only to small farmer groups/NGOs.

### **1.2.6 Diversification of Agriculture**

The livestock sector contributes about one third of the value added in agriculture. Strategic interventions in the Ninth plan in this sector may be in improvement of breeds, better coverage of veterinary services, special credit line to rural women for investment in livestock/poultry and establishment of small scale milk storage and processing (cream separation) plants.

In the area of fisheries, foreign exchange earnings can be enhanced through training and awareness of appropriate sanitary and hygiene standards. Within inland fisheries, hatcheries may be contracted out to the private sector and the public sector may limit its role to training.

## **1.3 INDUSTRY**

The Ninth Plan period is going to be particularly challenging for industrial growth in Pakistan. As past strategies of industrial development pursued in Pakistan run out of momentum, new strategies will need to be invoked for promoting industrial growth in a rapidly changing international environment. The great spurt to industrialisation witnessed in the 1960s was on the back of significant distortions in relative prices (most notably through maintaining a multiple exchange rate) and channelling of resources to a handful of entrepreneurs. After a slack in growth in the early 1970s, the 1980s saw the revival of industrial growth for two reasons; one was the coming on stream of major public sector investments in steel, chemicals, etc., and the other was revival of private sector investment -largely led by debt financing through state-owned Development Finance Institutions (DFIs). However, through this entire period, bureaucratic control over industrial investments and production remained substantial, minor efforts at deregulation notwithstanding. The early 1990s have seen a virtual elimination of regulations on industry as well as privatisation of state owned industrial enterprises. By the end of the Eighth Plan period, the process of privatisation is expected to be complete.

It is obvious that neither the policy regime of the 1960s nor the DFI model of industrialisation can be pursued with the same vigour during the Ninth Plan. With the process of privatisation having been completed in the Ninth Plan period, increases in productivity from these industries are expected. But for this to occur, structural and procedural bottlenecks that still exist in the system will have to be removed. If industry is to continue to be the growth node for the economy, the Ninth Plan has to address a number of issues.

### **1.3.1 Industrial Policy**

Industrial policy for the Ninth Plan will have to concentrate on two fronts: one will be to ensure continued growth and productivity improvements in the existing capital stock/established industries, and the other will be to move into technologically dynamic market niches where scale economies and dynamic comparative advantage can be realised.

For established industries, such as textiles, its ancillaries and food products, the emphasis will be primarily on enhancing productivity and increasing the value added content in output. Through vertical integration of the spinning and weaving industries, the value added content in both industries will be enhanced. For this purpose, the state may provide tax breaks and tariff incentives for integration. Currently, tariffs on spinning machinery are lower than those for weaving. A lower tariff rate may be provided for integrated mills along with preferential access to financing. Incentives provided in the past for shuttle-less looms should be continued so that those spinning mills which are not as yet integrated, have an incentive to do so. Although tax credits on BMR have been removed, they can be selectively reintroduced for the textile sector wherever applicable. Entry barriers (both tariff and non-tariff) on the import of cotton should be removed. Pakistani cotton is not amenable to the production of high count yarn and fabric, which is also another impediment to further value addition in the sector. Production of higher quality yarn and cloth will inevitably raise the value-added content of the garments industry.

### **1.3.2 Quality Control**

The food processing industry now commands one sixth of total industrial value added in the manufacturing sector. The sector has further growth potential as Pakistan attains levels of income where demand for processed food is expected to increase substantially. The industry also has potential to export, provided that stringent international hygiene and quality requirements are met.

For meeting quality and hygiene standards as well as for enhanced productivity, technological up gradation will require the induction of new technology. Again, a favorable tariff structure will be necessary in this respect. More importantly, the state may provide - in concert with industry associations - special training facilities for quality control, identification of new products and processes, and skill enhancement.

### **1.3.3 Strategic Interventions**

New investments in the Plan period should be channelled into industries where demand elasticities in the future are expected to be high, and where technological buoyancy and dynamic scale economies exist. As a conscious strategy, in keeping with trends in the international division of labour, Pakistan should attempt to capture those product markets from which NICs are moving out. Such industries are in the area of components and sub-components of machinery and consumer electronics, transport equipment and plastic products (particularly toys).

Once such strategic sectors are identified, with use of fiscal incentives, and the creation of facilitating mechanisms and removal of other procedural bottlenecks, resources should be channelled into these sectors. This will include tariff differentials for the import of machinery, and

where applicable, protection on finished products to the extent possible within the framework of tariff reforms. Such reforms ought to provide for 'cascading', such that value addition is promoted. Major governance issues will have to be resolved to prevent the abuse of fiscal incentives. One way to control for abuse is that incentives should be performance-based and removed if certain specified performance criteria are not met.

Both, for dispersing the benefits of industrial growth and for capturing the immense potential that already exists with small scale enterprises in the informal sector, sub-contracting linkages should be created for a meaningful small-large partnership. The state can reduce transaction costs inherent in such linkages through providing tax incentives for large scale producers to contract out their work, and to draw up contracts where the small scale sector benefits from the financial and technical resources that the large scale sector possesses.

Wherever possible, joint ventures with foreign firms should be sought as they will provide resources as well as technology externalities. Where joint ventures are not possible, technology agreements should be preferred. Apart from technological spillover effects, such joint ventures/technology agreements also foster discipline in meeting quality requirements and thus contribute in enhancing the productivity of industries.

#### **1.3.4 Removal of Bottlenecks**

For increasing productivity of the existing capital stock and for developing new avenues for industrial growth in the future, it is imperative that a number of bottlenecks be removed. Some crucial areas are:

- ! The creation of a common pool of resources, which plug informational and knowledge constraints, should be encouraged by the state. In this regard, the state development of Common Service Centres should be expanded across industries and areas.
- ! Access and rates for infrastructural services: the crucial bottleneck in this regard is energy. Although major investments in power are expected to come onstream in the near future, the tariff structure may increase to the extent that it will create a disincentive for new investments and enhance the cost of production for existing industry. Over the Plan period, the government will have to reduce the bias against industry in the power tariff structure and equalise tariffs among different types of consumers.
- ! Although training is largely provided on the job in Pakistan, basic vocational skills should be developed further within the formal education system which expedites the process of picking up job-specific skills.
- ! Industrial investment by its very nature requires projection of changes in relative prices for inputs and outputs. While output price changes are largely determined by the market (and where this is not the case, price ceilings should be removed), by creating a more consistent and specified policy regime, uncertainty regarding input costs and output prices can be reduced.

### **1.3.5 Fiscal Incentives**

In the realm of fiscal incentives to backward areas, past experience has shown that these have created perverse incentives for the industrial sector without contributing significantly to regional development. It is recommended that they should be gradually phased out over the Plan period. Instead, industrialisation should be promoted through expanded provisions of physical and social infrastructure from a Backward Areas Infrastructure Development Fund.

## **1.4 ECONOMIC INFRASTRUCTURE**

The development and maintenance of infrastructure has been the traditional responsibility of the public sector, as much of it has characteristics that make it unsuitable for provision through competitive markets. The features of market failure include the creation of monopolies because of technological factors, inequitous access owing to economic factors, lumpy investment requirements and spillover effects. While these factors legitimise intervention by the public sector, they do not necessarily exclude the private sector from all aspects of providing these services. It is generally realised that these traditional features attributed to infrastructure are not necessarily true for all the activities involved. Technology development has widened the scope for competition, created low-cost supply options, and created new types of services. Experience around the globe suggests firstly, that the scope for public intervention has been reduced, secondly, that whenever justified it may be exerted through less distorting mechanisms such as regulation, and thirdly, the risks of poor performance due to possible market failure are less serious than the failure of government.

In Pakistan, owing to resource constraints and public sector management problems, the demand-supply gap has been widening and is getting out of reach of the public sector. This implies that the future strategy by government may be to consolidate and improve efficiency in its existing activities, introduce mechanisms for regulation and induct the private sector at the margin especially since development of economic infrastructure at this stage is becoming increasingly capital-intensive. This may result in improving the cost effectiveness in public provision and may lead to greater economic benefits resulting from competition and efficient management. The beginnings of this have been seen in recent years with the partial sale of PTC and with the impending privatisation of some of the existing power generating facilities.

The scope for improved performance from existing facilities is substantial. Power losses in the system have risen significantly. Highways can be rehabilitated through proper maintenance expenditures. The share of railways in the total carriage of goods and passengers has been declining constantly and the losses incurred have been mounting. The handling of cargo at both ports is substantially below international throughput rates. With increases in productivity, the existing ports can handle the forecast volumes of cargo. Telecommunications services are generating substantial profits, but offer a level of service which is not commensurate with the price charged.

### **1.4.1 Power**

The government has recently signed a number of Memoranda of Understanding (MOUs) with foreign companies for power generation on favorable terms to the investors. Achievement of full efficiency of these investments has to be ensured through adequate provision of complementary infrastructure. For example, the quantum of imported oil needed to generate the anticipated levels of electricity will be substantial. This would require an increase in oil handling facilities at the ports. In addition, this oil would have to be transported to the power plant sites either by road or by pipeline. If the former option of transporting by road is adopted, then the implications are that a substantial increase in road capacity will be needed and the fleet needed for transportation will have to be imported. Transportation by pipelines offers an alternative solution which may be more economical and the spillover impact on the environment may be substantially lower than that by road. The policy may, therefore, be to encourage the development of pipelines for supply to these plants.

In order to cater for energy needs in a longer run framework, one option may be to develop the hydro-electric capability in our riverain system. This could consist of a package of the large hydro-electric dams such as Ghazi Barotha, or small hydro-electric dams which are being proposed for implementation in the northern regions of Pakistan. While large dams may provide the benefits of economies of scale and improve water availability in the dry months, their impact on the ecology could be substantial and needs to be examined in depth. These dams also have the added disadvantage that they require long gestation periods. The option may be to exploit the potential for small hydro-electric plants, which have a number of advantages: they can be established rapidly; they are environmentally friendly; the machinery can be produced locally; and, their impact on the balance of payments is less negative than that of similar fossil-fuel plants.

#### **1.4.2 Highways**

It is estimated that to complete the projects in-hand, the throwforward of investment needs is substantial and at current levels of public sector outlay would require several decades to be completed. In addition, the current priority in allocations needs to be changed so that the existing roads and highways are more efficiently used and the level of service provided improves. Analysis of the projects in-hand indicate that a small proportion of the number form the core programme and the others may well be delayed or funded through alternative mechanisms. This may best be achieved through joint financing which would reduce the amount of funds needed for public sector investment. The policy may well be to consolidate and improve the existing facilities first, by repairing and renovating existing highways, and expanding the network only with roads which are unambiguously economically justified or of strategic importance.

For other projects, a strategy to induct the private sector through a Build-Operate-Transfer (BOT) facility may be adopted. However, success will depend on the existence of legislation enabling the implementation of BOT projects, continuity of policy, long-term guaranteed availability of funds, that is non-lapsing budget allocations, flexibility in the selection of routes, an effective public-private venture with control vesting in the private organisation and regulation with government, and, an environment of trust created by transparency and flexibility in the process of negotiation, implementation and operation.



### **1.4.3 Ports**

Both users and planners generally agree that there is a clearly identified need for developing port facilities in Pakistan. The choice lies between expanding and improving the facilities at Karachi and Bin Qasim or developing a new port, largely to service perceived demands from the Central Asian States. Investment in a third port will require substantial outlay not only in the physical infrastructure needed to link this port to the rest of the country, but also in facilities required to service the port. The optimal strategy may well be to first improve efficiency of the existing ports, invest in specialised facilities further to meet short- and medium-run needs, and develop the third port in an incremental manner. Most of such investment could be financed by the users themselves, namely the shipping companies, the stevedores and the clearing and forwarding agents. The policy of improvement through private sector participation, such as the development of container handling facilities and the operation of bulk and oil terminals, may be extended to such services as tug and berth operations, warehousing and mechanisation of cargo handling.

### **1.4.4 Telecommunications**

During the last few years, Pakistan has seen the introduction of cellular telephones, electronic paging, pay-phones and internet services by a number of private sector operators. This has been matched with a rapid expansion in telephone infrastructure and services offered by Pakistan Telecommunications Corporation within a public-private partnership environment through BOT projects. Moreover, PTC is in the process of being privatised. This will however, result in the creation of a monopoly. The existing policy of regulating the affairs of PTC may be supplemented with a policy of providing competition to PTC by allowing a number of other firms to participate in the provision of these services.

## **1.5 INTERNATIONAL TRADE**

With the signing of the World Trade Organisation Agreement in Marrakesh in April 1994, Pakistan has opened itself to a new world trade order. While the full impact of the new liberal trading environment will only be felt by our textile exports in the year 2005 when the Multifiber Arrangement will be completely phased out and quota restrictions removed, our own economy will be exposing itself extensively to international competition during the Ninth Plan period. While reduced import tariffs in Pakistan will encourage imports, inefficient domestic industries will have to invest in a rapid upgradation of product quality. In addition, manufacturing costs will need to be brought down and labour productivity will have to improve dramatically.

In the export sector, while tariff barriers and quota restrictions will gradually come down, it is expected that ISO 9000 and other non-tariff barriers will emerge as deterrents to trade. Again, improved management of costs and quality will become essential to stay competitive. The thrust of the Ninth Plan, therefore, has to be on human resource development and the enforcement of internationally acceptable quality standards. Investment in human capital can help keep domestic industries competitive in the face of low tariff imports, while quality conscious skilled workers can help in generating value-added exports.

In order to maintain a healthy trade balance during the Ninth Plan period there is need to focus on six key areas. First, ensure increased access and availability of imported raw material at international prices. Second, prioritise human resource development in so far as it enhances the skills and availability of trained workers in key export industries. The existing Export Development Cess may be used for capital investment in the creation of more training institutes and testing facilities to be run by a public-private partnership with trade associations. Third, joint ventures with foreign technical collaboration may be encouraged to improve the quality of exportable surpluses. Fourth, strategic interventions may be made in key emerging or non-traditional industries to increase their export capabilities. This effort should be in addition to rather than by diverting resources from the textile sector which is expected to remain a major contributor of export earnings. Fifth, the exchange rate needs to be market based and responsive to changes in the exchange rates of our competitors. Sixth, diversification into value-added products and new, non-traditional products needs the support of an aggressive marketing and publicity program which is geared towards enhancing the image of the “Made in Pakistan” label.

### **1.5.1 Textile Exports**

Cotton and textiles currently account for 65 per cent of total exports. The cotton and textile sector is a major source of industrial and agricultural employment and has strong linkages with the services sector. The variability of the cotton crop has acutely highlighted the strategic need for reducing dependence on domestic cotton production.

However, while diversification into selected emerging industries through strategic interventions may be one of the important elements of the Ninth Plan, the considerable growth potential of the textile sector also needs to be fully harnessed. Although worldwide trade in textiles may not be growing rapidly, developed countries as well as Hong Kong, Korea and Taiwan are moving into non-textile sectors, opening up avenues for Pakistani textile and apparel exporters to take advantage of the changing international division of labour.

Duty free import and export of cotton will force the industry to invest in better management which can lead to efficiency gains and reduce the dependence on low-priced domestic cotton. Increased investment in downstream sectors such as fabric printing and processing and in packaging and marketing can also yield quantum gains in export earnings.

Value-addition in the textile and garment sectors can be speeded up by encouraging joint-venture direct foreign investments. Realizing the potential of Pakistan’s textile industry, several US and European companies have approached Pakistani textile manufacturers but inconsistent policies, and abrupt changes in incentives, tax and tariff rates do not lend themselves to long term planning and foreign investors have tended to shy away. Long term, stable incentive packages will need to be created for encouraging joint-ventures.

### **1.5.2 Imported Raw Material at Competitive Prices**

Chemicals and dyes account for over 90 per cent of duty-drawback claims in both the textile and leather sectors which together yield 75 per cent of total export earnings. Delays in drawback payment affect the liquidity of exporters while fraudulent claims result in revenue losses to the

government. The net revenue due to tariffs on chemicals and dyes, after taking into account all drawback claims, is negligible, if not negative. The Ninth Plan may envisage allowing duty-free import of chemicals and dyes. This will also encourage use of better quality dyes and will free management from wasting time on retrieving drawback claims.

Domestic polyester manufacturers are currently being protected through high tariffs. Profitability may be sustained through fiscal incentives rather than through the tariff mechanism such that polyester fabrics for bedlinen as well as for clothing may be made available to exporters at internationally competitive prices.

### **1.5.3 Strategic Interventions in Non-traditional Sectors**

The government may make strategic interventions in selected non-traditional export sectors and target them for expansion. Software, automotive parts, footwear and food processing are areas that can be targeted for strategic intervention through incentives.

- ! The computer software industry is experiencing a 30-40 per cent annual growth worldwide, adding over US\$100 billion in total sales every year. In contrast, the textile industry is growing by 1 per cent a year. By investing in computer training institutes and developing software skills, by providing high speed telecommunication links and by promoting software technology parks in major cities, unemployed urban youth can be diverted to a low capital based sector which has a large potential for export revenue generation. Pakistan is not yet known as a source for off-shore software development. International marketing of our prowess in this field needs to be stressed.
- ! The automotive sector in Pakistan has spawned a growing vendor industry. By encouraging this sector to manufacture for export, economies of scale can be achieved and quality consciousness will improve. Joint ventures in this field can yield major export gains.
- ! Strategic interventions in the electronics vendor industry which supplies parts for televisions and stereos and the domestic appliances industry which manufactures fans, freezers, washing machines and electric motors and pumps can lead to increased production and exports. Steel and other inputs will have to be competitively priced to make this sector internationally viable.
- ! The footwear industry in the United States is relocating. Both athletic footwear and leather shoes are being manufactured in Pakistan. Promotion of joint ventures and similar strategic initiatives can position this sector to generate substantial exports.
- ! Approximately 30 per cent of all fruits and vegetables grown in the country rot before they reach the consumer. Improved farm to market roads, better packaging and handling, cooling sheds and refrigerated trucks can generate a large exportable surplus. Processing and canning facilities for fruits and vegetables as well as seafood can also add value to exports.

#### **1.5.4 Quality and Human Resource Development**

In the new world trading environment, tariffs and quota restrictions currently enforced by developed nations are likely to be replaced by qualitative barriers. The ISO 9000 quality standard and Total Quality Management will become critical barriers to trade. Investment in training institutes, vocational skill development centres and quality testing laboratories and service centres will ensure a steady flow of trained manpower. These trained workers can ensure that quality standards are met. Government initiatives to encourage quality need to be augmented to cater to the needs of an international market that will be setting exacting standards.

The financing of training institutes and testing centres may be undertaken by the government - supported by the Export Development Cess - but a private-public partnership with trade associations may be encouraged to look after the operations of such institutes and testing centres.

#### **1.5.5 Exchange Rate**

In keeping with the trading environment that is emerging, Pakistan cannot be at variance in its policies with those of its neighbors and its competitors. A market based exchange rate will be essential to maintain a reasonable trade balance. The heavy investments currently envisaged in the energy sector will entail large fuel and energy equipment import bills. Repatriation of profits and amortisation of capital expenditure by foreign investors may exacerbate our balance of payments problem. A market based exchange rate can keep matters from getting out of hand. The prospect of expanding trade with the Central Asian Republics and offering the world a land route to the region can attract a stream of direct foreign investment over the Ninth Plan period. This inflow of funds may help in maintaining a stable exchange rate.

An overpriced rupee will encourage capital imports and will also enhance the import of consumer goods as tariffs are brought down. Besides, it will discourage exports. A market based exchange rate that is responsive to changes will ensure adequate compensation for exporters and at the same time discourage imports.

#### **1.5.6 “Made in Pakistan” Label**

The sending of trade delegations abroad, the participation of Pakistani companies in international exhibitions, foreign publicity, the distribution of promotional literature, access to trade related information exchanges and the speedy dissemination of trade enquiries, will be all the more essential in the wake of the impending information explosion. Investment in the setting up of ramps to provide access to Pakistani businessmen desirous of getting on the information superhighway and a reduction in communication tariffs will all be important to keep the world informed of what Pakistan has on offer.

Export marketing is an area which has traditionally been ignored by Pakistani exporters. We do not have brand names to sell and the “Made in Pakistan” label itself does not have a positive appeal. No individual exporter can be expected to invest in promoting the image of the country. It is, therefore, important that the government not only invests in informing the world about what we can export but also invests in improving the country’s image. After all, if Levi’s, Polo, Adidas

and Gap can all trust Pakistani manufacturers, there is no reason why consumers around the world should be wary of the “Made in Pakistan” label.

## 1.6 PRIVATE INVESTMENT

### 1.6.1 Domestic Investment

During the Ninth Plan period private sector investment is envisaged to be about 50 per cent higher than that by the public sector. However, so far as the strategy for inducing private sector investment is concerned, it will have to be different from that pursued in the past as the era of directed credit and subsidised interest rates is all but over.

In a liberalised environment ) with market determined interest rates and with the real exchange rate at its equilibrium level ) the cost of capital is expected to increase substantially during the Ninth Plan period. A possible negative fallout of the environment is that private investible resources will tend to go towards short-term, high return investments, which are often speculative in nature. As a result, investments in long term, long gestation sectors will tend to dry up. Sectors likely to be particularly affected by these characteristics of liberalised financial markets are manufacturing and economic infrastructure.

To avoid these pitfalls, returns on long term investment will have to be higher than what they have been historically. Partly to check for such an eventuality, returns on investment in the energy sector have been increased by an incentive package. However, while this has induced investment in the infrastructure sector, it can potentially create an imbalance in the profile of investments whereby investment in manufacturing suffers. Therefore, while the Eighth Plan has moved towards reducing infrastructural bottlenecks, the Ninth Plan will need to reduce this imbalance through equalising returns across sectors.

The strategic issue for the Ninth Plan will be to increase returns on investments in manufacturing. With a number of power projects expected to come on stream, they are expected to have a `crowding in' effect on manufacturing due to the availability of energy. Moreover, returns on investment are expected to increase if suggestions to enhance productivity of existing capital stock through the removal of procedural and other bottlenecks materialise. Further, if investment is induced in strategic industries through fiscal measures, returns on these investments are expected to be high as, by definition, these will be the industries where demand elasticities (both nationally and globally) will be high and where dynamic scale economies prevail. Also, equilibrium in the exchange rate and a reduction in the level of tariffs will change relative profitability in favour of export promotion in relation to import substitution. This could open up significant investment opportunities over time in the export sector.

Currently, industrial enterprises also face the problem of access to working capital funds. For industrial investments to achieve higher rates of utilisation, it is imperative that this bottleneck be removed. In its credit planning, the State Bank may stipulate an increase in the working capital component of commercial bank credit portfolio.

In the agricultural sector, the role of financial intermediation in stimulating private investment has been limited. This trend is expected to continue in the Plan period. To the extent that financial

intermediation increases, with returns in agriculture increasing as a result of price liberalisation, the sector should adapt to higher capital costs that are expected to prevail during the period. For reasons of equity, the ADBP should continue to provide loans to smaller farmers and, if need be, on subsidised rates. It goes without saying that this policy will have to be considerably streamlined if its abuse is not to occur. If the policy of recording land holdings is carried out, then the informational asymmetry with regard to the actual borrowers will be reduced and it will facilitate the disbursement by ADBP of loans to the intended beneficiaries.

### **1.6.2 Foreign Direct Investment**

Through the Eighth Plan period, the share of FDI in total investment has increased considerably, albeit from an initially low level. However, compared to other countries, Pakistan still lags behind in the global race to attract foreign investment. It is imperative that conditions are created for the country to compete in this global race more effectively. As an important prerequisite, stability in macroeconomic policy making should be ensured during the Plan period. Moreover, if skill enhancement and removal of other infrastructural and procedural bottlenecks is carried out, they will go a long way in creating the requisite conditions for improving Pakistan's competitive position vis-a-vis foreign investments. Additionally, special incentives, in terms of state provision of land to foreign investors, tax breaks and repatriation facilities should be provided to strategic sectors, such as those where the quantum of investment is large or where potential for technology diffusion is promising.

## 2. FINANCING OF GROWTH

### 2.1 PLAN SIZE AND FINANCING

The feasibility of the growth target rests crucially on the mobilisation of adequate resources. With an incremental capital/output ratio of 3.3, the target growth rate will require a total plan size of Rs 3,800 billion or Rs 2,300 billion at 1992-93 prices<sup>1</sup>. This represents an increase of 35 per cent over the Eighth Plan target as shown in the table below. Public sector development outlay is proposed to be 26 per cent higher than the Eighth Plan while private investment is projected to be higher by 42 per cent.

<b>TABLE 1</b>				
<b>PLAN SIZE (1992-93 PRICES)</b>				
<b>(Rs in Billion)</b>				
<b>Plan</b>	<b>Public Sector</b>	<b>Private Sector</b>	<b>Total</b>	<b>Increase (%)</b>
7th Plan	553	596	1149	21
8th Plan	752	948	1701	48
9th Plan	950	1350	2300	35

SOURCE: The Eighth Five Year Plan, SPDC estimates.

The Ninth Plan consolidates the shift of investment from the public to the private sector. This is largely in line with the philosophy of liberalisation, privatisation, deregulation and openness in practice in the country for the last few years. The private sector is expected to play a leading role in the consolidation and technological improvement in all sectors of the economy, and in all avenues including investment, production, and trade. Consequently, the share of the private sector in total investment is likely to increase to over 58 per cent during the Ninth Plan period to Rs 2,300 billion (at current prices). The public sector development outlay is expected to be Rs 1,500 billion.

In terms of financing, over 90 per cent of the Plan is proposed to be financed from national savings. With increasing repayment of external debt, the contribution of external resources is likely to decline from the Eighth Plan target of 85 per cent.

### 2.2 PUBLIC FINANCES

The problem of a major structural imbalance in the public finances of the country has been visible for decades. The overall budget deficit has generally remained in excess of 5 per cent of the GDP. Though there has been some moderation recently in the rate of increase, yet the deficit remains large due to the rapidly growing interest payments on debt which reflect accumulation of debt resulting from the high level of borrowings in earlier years. This has exerted a strong upward pressure on current expenditure, which has increased to the current level of 18.5 per cent of the

<sup>1</sup> The Social Policy and Development Centre (SPDC) Integrated Social Sector Macro Economic Model has been used to estimate tentatively the Ninth Plan size and its financing.

GDP. Coupled with large defence obligations, there appears to be limited scope for reducing current expenditure.

As such, the burden of the adjustment has fallen on development expenditure, which has been scaled down substantially to only about 4 percent of GDP. The consequences of this policy have become visible in the form of bottlenecks in vital components of physical infrastructure like energy, transport, etc., and the visible lack of improvement in the social indicators of the country. A further decrease in development outlays will affect the growth potential of the country in the coming years.

On the resource side, revenue mobilisation has stagnated around 17-18 percent of GDP. A comparison of the level of tax revenues in developing countries reveals the relatively low level of fiscal effort in Pakistan. The average tax-to-GDP ratio for countries at a comparable level of development is approaching 20 percent while in Pakistan it is still less than 14 percent. Therefore, there appears to be considerable potential for raising tax revenues in Pakistan. Factors resulting in the low tax effort include the lack of elasticity of most tax sources, the plethora of exemptions, the level and structure of tax rates, poor quality of tax administration, and the high level of tax evasion.

Also, compared to other countries, Pakistan's tax structure seems to be more inequitable and less efficient. There appears to be an overdependence on indirect taxes, specifically trade-related taxes, and under exploitation of direct taxes. The direct tax-to-GDP ratio in Pakistan is around 3 percent while the international average for countries at comparable levels of development is over 7 percent. However, the impending tariff reforms are likely to reduce the significance of taxes on international trade. As such, it is clear that during the Ninth Plan period, much of the incremental effort must concentrate on direct taxes. Not only will this contribute to higher revenue generation, but also to a more balanced, equitable, and buoyant tax system with fewer distortionary effects on the economy.

In addition, taxes of lower tiers of government in Pakistan remain underdeveloped and there has been a substantial decline in the provincial-tax-to-GDP ratio over time: this ratio has halved over the last two decades. Furthermore, the provincial taxation structure is fraught with a number of structural problems like skewed, narrow, and inelastic tax bases, high revenue leakages and lack of exploitation of promising revenue sources. Therefore, if the taxation structure in Pakistan is to be improved and overall tax-to-GDP ratio to be increased, the responsibility has to be shared by the federal, provincial and local governments.

### **2.2.1 Resource Mobilisation**

Based on the above, it is clear that focus during the Ninth plan period will have to be on enhancing revenue generation, largely by a restructuring of the taxation system, on the following lines:

- ! A shift of focus from trade-related to direct taxes and consumption based taxes.
- ! Emphasis in the area of direct taxes will have to be on expanding the tax net. Widespread prevalence of exemptions and concessions has eroded the income and wealth tax base. Major tax expenditures (revenues foregone due to exemptions) are



due to the statutory exemptions of the income of public corporations [WAPDA, PTC, etc.], agricultural income and wealth, salary perquisites, capital gains on financial assets, tax holidays, owner occupied property, etc.

- ! Indirect taxes are also characterised by a multiplicity of exemptions. The share of dutiable imports in total imports is only about half, due to the promulgation of numerous SROs over the years. The strategy to partially mitigate revenue losses from tariff reductions may include the withdrawal of most of the SROs. Also, the restricted coverage of the sales tax to, by and large, the import and manufacturing stage, results in revenue losses to the exchequer. A case, therefore, exists for the extension in the general sales tax net to the retail stage. This will represent a major challenge to tax administration during the Ninth Plan period.
- ! A greater provincial tax mobilisation effort by the rationalisation and revision of tax rates of major taxes like stamp duties and the motor vehicle tax; broadening of the property tax base through improvements in assessment practices; switchover from specific to ad valorem tax rates; and exploitation of untapped areas like capital gains on physical assets, services, vacant plots and agricultural income, with reliance on presumptive taxation, wherever necessary.
- ! Enhanced cost recovery in the case of tertiary social services and economic services like irrigation.
- ! Improvements in tax administration which achieve greater efficiency, transparency and accountability in collection to be implemented on a priority basis.

### **2.2.2 Development of VAT**

Development of a VAT type general sales tax in Pakistan will represent one of the key areas of tax reform in the Ninth Plan period. VAT may be introduced and administered in one of several ways:

1. the conventional VAT mechanism which envisages the collection at each stage in the production-consumption cycle with tax invoicing for payments at the previous stage based on voluntary compliance with penalties for evasion;
2. the mechanism used by Turkey which adopts the traditional VAT mechanism but introduces an element of policing. This is achieved by granting a partial tax credit from income tax to the consumer on production of VAT-paid receipts for goods and services consumed by them;
3. the introduction of a VAT stamp pasted on to goods sold and the used stamps used to claim a refund. In addition, a portion of VAT revenues could be used as a prize for a lottery based on the serial number of VAT stamps sold; and

4. the introduction of a withholding presumptive VAT at the manufacturing stage with a very low rate, say 1 percent of the value of goods and services. Retailers would have the option of filing returns to claim a refund of the tax paid in advance.

The first two require a high level of documentation and an army of tax inspectors which would add substantially to the cost of tax administration and of compliance by tax payers. Given the levels of educational attainment, introduction of such mechanisms may have to be done in a phased manner. The third mechanism essentially acts as a substitute for invoicing and documentation. The last alternative has the merit of simplicity for both the assessee and the administrator. The manufacturing sector is already substantially covered by the GST tax net which could be widened without an inordinate expansion of human resources available to the tax administration departments. The advantage of a presumptive withholding tax would be to encourage the trade sector assesseees to file returns of income to claim refunds for VAT paid in excess of their liability.

### **2.2.3 Development of Agricultural Income Tax**

The second area of focus in the Ninth Plan may be on generating revenues from the agriculture income tax in the event such a tax is legislated by the provincial governments. The issue revolves around the question of how such a tax should be assessed and collected. One option is assessment on a presumptive basis linked to the PIUs of land holdings. Another option is to introduce a presumptive withholding tax at the marketing stage on selected commodities, say sugarcane, cotton, tobacco and rice delivered at the mill-gate for processing, or fruits and vegetables exported from the country with the farmers claiming refunds on providing proof of income through the normal routine of filing returns annually. This mechanism has the added merit of equity by taxing only the marketable surplus which is generated largely by large land-owners and thereby exempts the small farmer.

### **2.2.4 Public Debt Management**

The other major area of focus in the Ninth Plan period will have to be improvements in public debt management to limit growth in the burden of debt servicing. Rapid increases in interest payments, especially on domestic debt, are a consequence of the underlying composition of debt and the surging interest rates especially after the financial sector reforms. Key components of debt management will include:

- ! Generation of primary budget surpluses. This will require that tax and non tax revenues combined are adequate to cover current expenditure, excluding interest payments, and development expenditure.
- ! Retirement of high cost domestic debt by the use of all privatisation proceeds.
- ! To the extent feasible, incremental borrowings through relatively low cost instruments. The introduction of new, high-return debt instruments, which divert funds from existing government schemes, must be avoided.

- ! Effective co-ordination between public debt management and the conduct of monetary policy.
- ! Flexible interest rate policy on voluntary savings schemes linked to the underlying rate of inflation (so as to reduce variability in real rates of return) and to the target for borrowings.

### **2.2.5 Expenditure Management**

Focus will also have to be on better expenditure management. A rupee saved is equivalent to a rupee earned. Revenues mobilised must be used in an efficient and effective manner to break the vicious circle of untenable budget deficits and surging interest payments. The contours of the policy package in this area will include:

- ! targeting of growth annually in defence expenditure such that real expenditure is preserved at the base year of the plan;
- ! Formation of a Commission to study and implement measures possible in areas like:
  - " Rationalisation of federal ministries and autonomous bodies primarily performing functions contained in the Concurrent list or where scope exists for privatisation
  - " Ban on employment, other than project related
  - " Economising on non-salary current expenditure.

## **2.3 FINANCIAL SECTOR DEVELOPMENT AND THE CAPITAL MARKET**

Financial sector reforms undertaken by the government since 1990 are an important component of this overall package of structural and stabilisation measures to integrate the economy with the rest of the world. Financial sector reforms implemented to date have been impressive and some may even regard them as rapid relative to the reforms in the real sector. In retrospect, the issue of appropriate sequencing of these reforms remains a point of debate amongst policy makers.

### **2.3.1 Financial Sector Development**

The financial sector reforms have led to considerable widening of the market and enhanced competitiveness in this sector. Reforms have been implemented in the area of public debt management, privatisation of nationalised commercial banks, the opening of the banking and financial sector to the private sector, foreign exchange reforms and rationalisation of credit policies and types of instruments of monetary policy. As a by product of financial reforms, the trading activity and number of listed companies in the country's stock exchanges have increased appreciably. The aggregate market capitalisation at the Karachi Stock Exchange is approximately

Rs.400 billion, having grown from Rs.30 billion in 1987/88. Similarly, trading volumes have soared from under half million in 1987-88 to a daily average of 10-15 million.

All the above reforms, as well as the introduction of instruments such as foreign exchange bearer certificates, DBCs, FIBs, the auctioning system of Treasury Bills, and new products of privatised banks, alongwith the revival of the stock markets, have deepened the government securities and financial assets market in the country. It has now paved the way for further deepening the market in the Ninth Plan through development of secondary markets and efficient monitoring and regulatory mechanisms.

The Ninth plan envisages an average annual growth rate of 6.5 percent through reliance on market forces and strategic interventions in contrast to a strategy of allocative planning followed in earlier plans. A development outlay of Rs.3800 billion is projected for the five years of the Plan, of which over 58 per cent will come from the private sector. The implications of these financing requirements for the development of capital markets under a liberalised regime of economic policies are as follows:-

1. Over the last many decades, government owned DFIs were the principal source of long-term debt financing for the private sector. This strategy allocated subsidised credit to priority sectors at the cost of introducing inefficiencies in the borrowing and lending practices. The consequence has been an ailing development finance sector which cannot be relied on to supply subsidised investible funds for the Ninth Plan. As a corollary to the just mentioned scenario, most of the financing in the private sector in the Ninth Plan will have to be either equity based and/or at market rates of interest.
2. The above growth rate is predicated on an investment to GDP ratio of 21 percent. It is expected that by the middle of the Ninth Plan, the domestic savings to GDP ratio will rise to 20 percent from the current level of 14 percent. External financing or foreign savings will bridge the investment gap. In today's world, concessional foreign aid is rapidly diminishing. Moreover, to stabilise our debt servicing ratios, increased reliance on non-concessionary foreign inflows would be self-defeating. Consequently, the success in meeting our financing targets critically depends on attracting foreign investment in the shape of non-debt creating capital inflows. The capital market would not only have to respond to increasing foreign investment in portfolio and productive assets, but also a higher level of exports and imports.
3. Not only is the private sector expected to contribute a larger share of development outlay, but is also expected to invest in industries and sectors with higher medium term risk. Capital markets with well diversified and innovative instruments can price such risks.

Based on the above the recommended approach for the Ninth Plan may be as follows:

### **2.3.2 Stable Macro Environment**

A smooth functioning capital market cannot exist in a vacuum. Its working is intimately linked with the macro environment. A stable price regime supported by a sustainable and financeable fiscal and current accounts deficit, complement the functioning of the capital market. Inflationary expectations associated with the large fiscal deficits have concentrated economic and financing

decisions towards the short-term. An uncertain political and economic environment discourages investment and long-term institution building. Consistent policies based on well-thought out policy objectives will clearly be important. Frequent changes in policy will impact adversely on the reform process and its credibility.

### **2.3.3 Market Oriented Monetary and Credit Policy**

Market-based credit allocation, as a part of a coherent monetary policy that relies on *indirect control* of monetary aggregates in line with domestic inflationary developments, is important to the development of financial markets. Financial intermediation will improve if monetary policy allows market forces to determine credit allocations. Policy must therefore discontinue reliance on controlled interest rates, credit rationing and the crowding out of the private sector. Interest rate deregulation must keep pace with the development of *market supervision* in order to prevent adverse selection in the credit markets from exposing bank portfolios to excessive risks.

### **2.3.4 Deregulation and Privatisation**

With the privatisation of 4 out of 6 nationalised commercial banks and BEL (a DFI) completed by 1998, much would be achieved in this sphere of the reform process. However, privatisation needs to be extended to other financial institutions, e.g., NDFC, PICIC, NIT and ICP. It will make available more tradable equity in the market, reduce arbitrage and hence make the market more efficient. With the privatisation of commercial banks, the tendency for collusion or cartelisation needs to be discouraged through close monitoring. The process of privatisation should be such that it increases the efficiency of financial markets.

### **2.3.5 Regulation and Supervision**

Strategic intervention by the government in the Ninth Plan should concentrate mainly on developing a coherent institutional arrangement for regulating and supervising financial markets efficiently. The regulatory agencies, such as SBP and CLA, need internal reform and qualified trained staff to ensure compliance with sound business practices. Both agencies need to be made autonomous in terms of their roles and responsibilities. Supervision must be vigilant and punitive in the interests of its own credibility.

### **2.3.6 Credibility of Information**

Another area of intervention by the government is to ensure the transparency and credibility of information. It will help in the development of a modern financial system. The integrity of trading in financial markets is preserved by the timely flow of information relating to trades and fundamentals. If financial markets are to handle large transactions in a speedy manner, clearing house and depository functions are necessary elements of the enabling environment.

### **2.3.7 Efficient Legal System**

The inability to enforce contracts through legal channels is one of the root causes of the inefficiency in the Pakistan economy. The legal system has to be made more responsive to the needs of the financial sector. This will require a supportive legal, administrative and regulatory structure for protecting depositors of banks and an adequate bankruptcy law for enforcing foreclosures.

### 3. EQUALISATION OF OPPORTUNITIES

#### 3.1 EMPLOYMENT

Policy makers in Pakistan have always been conscious of the need for generating employment opportunities in order to absorb the backlog of the unemployed labour force as well as the new entrants into the labour force. Unemployment is generally assumed to be a serious problem in the country. According to estimates, about one million persons join the labour force every year, of whom about half manage to find jobs and the rest join the army of unemployed. Reliable and complete unemployment data is not available. Estimates range from a low of 3 per cent to a high of 20 per cent. Studies based on household surveys in selected cities have established the urban open unemployment rate at 10 percent and an even higher underemployment rate. Open unemployment is largely an urban phenomenon while underemployment is more pervasive in rural areas.

Employment opportunities are also regionally skewed. It appears that there is a relatively high concentration of employment opportunity in Karachi and six districts of central Punjab, i.e., Lahore, Shiekhupura, Sialkot, Gujranwala, Gujrat and Faisalabad. These districts account for a quarter of the total population, but half of total manufacturing employment. NWFP, western and southern Punjab, Balochistan and rural Sindh appear to suffer from relatively higher levels of unemployment.

An attempt to deal with employment issues requires an understanding of the labour market and its operation. In terms of neo-classical economic theory, the law of demand and supply of labour ensures that wage rates will adjust to absorb the labour force and lead to full employment. However, this is only possible if labour markets are homogenous and there are no institutional barriers to labour mobility and to changes in wage rates.

In reality, labour markets in every economy are functionally and regionally segmented, labour mobility across functional and regional "boundaries" is limited in the short run, and there exist wage rate rigidities especially in the presence of unionisation. Pakistan is no exception. This situation is perhaps responsible for the simultaneous existence of pervasive rural underemployment and of labour shortages during specific periods, like harvesting, in irrigated areas. It is perhaps also responsible for the existence of high levels of unemployment and underemployment in urban areas and of the large scale influx of foreign labour. The phenomenon of labour shortages at specific periods in specific rural areas and of the "import" of foreign labour should not be taken to imply that unemployment has not been, or is not, a problem in Pakistan.

Unemployment has, to date, been attempted to be tackled through direct measures. Examples include the Integrated Rural Works Programmes in the 1960's, the National Development Volunteer Programme in the 1970's and the employment credit programmes in the 1980's and 1990's. These schemes have not only had limited success, but have been widely misused. It now needs to be realised that employment is not a sector of the economy; rather the employment factor is inherent in all sectors of the economy.

Employment growth is a function of growth in the sectors of the economy. The relationship between economic growth and employment growth is direct but not proportional. If the

employment elasticity coefficient is less than one, it is likely that employment growth will lag behind economic growth. This situation can arise in the event of capital intensive growth brought about either by changes in relative prices in favour of capital or by labour saving shifts in technology.

### **3.1.1 Growth and Employment**

Growth and employment have generally been seen to be respective proxies for efficiency and equity. And development objectives have tended to be defined in terms of a trade off between efficiency and equity. In reality, efficiency and equity are complementary objectives. Employment opportunities cannot be created in the absence of strong growth. At the same time, employment generates incomes and, consequently purchasing power, for the growth momentum to be sustained.

The situation upto the early 1980's was characterised by capital intensive growth brought about by a series of measures designed to lower the relative price of capital. These included an over valued exchange rate, below market interest rate regime, tax holidays, accelerated depreciation allowances, etc. The result was that the manufacturing employment growth rate was about one third of the growth rate of the manufacturing sector.

In the last decade or so, however, the market orientation of the economy has led to the correction of the exchange and interest rate distortions and restored the price of capital closer to its economic value. Tax exemptions related to employment of capital are also being phased out. However, the change in the relative price of capital vis-a-vis labour has failed to be reflected in a shift towards greater labour intensity in production processes. This situation can perhaps be attributed partly to labour saving shifts in technology, partly to institutional factors, like labour policy, and to structural changes in the economy towards more capital-intensive sectors.

The far reaching structural changes the economy is poised to undergo in the wake of the new world trade order renders assimilation of new technology imperative. It appears, therefore, that employment growth in the near future will have to be achieved in the context of rapid economic growth in key sectors, particularly in agriculture and manufacturing. The process of trade liberalisation, which is on-going in Pakistan, is likely to shift the emphasis away from import substitution towards export promotion, thereby encouraging a more labour-intensive pattern of growth which is more reflective of national resource endowments.

With respect to growth in crop agriculture, the limits of expansion of acreage and of yield appear to have been reached, given the existing institutional and technological parameters. The possibilities of employment expansion in this respect do not, therefore, appear to be promising. However, the rate of labour displacement can be curbed to the extent that it is a function of subsidised mechanisation in general and tractorisation in particular. The on-going process of removal of capital subsidies in manufacturing need to be extended to agriculture as well.

There exists significant scope for expansion in the livestock and fishing sub-sectors of agriculture. Production and marketing of livestock products and breeding of fish in inland waterways and fish farms and high value added and highly labour intensive activities which can be developed in almost all parts of the country. Development of livestock and fishing requires less of an outlay of financial resources and more in terms of institutional and social infrastructure.



With respect to growth in manufacturing, labour intensity in large scale manufacturing is likely to continue to decline. However, there exists significant scope of employment expansion in the small scale and micro enterprise sector. This sector is not as dependent on agglomeration economies as the large scale sector and can develop on the strength of local resources in various parts of the country. Furthermore, as in the case of livestock and fishing, development of the small and micro enterprise level manufacturing sector requires less of an outlay of financial resources and more in terms of institutional and social infrastructure, including vocational skills.

### **3.1.2 Educated Unemployment**

An aspect of the segmentation of the labour market is the phenomenon of the educated unemployed. This phenomenon can largely be attributed to a mis-match between the demand and supply of skilled labour. The role of an educated manpower in industrialisation, development and modernisation is well established and needs no elaboration. High rates of unemployment among educated youth may be one of the major factors responsible for the rise in violence and crime in the cities. Therefore, this problem needs to be tackled on a priority basis.

The creation and management of new technology is unthinkable without a highly skilled work force. Industrial development demands, at the least, a literate labour force with a reasonable level of technological, vocational and professional skills. The existing situation is such that even at the presently low level of industrialisation, skill shortages are experienced in certain critical occupations. Skilled manpower is, therefore, likely to emerge as a serious bottleneck in any acceleration in the pace of industrialisation.

The absence of educated manpower is but one medium term dimension of the problem. Another immediate, but equally serious aspect is one of educated unemployment. The mis-match can be attributed to the abject inadequacies of the education system of the country. It is clear that there is an almost complete lack of convergence between the demand for trained manpower and educational output. Studies have shown that while about 90 percent of demand for skilled and semi-skilled labour is for the technical, vocational and professional category, over 80 per cent of educational output of colleges and universities is of the general education variety. The imbalance is greater at the intermediate level, where over 80 percent of demand is for technical manpower but less than 5 percent of students are enrolled at this level.

The recent entry of the private sector into higher level professional education is essentially a development in the nature of import substitution. Students from upper income bracket households, who normally went abroad for higher education, now acquire similar qualifications locally. The net gain in output of professional skills is yet to be ascertained. In any case, the real deficiencies lie in the intermediate skills category and this is the area which is crying out for attention. Incentives may have to be provided to increase the involvement of the private sector in technical and vocational training at the lower end of the scale of skills.

### **3.1.3 Labour Policy and Employment**

Reference has been made earlier to the possible role of labour policy in employment promotion. The labour policy has tended to differ somewhat from period to period, ranging from the most liberal in the 1970's to the most repressive during the 1980's. There have, however, been a few constants. These include labour welfare charges, like social security, old age benefit funds, workers' participation and welfare funds, education cess, etc. The net financial impact of labour welfare amounts to about 15 percent of the wage bill. In other words, the cost of labour to the employer is enhanced by about 15 per cent. There are also unquantifiable administrative costs to the employers of dealing with the multitude of labour welfare agencies. It is common economic sense that corresponding to the wage increase, the demand for labour will decrease.

The measures designed to enhance the interests of workers have, in fact, served as a tax on employment. As such, they cannot escape a share of responsibility for increased capital intensity in industry. There is also an element of welfare loss in the collection of labour welfare charges and the distribution of welfare benefits. This occurs on account of the heavy administrative overhead costs of the labour welfare agencies and the leakages in the system. It is necessary, therefore, to remove all such measures which serve to curb employment, directly or indirectly. One such step may be to consider levying labour welfare charges on the basis of graduated flat rates that break the link with employment.

We turn now to equalisation of access to basic social services like health and education.

## **3.2 SOCIAL DEVELOPMENT**

One of the key differences between Pakistan and other countries with comparable levels of economic growth has been the remarkably low level of social development in this country. Despite averaging more than six per cent in economic growth in real terms since the 1960s, key social sector indicators such as literacy rates, infant mortality, female education and participation, etc., have shown dismal trends. While this situation has been problematic in the past, now with the higher-skilled, technology-based, economic development set to lead the way in the coming years, the problems pertaining to a lack of social development will be severely accentuated.

For the period of the Ninth Five Year Plan, both the Structural Adjustment Programme and the Social Action Programme will have a key bearing on developments within the social sector. On the one hand, the Structural Adjustment Programme is redefining the allocative fiscal and monetary mechanisms in the economy with state intervention being reduced, having critical repercussions on the social sector, and on the other, the Social Action Programme is putting emphasis on delivery and performance in health, education, rural water supply and sanitation. Hence, the outcome of both programmes in the Ninth Plan will need to be based upon a balance between the two.

### **3.2.1 Health**

The emphasis of governments in the past as reflected in the Five Year Plans, has been one of increasing the quantity of health related services - number of doctors, rural health centres, basic health units, etc. Often the zeal to meet numerical targets has compromised on the quality and type

of facility provided. The end result has been unmanned and unsupervised health services. For example, rural health centres and basic health units, while available now in most of the rural areas of the country, have become a source of increasing employment in the public sector and not a source of adequate, efficient and cheap health care. With fiscal constraints evident at all tiers of government, and with different levels of government having to be more discretionary in their use of resources, it is suggested that the Ninth Plan focus on quality and performance, rather than on quantity.

With the overriding need to democratise, devolve and decentralise all avenues of civil society, the manner in which the structure of the delivery of health care is administered, can have important bearings on the quality of health delivery and hence, health outcomes.

If reforms in government take place, and if local governments are given a greater say in terms of finances and skills in the running of the lives of their cohort population, accountability and control of the smallest health facilities could be brought under the supervision of union and district councils. While facilities have been provided in most areas, the absence of medical staff allocated to those facilities has made them ineffective. With supervision, control and accountability at the local level, the users of those facilities may, over time, develop the methods to ensure adequate delivery. Also, managerial, administrative and coordinating systems within the existing health sector need to be strengthened to ensure the efficiency of the health delivery mechanism.

Given the importance of the need to promote social development and health care, the government should continue to own its large asset base in the health sector. Privatisation of existing government owned facilities is not recommended and the transfer of essential and basic services like health, from the public to the private sector, may put such services out of the reach of a very large number of users who have no other choice but to use the existing government facilities. The emphasis in the Ninth Plan should be on the better use of limited existing resources.

While the privatisation of existing health facilities is not recommended, this is not to say that the private sector is to be discouraged. On the contrary. The private sector in health plays a critical ) if not a dominant ) role in the delivery of health care, especially in urban areas, but also increasingly, in rural areas as well. The government is not in a position to provide health for all on its own without the assistance from the private sector.

The private sector should be encouraged to grow, but should also be made aware of its social responsibilities. While the profit motive drives much of the health industry, some sort of taxation or cross-subsidisation will have to be introduced on the health industry to support the efforts of the government in providing health care to those who cannot afford the higher private sector prices. The public-private partnership philosophy can be made very productive in the health sector.

The Social Action Programme is an important intervention in the delivery of health services, but the high expectations from this programme have not been totally fulfilled. There are concerns about how this programme has been implemented and room for improvement exists. The concern that it may impose a financial burden on the resources of provincial governments, has also hindered implementation and progress. The Ninth Plan will need to incorporate the Social Action Programme as a part of its overall strategy, rather than have it continue as a somewhat separate, parallel strategy. Closer coordination and integration between Social Action Boards and existing government structures should be more attempted.

### **3.2.2 Population Welfare**

Pakistan continues to have one of the highest population growth rates in the world, resulting in a poorer quality of life and fewer economic and social benefits that could be improved simply by lowering the population growth rate. Experience and research over the last few years have shown that intervention in population and family welfare alone, may not result in the acceptance of contraceptive use. Often, those who opt for small families are forced to do so due to economic imperatives, a fact which also, in the first place, may cause large families. The government should continue to provide facilities and continue and enhance its effective publicity and awareness campaigns. People will begin to opt for smaller families once they realise that larger families are no longer economically feasible. They should have information and access to where they should go and how they should proceed. In rural areas, a major shortcoming of the population welfare strategy has been the lack of integration with other women oriented health facilities. Mother and child health centres must be part of a wider health network, of which population and family planning is a key component. In urban areas, the economic imperative is likely to be a critical cause. However, while women have been the focus of the family planning awareness campaign until now, adequate results will not be realized until men, who usually make such decisions, are also targeted. The contribution of NGOs and the private sector can supplement the efforts of the government effectively. The Prime Minister's Lady Health Visitor Scheme can play an important role in making this strategy successful.

### **3.2.3 Education**

As government facilities have not been able to keep pace with growing demand for educational services, especially at the lower levels, the private sector and NGOs have begun to play a critical role. Primary and secondary education has now become a large market where demand has outstripped supply, and hence the role of the private sector. Moreover, as consumers have become more quality conscious, the choice in availability of type of education has burgeoned, and need and ability to pay have developed a market in education of varied quality. The private sector will continue to grow over the Ninth Plan. Recognising this fact, the government should encourage the growth of the private sector, but should also develop checks and balances to ensure an adequate and acceptable quality of facilities and input. Some components of the private sector in education, while fulfilling an urgent need, has compromised on standards, relevance and quality. The government will have to ensure, through a well devised monitoring process, that minimal acceptable standards are maintained and enforced. However, this task, while important, cannot be left to the government alone, and the private sector, community groups and government, will need to work jointly towards common goals.

Although the government's role in the provision of educational facilities in the recent past has been eclipsed by that of the private sector, the government continues to own and run a very vast network of schools. The increase in numbers has often meant falling standards and inadequate services provided to users. To ensure better quality from existing resources, local community groups where the schools exist, need to be involved to supervise the educational facilities. Participation ) even possibly in terms of control ) by lower tiers of government and concerned actors must become part of the educational strategy.

One area where the government must continue its efforts at an increasing pace is that of girls' education. With very low and inadequate female literacy and school participation rates, the importance of developing facilities for girls cannot be left to the private sector alone. If the government is to undertake one major task in social development during the Ninth Plan period, it must be the expansion of facilities for girls. This will involve not just opening more schools for girls, but attempts at increasing the availability and quality of female teachers. Since the mobility of females is restricted by social norms, potential teachers will have to be found from local communities. If adequate financial incentives are given to train such girls, it is likely that such schemes will be successful. In the informal sector, the phenomenon of home schools should also be encouraged.

Data from studies on education show that the number of primary schools has increased over the last few years, as has enrollment. The quality notwithstanding, the government should be complimented for its efforts at increasing these numbers. Now the time has come to provide for these primary school leavers at the next, secondary school, level. The strategy of the Ninth Plan should shift from the earlier Plans where primary schooling was central, to one where secondary schools form an increasing component of the education programme. Moreover, there is an urgent need to reform the curriculum in secondary schools and adding subjects with a vocational angle.

### **3.3 URBAN DEVELOPMENT**

Pakistan's population is today (mid-1996) estimated at about 132.0 million people and is estimated to be growing by about 2.86 percent per annum. The urban population has risen substantially from 28 percent at the time of the 1981 census to about 35 percent today. This rapid growth in urbanisation has not been matched with growth in urban infrastructure, housing stock or urban services. This has resulted in the gradual erosion of access to infrastructure and services, rapid increase in unplanned squatter settlements and a substantial degradation of the physical environment. One of the reasons cited for this is the mismatch between the contribution to the economy by the urban areas and investment into the development of the physical infrastructure and municipal services. The disparity in needs and provision is much wider in the larger urban settlements than in the market towns and quasi-urban settlements largely because of the differences in the magnitude of demand. The needs of the mega-cities of Karachi and Lahore are substantially different from the rest of the urban settlements principally because of their size and the rapid changes in form and fabric.

#### **3.3.1 Housing**

To improve the urban environment, a number of key shortages, such as those related to shelter, municipal services, urban transportation and finances need to be removed. The housing stock in most cities consists of an inner core of multi-storeyed structures built in or before the first half of the century, a surrounding ring of formally developed housing estates, an encroachment of available space in these regions by squatters and the peri-urban areas of villages which have been over-run by urban housing developments and have become part of the urban fabric. While there has been a gradual improvement in the housing stock over the last few decades (but spatial variations are large) and crowding has decreased, there is, nevertheless, a substantial shortage of housing, particularly for the low income segment of the urban population. One of the reasons for

this is the unequal access to formal credit, both in terms of segments of society as well as spatially, across the country. The concentration appears to be towards the larger urban centres to the exclusion of the smaller towns and urban settlements and towards the more affluent segments of the population. The current policy of increasing the size of the loans by the House Building Finance Corporation has resulted in an increase in the size of the unrecovered debt. This policy needs to be reversed in favour of the smaller size of loans with a lower maximum ceiling. In addition, loans may also be granted for home improvement and expansion. Another impediment to access appears to be the debt: equity ratio where the initial investment by the borrower may well lie outside affordable limits of the lower income segment of the population. This may be revised downwards so that this falls within the boundaries of affordability.

### **3.3.2 Land Management**

Availability of land for sites and services has rapidly emerged as one of the principal constraints to the development of the shelter sector. Well located state land has been largely distributed away or squattered upon. Despite this, one of the major paradoxes in the urban land market is the presence of a large number of developed, vacant plots, especially in cities like Karachi and Lahore. This has key implications for urban land management. First, given the high level of land prices and impediments to increased supply, the next few years will witness further densification. This will enhance the priority of municipal investments in urban renewal and slum upgrading. Second, to promote more efficient use of scarce land and to discourage speculation fiscal measures like the introduction of a vacant plot tax, market based prices for big plots will have to be resorted to. Finally, to make developed land more affordable to the low income groups, standards for infrastructure provision could perhaps be reduced and development may be phased in line with community priority and ability to pay.

### **3.3.3 Urban Management**

The quality of urban life is dependant largely on the management of services, the quality of the physical infrastructure and the level of services provided by municipal agencies. A more responsive and efficient management may be inducted if local governments are made more effective through changes in their structure, and are strengthened through improvements in procedures and staff skills, and are made accountable. The development philosophy to date has been to expand public intervention by inducting a development authority for undertaking an expansion of sites and services projects and in most instances also of basic services, such as water and sanitation. It has been shown that while inducting a development authority into the process of development may be justified for only a very few years, the medium- to long-term implications are the creation of inequities in access and the accrual of rents to chosen segments of society. This has been manifest by the speculative investment into shelter which has resulted in a large number of vacant plots and unoccupied housing units. While the creation of plots results in a rapid generation of cash for the development authority they do not necessarily recover the full costs incurred. Thus, no project is either completed on time, or within budget or meets the standard specified in the initial design. The optimal approach to future development may be the need to merge the development authorities with effective local government institutions so that an integrated and cost effective approach to expansion and the provision of services may be adopted.

### **3.3.4 Local Resource Mobilisation**

The substantial differential between demand for and supply of infrastructure and services can only be bridged if municipal governments are provided the wherewithal to bridge the gap. This requires that the finances of urban public institutions need to be made more robust. This may be achieved by widening the resource base available to them. At present, this consists largely of revenues from octroi, a small but important share from property tax and user charges for services rendered. In the smaller cities there is no income from property tax and user charges are minuscule. The case may, therefore, be made that these may be subsidised by government through grants for development purposes, but that they be encouraged to develop their resource base through a widening of their tax base and an increase in tax efficiency, by further exploiting the potential of property taxes, octroi and taxes recovered from market activities.

The potential for increasing revenues from all three categories is substantial in the larger cities and these taxes can be made more buoyant if changes in municipal management can be brought about. Further, there appears to be a willingness to pay for achieving full cost recovery provided the charges are linked to delivery of stated quality. This would imply that the richer segments could be charged a substantially higher rate to cross-subsidise the cost to the disadvantaged and target groups to ensure equity and to alleviate poverty to some extent. A reduction in the cost of provision could also achieve a part of the objective for financial viability. This may be achieved through participation of the community in the process of development, an effective local government structure, and the use of private sector management in the provision of services, particularly directed towards the upper income segments of the citizens. Improvements in the resource base may be achieved through a more efficient administration of taxes, revision in tax rates, improvements in buoyancy by converting specific rates to ad valorem rates, etc.

### **3.3.5 Megacities**

In the mega-cities of Karachi and Lahore, there is also an urgent need to address issues of urban transport and substantial expansion in the availability of municipal services if the essential form and fabric of these mega-cities is not to crumble. The vast distances between centres of employment and residence requires the transportation of substantial numbers at peak times. The existing transportation facilities are dependant on busing services provided largely by the private sector. The numbers of vehicles available are far short of need, and therefore, provide a level of service which impacts on productivity. There is a pressing need to provide for mass transportation services in these cities. The levels of investment needed and the costs to be incurred are beyond the capacity of any private sector operator. Thus the public sector may have to fund the development partially and subsidise the costs of service provision in the larger public interest and offset these outlays against overall efficiency gains in the urban economy. Concurrently the private operations of para-transit services may be regulated more efficiently by encouraging the formation of co-operatives to plan routes and services centrally and control day-to-day operations within the rules specified by public regulation.

Education and health facilities in these and most other cities are largely within the public domain but have a strong presence of private sector. Such private sector participation needs to be encouraged substantially but within boundaries to be established by effective local governments. This would reduce the burden for resources in the public domain and encourage a more efficient

allocation of functions. This may also be linked to improving cost recovery in public sector institutions which may be achieved through the establishment of controls being exercised by parent-teacher associations or other forms of community based management.

### **3.4 REGIONAL DEVELOPMENT**

Policy makers in Pakistan have always been conscious of the need for regionally balanced economic development. To this end, a number of policy initiatives have been instituted to promote economic growth in the backward areas in order to bring them at par with the more developed areas. The principal instrument of development of backward areas has been fiscal incentives for industrial investment. However, an evaluation of these incentives shows that their impact has been largely negligible. Where industries have been set up, they have contributed to the growth of an alien, capital-intensive and import dependant industrial structure, lacking in sufficiently strong backward and forward linkages with either the local or the national economy.

#### **3.4.1 Dimensions of the Regional Problem**

This situation can be attributed to the fact that the regional development strategy has been premised on certain implicit and explicit assumptions which can be termed as questionable. There major assumptions can be identified.

1. Pakistan has a spatially homogenous economy
2. Industrialisation is the only route to development
3. Backward areas are resource poor and subsidies (or tax breaks) have to be provided to induce capital and technology to move into backward areas

Pakistan is a relatively large country spanning several agro-ecological zones. As such, its resource endowment base is diversified regionally. Incidentally, however, national economic policy making has implicitly assumed a homogenous economy at a cost to regions with resource endowments at variance with that of the national economy.

Pakistan has an essential agricultural economy, with crop agriculture accounting for about 30 per cent of national income generated in the commodity producing sectors of the economy. Within crop agriculture, the scene is dominated by wheat, cotton and sugarcane. These three crops contribute over half the gross value of output in crop agriculture. Wheat has an important position, being the staple food crop of the country. However, cotton has a particularly unique position, given that it constitutes the basic raw material base for the single largest manufacturing sector in terms of value added, value of production and employments, i.e., cotton textiles.

Needless to say, there emerges a regional dimension in this policy bias. Wheat, cotton and sugarcane are grown in the irrigated areas of the Indus basin, where the cotton textile industry is also located. The irrigated areas of the Indus basin have, as such, benefited from the macroeconomic policies geared towards the generation or regeneration of selected economic activities located in the region and have been recipient of significant inputs of physical and financial resources. The economic interests of the areas outside the Indus basin have suffered by default, with the result that these areas have by and large remained relatively backward. The Ninth Plan will take explicit



account of the regional diversity of the national, as well as the provincial, economies in national economic policy making.

### **3.4.2 Regional Planning**

The backward areas which were sought to be brought at par with the more developed areas through rapid industrialisation assumed to be achievable by means of fiscal incentives. Industrialisation, however, is not necessarily the only, or even the desired, route to development for all the regions of the country. Some of the backward areas are in the pre-industrial stage of development and essentially need investment in institutional, human resource and infrastructure development before industrialisation can commence. Other areas possess resource endowments which render them particularly unsuitable for industrialisation and, as such, require a development policy package in line with their local resource base. The Ninth Plan will promote a regional planning process, where each region can identify its own sources of growth and its own route to development. These plans may form part of the national development programme. For this purpose a special Backward Areas Infrastructure Development Fund may be established.

The regional incentive packages have been based on the assumption that backward areas are resource poor and subsidies (or tax breaks) have to be provided to induce resources to move into backward areas. However, backward areas are not necessarily resource poor and the policy to date has imposed unnecessary costs on the national economy without commensurate benefits to the backward areas. The regional planning process instituted under the Ninth Plan will be based on the identification and exploitation of local resources for economic regeneration of respective regions and correspondingly the fiscal incentive package may be sector-specific, with differences among regions. This will enable strategic interventions to promote regional development.

Development of regional economies based on local resource endowments will serve to expand the aggregate resource base, ensure spatially balanced growth, limit migration to the Indus basin cities and minimise pressures that such migration imposes on the physical and social infrastructure and on employment provision capacities of the large urban centres. The Ninth Plan, conscious of the imperative of regional development, will take account of the regional diversities and potentials of the regions in Pakistan and within provinces and integrate the regional dimension in the national planning process.

## 4. PROMOTION OF ECONOMIC AND SOCIAL WELL-BEING

### 4.1 INCOME DISTRIBUTION AND POVERTY

Evidence from recent studies has shown that poverty in Pakistan has declined consistently since the 1960s, with the population below the poverty line declining very substantially in the 1980s. In terms of caloric intake, the record of Pakistan is far better than that of comparable countries. The reason for this impressive poverty reduction has been the trickle down effect of wealth. With growth rates of more than six per cent per annum and remittances from the Middle East contributing a large share to GNP, there was enough to go around and be redistributed. A low growth, low remittance scenario, could change much of that.

Given the reliance on market forces there is no guarantee that the trickle down effect, which has caused poverty to decline, will be effective. Direct interventionist measures, in the form of safety nets will be the only way poverty can be dealt with. At the same time, the privatisation of many state owned services and the decontrol of prices, will have additional negative consequences on the status of the (particularly low-income) population.

At least on paper, the zakat and ushr funds are an important mechanism of providing safety nets to the large and growing number of mustahiqeen. However, this system of state administered charity (the compulsory deduction at source and then its state sponsored distribution) has not been a resounding success. Therefore, the state may replace its collection function with that of voluntary contributions. While it is debatable if this measure would increase the amount of zakat distributed, it would certainly ensure that it reaches the needy.

It is more than likely that the a share of the new poor is going to be urban, and that too probably in the larger towns. Here the role of the provincial Katchi Abadi Authorities and local government will be crucial. There are a number of successful local government interventions addressed at providing services in urban slums. The feature of slum upgradation and other interventions focused on urban poor groups should be enhanced. Moreover, direct interventionist measures, such as the Urban Basic Services programme, should also be undertaken on a large scale. It is true that some of the beneficiaries are not the very poor, but nonetheless, the programmes do reach a large number of relatively poor people.

In the rural areas, land is the key asset which determines social hierarchy and economic well being. Landless labour is often the poorest section of rural society, and unless it is given an economically viable piece of land or continuous employment with access to social services, it is unlikely that it will improve its economic and social status. The need for land reforms must again be emphasised and more equitable distribution of land holdings needs to be introduced. While such decisions may be politically difficult, delaying them will have serious consequences.

In the rural areas a credit programme will also need to be devised which permits the poor to collectively start some sort of income generating activity. Although such a scheme will be fraught with many potential problems (defective targetings, default, improper use of loans, etc) it has been seen in other poor countries, that the rural poor can be organised and can be productive. The cooperative credit system needs to be thoroughly restructured as it also exists as a potentially useful source of credit to the poor groups.

Since the government cannot solve the problem of the poor on its own, with the envisaged enhanced role of the private sector in the economy, incentives - tax breaks - should be given to address poverty and social issues by the private sector. Areas and locations can be specified where the private sector works with local government in low-income areas. NGOs and community based organisations need to be encouraged to increase the role of providing opportunities and facilities to the poor. Also, the private sector should be given financial incentives so that it can give direct grants to schools and hospitals in low-income areas.

## **4.2. WOMEN AND CHILDREN**

### **4.2.1 Women**

There can be no denying the fact, that women play a critical, if not central, role in the development of nations. In terms of involvement in unremunerative work, paid employment, educating and earning for the family, and in numerous other ways, the key to well-being rests on the development of the potential of women, as part of the family and as individuals. While there have been attempts at affirmative action at redressing the balance in the past, much has been left wanting. Indeed, one of the reasons why social development has been poor, is the lack of development specific to women.

The recent attempts on the part of the government to inform men and women about the rights of women, is a very positive first step towards empowering women. Publicity campaigns about domestic violence and the rights of women, and on gender discrimination, along with measures such as the initiation of separate police stations for women, will help not only in building awareness, but may also be a means to rectifying injustices. Other programmes such as the Prime Minister's Programme of employment for women, especially in the health and education sectors are welcome developments. Moreover, continued legislation to eliminate social injustices towards women, and to enhance their status, should be encouraged.

In rural areas, women do not have many independent opportunities to find paid work and their role revolves around doing unpaid work for the family. This includes tending to livestock, getting wood for fuel, collecting water, working on the agricultural land and a host of other economic and household related activities. However, experiences from rural areas as diverse as those in Bangladesh and the Northern Areas in Pakistan, have shown, given the right opportunities and incentives, women can set up income earning projects and supplement the family's income. Moreover, this small step of independence will become a big step towards empowerment and emancipation.

A critical factor in promoting enterprise by women is the availability of credit. In rural areas, women avail of credit to buy livestock or poultry, which often produce a small marketable surplus. In urban areas, the use of credit by women is more diverse, where the money can be used to develop home schools or some other sort of small enterprise based in the home. So far, most of the credit available to women to set up small scale projects has come from NGOs or from international donors, while the government has not been an active player in this area. The Ninth Plan should focus on means by which credit can be readily available to women in rural and urban areas. Different mechanisms for delivery and accountability, can be developed to ensure repayment. NGOs and government can work closely in collaboration to achieve these goals. In

order to expand the outreach of credit availability, the First Women Bank should expand and enlarge its branches across the nation. Moreover, attempts should be made to develop a system of Mobile Field Officers who can provide credit to women who are unable to come to the larger cities.

One of the most consistent and least controversial findings from the social sciences relates to the huge benefits which accrue from female education and literacy. No efforts should be spared in developing opportunities and facilities which help in promoting these aims. While school going girls can acquire some formal literacy and education, an older generation has not been able to make use of the recently expanding opportunities to acquire formal education. Here, local, community based organisations, can fulfill an important role and teach the non-school going female population basic education, nutrition and health skills, by setting up schools/classes at a mohalla level for women who stay at, or near, their homes.

The Prime Minister's health visitor's programme should be expanded to include women who can also impart literacy and educational skills. The benefits will be substantial as health, education and family planning can all be covered by one trainer.

#### **4.2.2 Children**

One of the most neglected segments of society are children. They often face the worst kinds of abuse, at home, at school or in the work place. Child employment, while illegal, thrives because of economic pressures on the family. No degree of legislation or enforcement can eliminate child employment. However, efforts need to be made to eliminate the non-economic exploitation which exists where children work. Special legislation will need to be passed which protects the rights of children, whether at work, or elsewhere. Clearly bonded labour, of children or adults, will have to be forcefully eliminated. Similarly, children should not be permitted to work in hazardous environments.

Employers who employ children should be encouraged (or if, possible through legislation forced) to provide basic educational and health services to their employees after work. The Labour Department can be given the additional task of overseeing that this takes place.

### **4.3 ENVIRONMENT**

#### **4.3.1 The Environmental Problem**

Pakistan has a rich cultural heritage of archaeological remains, monuments, old cities, and historic and architecturally significant buildings and streets. There is also a great variety and richness of fauna, flora, wetlands, and other wildlife habitate and landscapes. Twenty percent of the land area is devoted to intensive agricultural use and 5 per cent is classified as under forest cover. Ninety percent of the food and fiber production is dependent on the Indus basin irrigation system.

The country covers 0.67 percent of the world's land and contains 2 per cent of the population. With a per capita gross national income one-ninth the world average, it is neither a major global polluter nor a large consumer of resources. The average Pakistani contributes only one-seventeenth

the world average of carbon dioxide emissions, produces few sulphur dioxide emissions and no chlorofluorocarbons, and thus makes a negligible contribution to ozone depletion and acid rain. Yet, however, Pakistan is not likely to be immune to the effects of greenhouse gases on the world's environment. Global climate change is likely in the long run to have potentially serious effects on patterns of agriculture, fisheries and forestry; in wet areas, the monsoon could become more vigorous, arid areas could become drier, the receding of mountain glaciers may reduce inflows for irrigated agriculture, and coastal areas may become salinized by salt water intrusion owing to sea level rise, and so on.

The environmental threats to the country's economic and social lifeline does not emanate only from external sources. the state of the internal environment is also far from satisfactory. The most serious pressure is exerted by population growth. Agricultural land is threatened by water and wind erosion, salinity/sodicity, waterlogging, flooding, and loss of organic matter. Watershed lands in the upper Indus basin suffer from unfavorable soil and moisture regimes. Irrigation methods are out-moded and inefficient. Only about 30 per cent of irrigation water reaches crop roots; the rest is lost in canals and watercourses or during application in the fields.

Urban areas are particularly prone to environmental risk. Only half the solid and liquid wastes are disposed of in sewers and are the major source of water-borne and water-washed diseases. Gastro-international diseases account for 25-30 percent of hospital cases. More than half of infant deaths are on account of infectious and parasitic water-borne diseases. Industries across the country discharge their wastes untreated, thereby polluting soils and surface and sub-surface waterways. Generally, industrial wastes are toxic, persistent and increase in concentration up the food chain.

Air pollution is another environmental hazard particular to, but not exclusive to, urban areas. Vehicular emissions account for 90 per cent of total emissions of hydrocarbons, aldehydes, and carbon monoxide and for 75 percent of sulphur dioxide and nitrogen oxides. The average vehicle in Pakistan emits 25 times as much nitrous oxides in grams per kilometer as the average vehicle in the United States.

Pakistan is among those countries which have taken a lead on the environmental front. Environmental awareness is not limited to the official level, but exists at the grass roots level. The number of indigenous protests against environmental degrading development projects is testimony to this awareness.

### **4.3.2 National Conservation Strategy**

A major step towards sustainable development was the adoption in 1992 of the National Conservation Strategy (NCS) by the government Pakistan as an official policy document. The NCS has three explicit objectives:

1. conservation of natural resources
2. sustainable development
3. improved efficiency in the use and management of resources

In line with the above, the NCS has recommended 14 programme areas for priority implementation, as follows:

1. Maintaining soils in croplands
2. Increasing irrigation efficiency
3. Protecting watersheds
4. Supporting forestry and plantations
5. Restoring rangelands and improving livestock
6. Protecting water bodies and sustaining fisheries
7. Conserving bio-diversity
8. Increasing energy efficiency
9. Developing and deploying renewable resources
10. Preventing/abating pollution
11. Managing urban wastes
12. Supporting institutions for common resources
13. Integrating population and environmental programmes
14. Preserving the cultural heritage

Emphasis may be placed during the Ninth Plan period on implementation of the recommendations of the NCS.

### **4.3.3 Institutional Development**

Environmental management has been found to be hampered by institutional constraints. State institutions are sectorally organised, in line with general arrangements for administration and development. The ministries and attached line departments are not oriented towards joint facilitation of local development and have limited capacities for dealing with environmental impacts, most of which are cross-sectoral. Development planning has generally ignored the complex and forceful linkages between economic policies and instruments and the conservation or degradation of the environment and quality of life of the people. Therefore, significant institutional changes are required to include considerations of environmental impact in the planning process.

### **4.3.4 Pollution Standards**

There have been some significant achievements. A number of programmes and projects are underway in water-logging and salinity control and watershed, rangeland, wetland and forest management. There is a need to consolidate these programmes and enhance their efficiency. A major step forward has been taken in industrial pollution control with the adoption of the National Environmental Quality Standards (NEQS) with the consensus of government private sector and concerned environmental agencies. For the first time, the polluters pay principle has been introduced.

Major areas of concern, however, remain and need to be dealt with. The large scale introduction of thermal power generation has environmental implications particularly in the coastal areas of Sindh and Balochistan. An area which has not found sufficient attention in the NCS is the urban environment. In the absence of an urbanization policy, urban areas are not subject to planned development and are growing by default in a haphazard manner. The result is that housing, water supply, sewerage, sanitation, solid waste disposal, transport and traffic management, etc., have all emerged as sources of urban environmental health risks. The Ninth Plan will continue to implement the provisions of the NCS along with attention to newly emerging areas of concern identified above.

## 5. GOOD GOVERNANCE AND THE ROLE OF GOVERNMENT

The success of any economic Plan depends critically on the way it is administered and implemented. Even a well perceived Plan, with achievable economic and social targets, would fail unless it was supported by an institutional structure conducive to the workings of the Plan. Essentially, a Plan lays the foundation and groundwork which form the guidelines under which the details are determined. In this regard, the role of government institutions, and policy is perhaps the key to the success of any plan.

Essentially, governance means the manner in which power is exercised and articulated in the management of a country's economic and social resources for development. It includes the following; an efficient public service; an independent judicial system and legal framework to enforce contracts; the accountable administration of public funds; respect for the law and human rights at all levels of government; a pluralistic institutional structure; and a free press. Good governance is considered to be synonymous with sound development management. Problems of governance are associated with high degree of centralization, a rigid and over burdened government machine, the lack of local participation, the deterioration in professionalism and integrity of public functionaries, and a weakening of judicial and quasi-judicial institutions.

Globally, not only has there been a move away from the role and control of government, there has also been a noticeable shift within government structures. The concept of government itself has changed. There is agreement now that strong centralised states are out of tune with the reality on the ground, and thus there has been a growing need and demand for more active participation, and hence, devolution. The controlling federal/central state, in all countries across the globe, has been forced to extend more powers to smaller units at the provincial, district and local levels, so as to enable these units to play an active role in providing welfare to the people. Greater autonomy has been granted to provincial/state governments, and local governments have also been expected to play an increasingly prominent role.

Economic constraints, such as budget cuts, have meant that central/federal governments have had fewer funds to make available to lower echelons in the hierarchy. Thus, provincial and local governments which were dependent on the federation have now had to become more disciplined financially as they have had their grants and aid reduced. It is this dual shift ( a resource constraint faced by federal government, and the belief that more participation and devolution of power and control leads to better, more effective, and sustainable development ) which has resulted in the change in the way government is administered.

Pakistan's Ninth Plan is to be prepared and launched at a juncture when there is consensus that good governance must incorporate democratisation, devolution, decentralisation and popular participation. The Ninth Plan is particularly important for it is to be initiated in a very different world climate than ever before. With more liberalisation, openness, deregulation and globalisation the critical cornerstones of future economic and social development, the emphasis on good governance needs to be further highlighted. Competition with other nations, in terms of exports and the ability to attract foreign investment, will determine the course the Pakistan economy will eventually take. Unless substantial strides are made in reaching the targets identified in each of the areas of the economy, Pakistan's ambitions to accelerate economic and social development into the next century, will not succeed.

The government's previous role of provider has changed to one of facilitator and regulator, thereby changing the nature of governance. The key areas which need redress in order to make the Ninth Plan successful include the following:

1. The need to change the constitutional and legislative framework within which institutions, agencies and agents can operate, with much greater emphasis on devolution, discretion and accountability.
2. For greater involvement and participation by the people. Community groups, NGOs and other interested and concerned entities in the selection of projects, project sites, method of implementation and the recovery of costs, all leading towards a decentralisation of functions and involvement in the lines of the affected participants and players.
3. The need to develop and support lower tiers of government and delivery, in terms of economic, technological and financial matters. No plan will work unless the linkages between all tiers of government are fortified and made to function effectively while promoting local autonomy.
4. With the private sector set to be a decisive participant in the economic arena, institutions will need to be developed to facilitate, regulate and oversee that role. Persuasion, rather than dictate, and joint cooperation rather than hostile opposition, must be the key to fostering public ) private partnership.
5. Good governance in the administration of fiscal and monetary policy is essential to provide the guidelines and framework under which other sectors of the economy can get their cue. More transparent and accountable administrative structures, especially with regard to revenue collection and disbursement, are necessary.
6. The civil services will have to be geared to operate in the new environment. The efficient management of public sector intervention will require a civil service which is flexible, accountable and trained to respond rapidly to a changing environment.

The concept of good governance must rest on the premise that the government and the people are one the same side of the fence, and share similar goals, aims and ambitions. Historically, the government has been the dominant partner in much of the planning process in Pakistan. This old reality has given way to a need for a more equal, conciliatory and harmonious relationship. The turn of the century will be a decisive phase in the life of many nations including Pakistan. What will differentiate success from failure over the next few years will be the ability to recognise, understand, promote and undertake change. The capacity for institutional reform in a distinctly new environment, will be one of the most important factors on which prospects for the future of the country rest.



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**NINTH FIVE YEAR PLAN**  
**(1998-2003)**

**ISSUES PAPER**

**April 8, 1996**

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