

# RURAL DEVELOPMENT AND POVERTY NEXUS

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## **Abstract**

The development experience indicates a strong link between rural development and poverty reduction. In Pakistan agriculture is the major source of economic growth, employment and livelihood. The agricultural productivity is low and many factors are responsible for its low productivity. Majority of rural population is marginalized in terms of access to physical and social assets, and in terms of institutions and inequality. Rural poor lack access to instruments to mitigate and cope with shocks that affect their well being and ability to come out of poverty. Gender and rural/urban differences in human development and poverty are substantial. This paper examines the influence of public policies and past development efforts on rural development, poverty reduction and rural welfare outcomes. In Pakistan, misguided policies and institutional weaknesses stifled rural development and resulted in increase in rural poverty, inequality and vulnerability to shocks. The most important impediment to rural development is an overly restrictive policy regime: assets distribution, availability of credit and subsidies. Frequent changes in agricultural support policies resulted in inefficient use of resources and low agricultural productivity. Poverty in rural areas is also perpetuated because of weak research and development (R&D) base, lack of adequate infrastructure and agricultural markets, poor soil and water management practices. The declining financial resources added pressure on already weak infrastructure. In the 1990s, drought conditions led to acute livelihood problems and sharp rise in rural poverty. The paper emphasizes that there is considerable scope for policy interventions aimed at harnessing development potential and improving livelihood opportunities of million of people living in poverty and human deprivation. The last section of the paper provides concluding remarks.

## **Introduction**

Nearly third-fourth of the poor in developing economies are in the rural sector (FAO 1999; Lipton and Ravallion 1995; Quibria 1993). The survival of the majority of rural population is mainly depends on agriculture and related activities to it for their livelihood, either directly, as producer or hired workers, or indirectly in sectors, which derive their existence from farming activities (trading, transportation, processing, etc.). Improvement in the well being of the rural population in the short-term and their ability to escape poverty in the long-term is associated with significantly high and broad-based agricultural growth and creation of income and employment opportunities (HDC 2002; Rosegrant and Hazell 1999; Ranis and Stewart 1993). The cross-countries experience show that rapid growth in agriculture induces rural non-farm growth and hence substantial poverty reduction in rural areas (Balisacan 2001).

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Most critical to poverty reduction are rural poor's access to assets, employment and income opportunities, infrastructure, institutional capacities, public services, and instruments to mitigate and cope with shocks and human and financial resources to support the process of rural development and poverty reduction. A study of eight Asian countries revealed that about 60 percent population of developing countries residing in rural areas is working with as little as 10 percent of required resources (Asian Development Bank 2001). The situation in the 1990s further worsened; the developing countries experienced significant reduction in funding for rural development (Forbas-Watt 2002). The proportion of official development assistance going to agriculture has fallen from about 20 percent in the late 1980s to about 12 percent today. Assistance to agriculture from international financial institutions has followed a similar path (IFAD 2001). Difficulties have been witnessed mobilizing capital for agricultural development (FAO 2002). Capital formation per agriculture worker has remained stagnant or declined in countries where agriculture growth is essential for poverty reduction and food security (FAO, AFAD & WFP 2002). The declining financial support for agriculture is extremely damaging to efforts to reduce poverty and hunger (IFAD 2001). Sachs (2002) argues that in developing countries US\$ 24 billion are needed annually in public investment in agriculture and rural development to address the problem of poverty and development.

Pakistan for a considerable long period has enjoyed notable economic progress in terms of both growth in gross domestic product (GDP) and structural changes in the composition of output. Real GDP has grown at an annual average rate above 6.0 percent during 1961-1990. Performance in the key sectors, in the same period, has generally been satisfactory. Manufacturing value-added has grown about 8.0 percent per annum. The service sector has achieved an annual average growth rate of 6.0 percent. The agricultural growth was high by South Asian standards. Agricultural value-added averaged 4.6 percent per annum. In the subsequent periods, 1991-2000 and 2001-02 GDP growth and value-addition in all sectors declined to 4.6 percent and 3.6 percent per annum. The agricultural value added experienced rapid decline to 4.4 percent and 1.7 percent in the same period (Table 1).

*Table 1: Gross domestic product 1990-2002 (Growth Rates %-annual average).*

	1961-80	1981-90	1991-00	2001-02
GDP (FC)	5.8	6.5	4.6	3.6
Agriculture	3.8	5.4	4.4	1.4
Manufacturing	7.7	8.2	4.8	4.4
Commodity Producing Sector	5.4	6.5	4.6	2.1
Services Sector	6.5	6.7	4.6	5.1

Source: Government of Pakistan, 2003. Economic Survey of Pakistan: Statistical Supplement 2001-2002, Islamabad: Finance Division

The gains of economic progress, however, have not been shared equally amongst various economic groups. The "trickle down" theory failed to ameliorate sufferings of the poor, the disadvantage and marginalized segments of population, majority of which lived in rural areas. The belief that the individual greed of the 'robber barons' of industry would lead to a larger national cake and eventually benefit the entire society did not materialize (Papanek 1967:149; Noman 1990:40). As a result social inequalities widened (Haque and Montiel 1992).

## Rural Setting

The rural sector of Pakistan comprises 68 percent of the total population in some 50,000 villages. There are about 13.5 million rural households with an average of 7.0 persons per household (FBS 2002). The majority of rural households depend on agricultural activities for employment and income, and for other livelihood facilities. The economic status of households is largely dependent on ownership and cultivation of land.

Agriculture in the rural setting assumes a considerably important role in stimulating growth, providing employment and income opportunities to the majority of rural population and creating a growth structure leading to alleviation of poverty and human well being. It contributes a quarter of country's GDP and employs about 50 percent of the labor force. About 75 percent export earnings are derived from this sector (Table 2). In the 1990s, low growth in agricultural value added translated into increase in the rural poverty and reduction in welfare levels of rural population. In 2000-01, of the 95 million rural population 37 million were poor. In 2000-01, more than 75 percent of Pakistan's poor were living in rural areas of Pakistan.

The performance of agriculture sector has been influenced by many factors such as distribution, particularly land, water shortages emanating from deficiencies in storage capacity and poor use of available water; farm to market roads; use of technology; rural infrastructure; poor channels of marketing; availability of resources; shortage of warehouses; cold storage; and grading and processing facilities. Lack of effective support mechanism for various agricultural commodities at times of crisis weaken the financial position of the farming community especially the poor. Frequent and ad hoc changes in the support prices have resulted in wild swings in the output levels of various crops (Kemal 2002).

*Table 2: Agriculture in the national economy.*

	1980-81	1985-86	1991-92	1995-96	2000-01
Rural Population (Million)	61	69	78	85	97
Share of Agriculture in GDP (%)	24.22	24.78	26.30	26.10	24.60
Employment	49.56	52.05	47.86	46.79	48.42
Imports	10.90	21.1	15.33	17.18	13.43
Exports	83.10	86.35	78.16	75.21	75.76
Raw Items	40.38	32.88	17.24	14.85	10.84
Semi-Manufacturing	11.83	16.50	21.59	21.66	14.90
Manufactured	30.78	36.97	39.33	38.70	49.94

Source: Pakistan Economic Survey (Various issues)

Agricultural Statistics of Pakistan (Various issues)

The rural household income varies substantially by occupational groups. Table 3 gives details on rural households from various sources and by occupational groups. The households derive 52.8 percent of the total income from agricultural sources (agriculture income + employment in agriculture). The pattern of household income indicates that sources of income vary among different quintiles. The crop profits as percentage of agriculture incomes is the biggest source of income to the rural household. It varies from 46 percent to 80 percent between different quintiles (World Bank, 2002b). Non-

agriculture income constitutes 47.2 percent of the total income of which 37.6 percent income is earned from employment outside agriculture.

*Table 3: Pakistan-distribution of total rural income per household by occupational groups and by source of income rupees.*

Source of Income	Agricultural Income					Non-Agricultural Income					Total Rural Income
	Crop Income	Livestock Income	Income from Tractors & Tubewells	Income from Land Rent	Income from Fish-farming, Forestry, Bee keeping, etc.	Total Agricultural Income	Income From Enterprises	Income from Employment in agriculture	Income from Employment Outside Agriculture	Income from Other Sources	
Occupational Groups											
Non-Agriculture	-	3633	24734	11722	25000	5985	32652	7387	30662	10759	37583
Household		(371)	(7)	(106)	(2)	(469)	(249)	(518)	(1313)	(91)	(1490)
Livestock	-	14192	3583	24607	-6	15148	34816	8051	27230	12321	47226
Holders		(568)	(7)	(23)	(1)	(571)	(104)	(277)	(468)	(30)	(585)
Farm	29659	9838	-3314	55838	26576	38648	28388	5426	32772	30641	64510
Households	(3892)	(3322)	(536)	(72)	(56)	(3929)	(465)	(1270)	(2259)	(278)	(3945)
Total	29659	9878	-2873	29024	26102	32865	30502	6270	31444	24738	56167
Households	(3892)	(4261)	(550)	(201)	(59)	(4969)	(818)	(2065)	(4040)	(399)	(6020)
All Households	19177	6992	-262	967	255	27130	4145	2151	21103	1638	56167
	(6020)	(6020)	(6020)	(6020)	(6020)	(6020)	(6020)	(6020)	(6020)	(6020)	(6020)
Percentage	34.1	12.4	-0.4	1.7	0.5	48.3	7.4	3.8	37.6	2.9	100

Figures in parenthesis show number of households

Source: State Bank of Pakistan, 1998. Rural Credit Study (Phase II), Final Report (Main Report- Table 5.1.2) September.

## Poverty Profile and Human Development

The profile of poverty in Pakistan is affected by inherent differences in natural and economic resources, which limit access to income and employment opportunities, empowerment and security of poor household (Khan 2002). A number of studies suggest that poverty in Pakistan increased rapidly in the 1960s, then declined sharply in the 1970s up to mid-1980s and began to increase again from the late 1980s (Naseem 1973; Irfan and Amjad 1984; Amjad and Kemal 1997; Jafri 1999; Qureshi and Arif 1999; FBS 2002). Using the same approach and consistent time series data and 2350-calorie average per adult equivalence calories requirements, it has been observed that between 1992-93 and 2000-01 poverty increased from about 25 percent in 1992-93 to 32 percent in 2000-01. The increase in poverty is mainly in rural areas where the head-count moved upward from 27 percent in 1992-93 to 39 percent in 2000-01, whereas in urban areas it only increased marginally from 20 to 22 in the same period. Table 4 below gives details on various poverty indicators.

Table 4: Incidence of poverty – overall, rural and urban.

Poverty Incidence	1992-93 HIES	1993-94 HIES	1996-97 HIES	1998-99 HIES	2002-03 HIES
<b>PAKISTAN</b>	24.96	27.72	24.54	30.63	32.13
Poverty line/per capita per month (Rupees)	369.88	411.52	576.18	673.54	728.0
<b>RURAL</b>					
Population (Million)	80.45	87.32	87.57	91.04	96.21
Poverty incidence	27.03	32.99	28.83	34.67	38.98
Poverty gap	3.83	5.32	4.27	6.60	7.84
Severity	0.95	1.46	1.08	2.04	2.30
No. of poor persons (in '000)	21,746	28,807	25,246	31,563	37,512
<b>URBAN</b>					
Population (Million)	36.42	37.55	41.47	44.11	48.19
Poverty incidence	19.76	15.15	14.83	20.91	22.67
Poverty gap	2.87	2.31	1.90	3.69	4.30
Severity	0.72	0.56	0.46	1.09	1.20
No. of poor persons (in '000)	7,197	5,689	6,150	9,223	10,925

Source: Government of Pakistan, 2001. Poverty in the 1990s, Islamabad: Federal Bureau of Statistics (April) Planning Commission, 2003. Preliminary Estimates, Islamabad.

Many explanations have been given to explain the rising trend in poverty in rural areas. The main factor contributed to increase in poverty is the low agricultural productivity. Critical factors stirring poverty upward lies in the rural structure and methods of production. The agricultural productivity is low because of inequality in land ownership and skewed distribution of land and weak support system. The distribution of assets, especially agricultural land, has a major impact on rural areas development and poverty reduction efforts. Land reforms in Pakistan in 1959, 1972 and 1977 intended to enhance the assets of the poor and to reduce the concentration of landed wealth in few families. However, because of poor implementation, the first two reforms failed to achieve the desired results, while the third one remained largely unimplemented. In the absence of supportive services and poor governance, there has been no visible improvement in the living standards of many poor farmers who have received land as a result of land reforms undertaken to date. The collateral requirements also prevented poor households to borrow from the formal credit market for the long-term productive investments in land and agricultural implements that can help them to come out of poverty. Governance issues, particularly corruption in public canal irrigation system, are also widely viewed as a constraint on agricultural productivity (World Bank 2002b).

Poverty in rural areas is also because of weak social indicators. Past efforts to improve access to social services through specialized programs such as Social Action Program explicitly designed at increasing the availability of social services and improving quality to the targeted population, especially poor and women in areas of elementary education, basic health care, family planning, and rural water supply and sanitation were substantially short of expectations. Almost all human development indicators are weak. The situation is poor in rural areas. Gross and net primary school enrolment rate, adult literacy rate, household expenditure per pupil, health, water supply and sanitation indicators as compared to urban areas show that poverty reduction efforts should also concentrate on the provision of social services to the rural population. Efforts should not

only be on increasing the public expenditure but on proper implementation and management. Table 5 indicates that between 1995-96 and 2001-02 the rural share vis-à-vis in the provision of social services in majority of cases is deteriorated. Marginal improvements have been observed in adult literacy rate and rural sanitation.

*Table 5: Availability of social services in rural areas (% of urban areas).*

	1995-96	1998-99	2001-02
Gross Primary School Enrolment			
Male	85	79	80
Female	60	54	59
Both	74	67	70
Net Primary School Enrolment			
Male	84	74	67
Female	56	54	54
Both	71	65	60
Adult Literacy Rate			
Male	68	71	72
Female	33	36	38
Both	54	55	56
Per Pupil Expenditure on Education			
Male	28	52	25
Female	60	73	60
Both	52	62	45
Full Immunization Rate			
Male	94	73	69
Female	81	67	63
Both	88	70	66
Infant Mortality			
Male	114	146	153
Female	119	114	120
Both	133	130	135
Pre-Natal Consultation			
Rural	..	60	63
Urban	..	22	26
Overall	..	35	35
Safe Water Supply to Households			
Rural	11	9	8
Urban	56	50	53
Overall	25	22	22
Sanitation- Flush System			
Rural	17	22	26
Urban	75	88	89
Overall	34	41	45

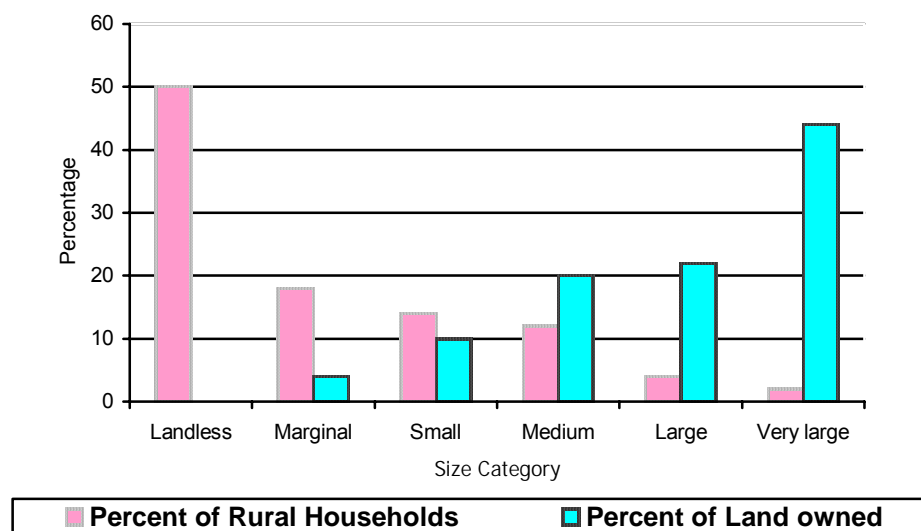
Sources: Federal Bureau of Statistics, 2002; Pakistan Integrated Household Survey 2001-02.

The main reason of increase in rural poverty during the period of 1996-97 and 2001-02 is the slow economic growth, particularly agricultural growth due mainly severe drought. In the past seven years, drought has drastically reduced the vegetative cover in 51 districts of Pakistan slumping the agriculture growth to about 2 percent on the annual average during 1996-2002 from 11.7 percent in 1995-96.

## Distribution of Land Ownership and Other Assets

Poverty and landownership nexus is strong. The ownership of land in rural areas is a critical means of alleviating poverty and reducing vulnerability. Incidence of poverty varies across rural population on the basis of ownership of landholding, and is relatively low among households whose head is owner-cultivator of land (World Bank 2002b). Over the years, changes in land ownership reflect growing landlessness in the country. It has been estimated that 64 percent of the poorest households are landless and own only 10 percent of land area, small and medium farmers own 32 percent of area and around 2 percent of households own more than 40 acres of land and control 44 percent of the land area (Figure 1). Collectively, large and very large farmers control 66 percent of all agricultural land (World Bank 2002b).

Figure 1. Distribution of land ownership.



Note: Marginal  $\leq 2$  acres of land, small  $> 2$  and  $\leq 5$ , medium  $> 5$  and  $\leq 15$ , large  $> 15$  and  $\leq 40$  and very large  $> 40$  acres.

Source: World Bank, 2002. Poverty Assessment: Pakistan Vulnerabilities, Social Gaps, and Rural Dynamics (Figure 4.1, p.84).

## Access to Credit

Availability of credit is one of the most important elements for addressing the problem of poverty in rural economy. Significant effects of institutional credit on agricultural output, household consumption and other household welfare indicators have been witnessed across countries (Kuroski 1995). However, experience of developing countries including Pakistan suggests that big landlords and influential groups preempt major share of institutional credit.

In Pakistan, rural credit has a history of market failures. The formal credit system is not uniform. In the 1960s and 1970s, allocation of credit was meant for productive purposes by lending at lower (subsidized) interest rates. This strategy led to created many problems. Subsidized credit failed to reach the targeted population, and too many rent-seeking intermediaries i.e. the big landlords preempted large share of institutional credit. This emphasis shifted in the 1980 and, it was argued that market based rates should be adopted to reflect costs and risks of lending (Khandker and Faruquee 2000). However, the shift in policy has not resulted in the desired change. In the 1990s, it was realized that poor's problem is not high interest rates, but their inability to borrow from formal sources (Malik 1999).

Pakistan Rural Credit Survey (1985) estimates that between 40-50 percent of all rural households in Pakistan borrow regularly, and that farm households borrow more than non-farm households. The landless households barrow 91 percent from the informal sources and only 9 percent from formal loan market. Similarly, marginal and small farm size households depend on informal sources for their credit requirements. The large and very large farm size households (7.4 percent of the total households) preempt above 75 percent of formal loan amount (Table 6).

*Table 6: Credit status by farm size category.*

Farm Size by Category	Households	Loan Amount	
		Informal	Formal
	%	%	%
Landless	46.7	91.3	8.7
Marginal	18.3	74.6	25.4
Small	15.2	57.5	42.5
Medium	12.4	44.6	55.4
Large	5.1	21.1	78.9
Very Large	2.3	24.0	76.0
Average	100.0	59.1	40.9

Source: World Bank, 2002b.

## Natural Disasters

The international experience suggests that natural disasters, such as drought, results in billions of rupees damage to private and public property, loss of life, and slow economic growth and progress on poverty alleviation. The worse victims of drought shock are marginal households whom in the absence of assets and other income support mechanism poverty of the poor, the disadvantage and marginalized households further increased (Khan 2002). Vosti (1995) argues that drought affects assets of the poor households through: (a) natural resource, composed of water (ground and surface), ground cover and its (bio) diversity (trees, bushes), wild fauna and flora, and soil/land; (b) human resource endowment, composed of education, health, nutritional status, skills, and number of people; (c) on farm resources (livestock, farmland, pastures, reservoirs, buildings, equipment); (d) off-farm resources; (e) community-owned resources such as roads and dams, and institutions; and (f) social and political capital.

Key objectives of policymakers faced with drought ad other such disasters are to smooth consumption over these shocks i.e. keep households from falling into poverty, and



minimize the negative impacts of these shocks on economic growth and poverty alleviation. In the context of rural Pakistan, the focus is on weather-related shocks of particular importance since these were by far the most important adverse events reported by communities. The poorest, particularly the landless households, depend on tenant farming and casual wage labor for their livelihoods. The drought condition during 1998-2002 in 51 districts across the country negatively affected the agricultural production including livestock, and is one of the main causes of sharp increase in rural poverty.

Drought conditions particularly affected poor who make their living from subsistence agricultural activities on marginal lands. Drought radically skewed assets of the poor. The weakening of these assets reduced flows of product and/ or cash income and destroyed the physical assets of the poor households, communities and areas by reducing its value due to prolonged collapses of asset markets (e.g. decline in the value of farm land in drought affected areas). Figure 2 provides details of assets components, which are normally affected due to drought.

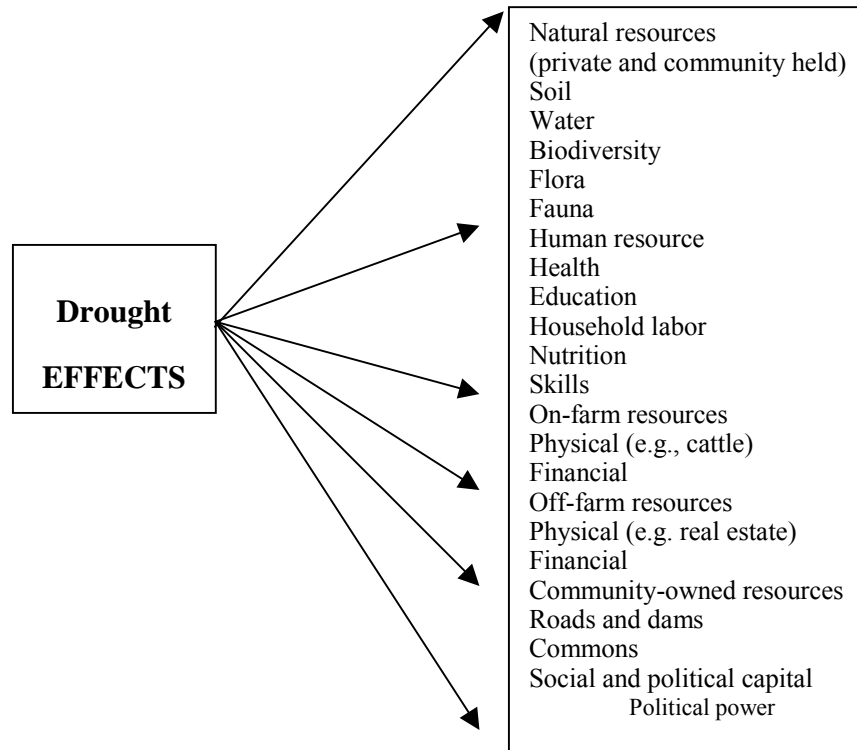
### **Rural Development Efforts**

In the past 55 years, all the governments in power implemented development programs to exploit the vast rural areas potential for improvement in the living conditions of population. Non-profit sector also implemented programs in many areas to reduce poverty by empowering the poor to enable them to participate in the social and economic activities. The primary objective of these programs was to ensure food security and basic services to the rural population, and develop a social protection system for marginalized rural population to protect them on the eve of sudden illness, injury, loss of livelihood, drought and other natural catastrophes.

The emphasis of public sector programs was on the rehabilitation of poor on sustainable basis, delivery of basic social services – primary education, primary health care, safe drinking water and sanitation, rural development, including farm-to-market roads, rural electrification and family welfare services, while NGOs worked for providing basic social services, small credit, empowerment of communities and social protection.

The outcome of these programs is in great variance to the objectives and physical and financial targets. Since impact analysis of these programs is not available, it is, therefore, difficult to assess contribution of these programs on the life of the people, particularly the rural poor. The growth and human development outcomes have not matched with the allocation of huge addition in public expenditure in the past five decades through specialized programs. It appears that weak performance of public sector programs is mainly because the intended beneficiaries only played a passive role in their own development.

Figure 2: Assets of poor affected due to drought.



Source: Stephen A. Vosti, 1999. Understanding and Coping with Natural Disasters: El Nino in Latin America and the Caribbean (Draft).

Some of the major programs implemented for rural development by the public sector and non-profit organizations are discussed below.

### A. Public Sector Programs

#### a) Village AID Program (1953-1962)

The First Plan emphasized development of rural infrastructure and cottage industries for creation of sustainable employment and income generation opportunities for rural population. The objectives of the program were: i) to increase the output of agriculture and village industries for higher rural income through improvement in crop and livestock production, building roads, particularly feeder roads, small dams, culverts, etc.

Village AID (Agricultural and Industrial Development) program in 1953 was the first effort for rural development in Pakistan. The 1951 census estimated rural population as 85 percent of the total population. It was realized that comprehensive efforts were needed to ameliorate the sufferings of rural population, and the government alone, through a few large-scale agriculture and water projects would not be able to make a difference to the life of the rural people. The village AID concept rested on the standard notion of the existence of surplus labor which could be utilized to increase production

from agriculture and village industries to enhance incomes of the rural people (Tahir, 1999). The design of the Program aimed to cater the rural population needs such as schools, health centers, and better water supply and recreational facilities. The management of the program was with the government. The Development Officers, Supervisors and Specialists were appointed to oversee the work of village AID workers. In each district, 150-200 villages (100,000-140,000 population) were organized as Development Area. Village AID workers, trained to guide the villagers to make plans for local development and to motivate them to modernize agriculture and improve health and education, and rural improvement, facilitated this process.

In 1959, after the established of Basic Democracies, the organizational structural of Village AID was changed. In the new set-up, Village AID Union Councils supervised workers. The resulting power struggle between elected representatives and bureaucrats resulted in the abandoning of the Program in 1962. The Village AID program made no significant dent into the problem of mass underemployment. The higher than expected population growth and stagnant per capita income meant that neither the additions to labor force could be absorbed, nor was there any reduction in the backlog of the unemployed (Tahir, 1999). Village AID was criticized for expecting too much from the community - as much as 50 percent. Rural Works Program did not specify any contribution by the community, though contributions of the order of 15-20 percent of the total outlay were estimated. As estimates of works were mostly based on guesswork, there was widespread pilferage of funds. Bulk of the funds in the Second Plan period was utilized on roads, mostly *kutch* roads, which is a sub-sector most susceptible to misuse. As a matter of fact, no physical targets were fixed. Worse, the Program did not envisage any arrangement for proper operation and maintenance of the physical facilities. It opened the doors for corruption.

Various lessons could be learned from the program:

1. The program was optimistic in its expectation that a technically trained, bike-riding village worker will have the vision and capacity for social mobilization in a feudal structure (Tahir 1999).
2. Ad-hoc management with conflict between government functionaries hampered its progress;
3. There was lack of capacity and lack of coordination within the government agencies and implemented groups.
4. The development skills and model was externally imposed on village from outside, and therefore, not accepted.

***b) Rural Works Program (1963-1972)***

Agricultural breakthrough was achieved in the Second Plan period. The Plan succeeded in achieving balanced agricultural and industrial growth. Agriculture average annual growth at 3.4 percent was above the population growth of 2.6 percent per annum. While the poor as consumers benefited from steady food availability and relatively stable prices, they were not among the growth makers. Agricultural growth essentially contributed by a sharp increase in fertilizer use and augmented water availability through tubewells, both resulting from subsidies, the benefit of which did not reach the credit-denied small or subsistence farmer. The Rural Development Program (1963-73)

substituted Village AID program. It was based on the results of pilot project for community development.

Directed by Dr. Akhtar Hameed Khan, the Comilla pilot experiment showed encouraging results in which rural communities with government support completed link road and minor/irrigation channels. The outcome was increase in agriculture growth and rural employment opportunities. The Comilla pilot indicates that with communities' participation the government can achieve sustainable rural development. The Rural Works Program was started in 1963 in both the wings of the country, separately. The following four principal objectives were sought:

1. To provide larger employment in rural areas by creating work opportunities on local projects not requiring large capital investments, the benefits of which can easily be recognized by the workers;
2. To create an effective nucleus for planning and development at local level, and to associate an expanding segment of population in the development effort;
3. To create infrastructure such as roads, bridges, irrigation channels and the like in rural areas; and
4. To raise additional financial and manpower resources for the implementation of local projects, through taxation and voluntary labor.

Emphasis, however, was placed on building rural roads and drainage water facilities. The program:

1. Completed 60,000 rural infrastructure and services projects; at cost effective manner;
2. Mobilized commodities to contribution labor, land, and cost equal to 15 percent of the total cost provide jobs;
3. Reduced the level of sectoral employ improve village infrastructure; and
4. Created averages about the development needs.

It was claimed that the financing of the Rural Works Program through PL-480 grants stabilized food prices at the cost of drive towards food self-sufficiency, particularly in edible oils. The Program massively suffered when aid was cut down and the grants became smaller and smaller.

The PL-480 support, however, undermined the indigenous efforts of improvement food self-supplies. Dependence on PL-480 created an artificial food supply and financial support for counter part funds released from the sale of PL-480 commodities, which latter with reduced food supplies under PL-480 directly affected the implementation of Rural Works Program.

### ***c) Integrated Rural Development Program (IRDP) (1972-1977)***

Pakistan witnessed a new era of political process with new government in office in 1971. The reform agenda of the new government was to satisfying food, shelter and other basic needs of the population. Two major initiatives, i.e. land reforms and rural development, through Integrated Rural Development Program (IRDP) were initiated in 1972 to improve the welfare of rural people. The IRDP was started with an ambitious set of objectives:

1. To improve the socio-economic status of the rural people to raise their living standard;

2. To increase agricultural output through modern techniques;
3. To create conducive economic and social environment to slow down the migration of people from rural to urban areas;
4. To create based on participatory affords and strengthen the local institutions;  
and
5. To develop skills, and technical know-how.

IRDP centers were set up to achieve the above objectives to serve an area of 50-60 villages of a population of 60-75 thousand. The focal point of IRDP was the *markaz* (centre) to service as administration unit of local government in each district. The centre provided a framework for joint action by farmers, line departments and private sector organizations by physically locating the windows of the later at the centre. The IRDP was abandoned in mid 1977 with the military take over. The following lessons can be learned from the program:

1. Too many objectives chased by too few instruments, overlap with other programs such as Peoples Works Program, an emphasis on civil works rather than developing civil society, absence of elected local institutions and the bureaucratic leadership quickly brought out the inherently flawed nature of the program (Tahir 1999).
2. There was poor response of the line departments for providing the trained officials; the market response to the use of improved agriculture methods and inputs such as seed, fertilizer and credit helped the rural community to improve their living conditions. IRDP played a marginal role in this process.
3. Lack of coordination with communities resulted in poor or no proper assessment of local needs.
4. Poor governance resulted in increasing rent seeking and corruption. Allocated resources were largely used for civil works (structures, building, etc.) where the objectives of interest groups could have been met easily.

***d) Prime Minister's Five Point Program (1986-90)***

On 31 December 1985, the Prime Minister's Five Point Program was announced to achieve rapid equitable economic growth, reduce unemployment, and provide a better life to the common man within four-year period. The Program cost was estimated at Rs 117 billion to be spent on development projects related to rural education, rural electricity, network of rural roads, supply of clean draining water, setting up of a Basic Health Unit in every Union Council in addition to the setting up of Rural Health Centers, 7 Marla Small Scheme for rural housing, improvement and development of *Katchi Abadis* (Shanty towns) in urban areas and creation of a National Employment Fund. Similarly, the program created opportunities for National Vocational Training Project as well as loans for doctors, engineers and other professionals through Small Business Finance Corporation, and to the youth also by the Youth Investment Promotion Society. Developing linkages with large-scale manufacturing through better-designed deletion programs encouraged self-employment in small-scale manufacturing. Expenditure on women development increased significantly focusing on training and support facilities for the employed as well as job seeking women.

Too much bureaucratic involvement based on a top down approach created problems in the implementation of the program from very beginning. Like previous programs, the

stakeholders were not consulted in the design of the program. The projects and schemes were drawn by government agencies and execution of these projects was assigned to the federal and provincial government agencies, under the overall coordination and guidance of the Planning Commission. High level Committees were constituted to supervise and ensure the effective implementation of the program, including the Cabinet Committee under the Chairmanship of the Prime Minister at the federal level, and Monitoring Committees headed by Chief Minister at the provincial level. The monthly meetings to watch the implementation of the Program with federal and provincial ministers as members was chaired by the Deputy Chairman of the Planning Commission, and once in a quarter by the Federal Planning Minister.

The Special Local Development Schemes under the Program were identified by members of national assembly and senators to meet the urgent socio-economic needs of the rural population and the urban poor. These schemes fell broadly into two categories: Education and Local Development. To institutionalize the arrangements, a high level inter-ministerial implementation committee was set up to scrutinize and approve these schemes. These schemes were executed through local institutions like District Councils, Municipal Committees and departments of the government.

The program failed in achieving its objectives. Since Rs.117 billion for the program were drawn from various sectors financed by normal annual development program (ADP), and no additional resources except MNA/Senator Programs were earmarked. It was difficult to ascertain its physical and financial achievements. All were reflected in respective sectors. The program like previous progress was too ambitious. Despite maximum political commitment and administrative support it failed. As against the allocated Rs 117 billion, only Rs 2.7 billion was spent on the Program.

***e) The Social Action Program and Others***

The main instrument through which planned efforts were made to expand access and improve quality of social services provided by the government since 1992-93 has been the Social Action Program (SAP). SAP evolved as a response to the serious imbalance between economic growth and human development. It aimed to increase government spending on the coverage, quality and effectiveness of delivery of basic services (basic education, basic health, population welfare, rural water supply and sanitation) to the people, especially children, women and the girls. The program was designed as an integral part of cross-sectoral objectives.

Like previous special programs, SAP also targeted rural areas. The design of program made a balance between the development-and-current expenditure and salary-and-non-salary expenditure. It also sought institutional reforms and improvement in governance as a pre-condition for the success of the program.

The implementation design emphasized enhanced allocations for development, maintenance and quality inputs to departments and institutional arrangements and procedural improvements to ensure their timely release and monitored utilization. Community-based approaches were supported through a small component of participatory development of political allocation. District Development Committees during the first government of Nawaz Sharif and the District Social Action Boards of the second government of Benazir Bhutto distorted merit-based site selection and recruitment. Analysis of SAP-I (1992-96) and SAP-II (1996-2000) expenditure

indicates that the level of public expenditure attained during the SAP-I period could not be maintained during the SAP-II period.

During the early years of SAP, the total government expenditure did increase rapidly but a sharp decline was witnessed in subsequent years, such that the spending had fallen even below pre-SAP levels. In spite of precarious budgetary position, public spending on SAP continues at a rate which would be sufficient to provide a reasonable level of basic public services, but because of weaknesses of public institutions at all levels of government, mismanagement, misuse and wastage, the desired results were not achieved. One of the most important lessons learned from the SAP is that increased expenditure is a necessary but not sufficient condition to expand access and improve the quality of social services. Unless required environment and capacities are created, institutional efficiency enhanced and broader participation of communities is ensured, SAP experience indicates that public resources likely to be misused.

Public expenditure, in real terms, during the SAP-I period has shown visible increase as per its objective, showing an average annual growth of 11.5 percent. Expenditure on education grew by 10.8 percent (current expenditure by 10.5 percent and development expenditure by 12.1 percent); health expenditure by 19.2 percent (current expenditure by 11.6 percent and development by 32.6 percent); rural water supply and sanitation by 7.3 percent (current expenditure by 3.5 percent and development expenditure by 8.6 percent) and miscellaneous expenditure, including expenditure on population welfare, increased by 7.4 percent (Table 7). SAP-II was expected to consolidate the SAP-I and build capacities. However, it failed to sustain the momentum gained by SAP-I. During the SAP-II period, average annual growth of public expenditure on social services declined, witnessing a negative growth of 2.9 percent. In real terms, all sectors covered by SAP showed negative growth rates during SAP-II period.

As a proportion of GDP, SAP expenditure increased from 1.7 percent in 1992-93 to 2.4 percent in 1996-97. Thereafter, it declined to 1.6 percent in 2000-01. Table 7 provides details on this.

The sectoral share of SAP expenditure also did not show any visible change. Education claimed 65.6 percent of SAP-I expenditure, while SAP-II has allocated 64.7 percent for education. Health share in SAP-II, however, increased from 17.5 percent in SAP-I to 20.0 percent, while rural water supply and sanitation share reduced to 11.6 percent during SAP-II from 14.0 percent in SAP-I.

In SAP-I and SAP-II, expenditure on salary claimed around 90 percent of the current expenditure and non-salary expenditure about 10 percent. During SAP-I, about 76 percent of development expenditure was financed by local components and 24 percent by foreign aid. During SAP-II, however, local component financed 70 percent of the development expenditure and share of foreign aid increased to 30 percent. In SAP-II, current expenditure claimed 73 percent of SAP expenditure as compared to 67.6 percent in SAP-I, whereas share of development expenditure was reduced from 32.4 percent in SAP-I to 27.1 percent in SAP-II.

Table 7. Trends in SAP expenditure since 1992-2001.

	1992-93	1995-96	1996-97	2000-01
As % of GDP				
Education	1.1	1.2	1.5	1.1
Health	0.3	0.3	0.4	0.3
Rural Water Supply and Sanitation	0.3	0.3	0.3	0.2
Miscellaneous	0.1	0.1	0.1	0.1
Total:	1.7	1.9	2.4	1.7
Real Growth Rate (%)		SAP-I		SAP-II
		(1992-96)		(1996-2001)
Education		10.8		-1.6
Health		19.2		-2.6
Rural Water Supply and Sanitation		7.3		-11.8
Miscellaneous		7.4		-1.4
Total:		11.5		-2.9

Source: Federal and Provincial Budget documents (Various issues)

**f) Khushhal Pakistan Program (1999-2002)**

The developing countries suggest that public work programs experience of help to reduce unemployment and poverty and build human and physical capital in a fiscally sustainable manner. The data indicate that these programs have measurable impacts, benefiting thousands of people. For example, Nicaragua created about 137,000 jobs of varying length, for about 21,500 person-years of employment. In Bangladesh, the public works intervention under the Rural Development Project in 1997-98 created 440,000 additional jobs (30 percent of whom were women). This brought direct benefits to more than 1.7 million household. In Egypt Social Funds Development Program provided substantial support for building the required infrastructure of the poor and help to create additional jobs.

Since October 1999, the Khushhal Pakistan program was implemented as an important public sector initiative to create employment opportunities for the unemployed poor. The program is designed to reach every nook and corner of Pakistan. The Program is to provide essential infrastructure in rural and low-income urban areas by building farm-to-market roads, water supply schemes, repairing existing schools, small rural roads, streets, drains, and storm channels in villages. The schemes are also directed towards lining watercourses, desilting canals, and providing civic amenities in towns, municipal committees and metropolitan corporations. Communities are empowered to identify projects and implement them under a participatory approach.

The local communities are involved in identifying projects according to their needs, but still much needs to be done to involve fully local communities in planning, designing and implementing the development schemes under the program through community social mobilization. In the past, similar programs implemented with the same vigor and zeal resulted in partial results. Transfer of implementation of Khushhall Pakistan Program to the provinces from 2002-03 is likely to improve its implementation further, provided the provincial governments receive needed financial support.



***g) Micro Finance Institutions (MFIs)***

In Pakistan, improved access to small credit is seen as a potent means for increasing the income of the poor. Micro-credit has a proven track record of meeting the demands and needs of the poor at the grassroot level (Box 1). In addition to the existing windows such as Pakistan Poverty Alleviation Fund (PPAF), Agricultural Development Bank (ADB), First Women Bank, National Rural Support Program (NRSP), etc., the government has established a new 'Khushhali Bank' or 'Micro Finance Bank' for provision of micro credit to poor communities. The Khushhali Bank will also support NGOs and Rural Support Programs (RSPs), which are already dealing with micro-credit. In addition, SME Bank has been established to support and develop the SME sector in Pakistan by providing the necessary financial assistance and business support services on a sustainable basis. In the private sector, First Micro Finance Bank Ltd has been established as a non-listed public limited company. The National Commercial Banks also have some facilities for micro-credit but because of collateral requirements these windows are not very effective. Coverage of micro-credit from all the above windows is limited and not fully catering the substantial demand of credit.

The government facilitated the establishment of Khushhali Bank in August 2000. Three public sector, 11 private sector and two foreign banks own Khushhali Bank. The Khushhali Bank has expanded its operations into 30 districts, disbursed over Rs 0.3 billion and serviced nearly 30,000 loans while ensuring that over 30 percent of its clients remain women. The bank is now targeting to serve 100,000 households each year reaching every corner of Pakistan to give the poorest of the poor the loans up to thirty thousand rupees for their self-improvement. Major goals of the bank are reduction in poverty and improving the status of women through enhanced income generating activities. The Khushhali Bank will promote the process of establishing such community organizations, which can sustain credit operations and promote saving habits among the poor. The bank will also support some small infrastructure projects, which on completion will be amenable to the levy of service charges and for which the community will provide appropriate guarantees. Benefit will accrue directly to the poor through income generation activities and improved infrastructure.

An encouraging policy framework and support mechanisms to encourage private investments in the sector are now in place. Enactment for creation of micro-finance banks in the private sector has become effective. First entry based on this legislation is the First Micro Finance Bank sponsored by the Aga Khan Foundation as essentially an initiative of the non-government non-profit sector. MFIs are permitted to be established at any level district, province or national, and mobilize resources from local markets. Licensing procedures, supervisory regulations and disclosure standards have been simplified. While the government and non-government sector have entered the field, the formal private sector has not yet come forward, probably because of collateral conditions and risk involved.

***h) Drought Emergency Relief Assistant Program (DERA)***

In the past four years, prevailing drought condition has affected half of Pakistan. It has reduced overall growth, agricultural productivity, livestock and non-farm incomes. The poor households in the drought-affected areas (52 districts out of 97 districts) became vulnerable as they lost their crops, livestock, employment and other livelihood opportunities. In the absence of an established system of safety nets to deal with the drought crisis, human suffering and incidence of poverty in the affected areas has

increased significantly. In order to mitigate the effects of the drought and assess requirements and needs of the regions to avert large-scale human sufferings, the government has implemented Drought Mitigation Program to provide a systematic thrust to rehabilitate drought stricken areas through short, medium and long-term schemes. These schemes, spread over all the provinces, will assist in sustained recovery of the people who were exposed to severe adverse effects of drought by restoring and improving productive capacity and the livelihoods and incomes and invoke better preparedness in future. However, progress on the implementation of the program is slow. Lack of capacities to manage the program at the district level and casualness at levels of government has delayed the proper implementation of the program, and thereby, relief to the affected areas and population. Preliminary data show that despite transfer of financial resources to the program the bureaucratic conduct of approval and other formalities have slowed down the implementation of the program.

**i) Permanent Rehabilitation Program of the Poor**

This programme is about rehabilitation of *Mustahiqeen* (deserving people), with *Zakat* assistance for enabling them to set up their own means of livings/small trade, suitable to their qualification, skill and local conditions. The proposed package for Rehabilitation is aimed at providing enhanced and adequate financial assistance from *Zakat* fund to *Mustahiqeen* who are willing to become self-reliant and useful citizens of the country. The Central *Zakat* Council has approved the categories for rehabilitation grant to *Mustahiqeen*. In order to implement the program in a transparent manner, institutional support at levels has been established, which will identify *Mustahiqeen* as per laid down criteria and implement and monitor the program. Table 8 provides details on this:

**j) Food Support Program**

The coverage of the food support program benefited to 2.2 million poorest households in 2001-02 with monthly income of maximum Rs. 2,000 (Table 9). Cash support of Rs. 2,000 is provided to them through biannual installments.

Table 8. *Zakat rehabilitation program 2001-02.*

Package	Brief Description	Amount per Mustahiq (Thousand Rupees)	Allocation (Billion Rupees)
Package A	For shops/business for illiterate Mushtiqeen	10-35	
Package B	For small business in neighborhood for Mushtiqeen with at least primary education	10	
Package C	For Skilled Mushtiqeen with middle level of education	10	
Package D	For skilled Mushtiqeen with matriculation	15-35	
Package E	For semi-skilled Mushtiqeen without any consideration of education	10-25	
Total:			1.8

A system of means testing has been adopted for identification of beneficiaries by linking the program with the 'Zakat System' where records of *Mustahiqeen* are developed through extensive participation.

*Table 9. Food support program 2000-02.*

	Disbursement (Billion Rupees)		No. of Beneficiaries	
	2000-01	2001-02	2000-01	2001-02
Pakistan	1.14	2.20	1,136,546	2,200,916
Punjab	0.59	1.09	591,126	1,089,736
Sindh	0.26	0.48	256,708	478,495
NWFP	0.18	0.42	182,511	425,918
Baluchistan	0.05	0.09	44,864	90,670
ICT/NA/AJK	0.06	0.12	61,337	116,097

***k) Tawana Pakistan Program***

The nutritional status of Pakistani children, particularly girls is lowest than in most countries, including Sub-Saharan Africa and East Asia and Pacific. The nutrition indicators such as low birth weight babies (25 percent), low weight for height (wasted) (nine percent), low weight for age (stunted) (50 percent) and low weight for age (under weight) at 38 percent suggest that additional resources are needed urgently to improve the current situation. The Tawana Pakistan Project is being implemented as a Nutrition Package for school-going girls (five to nine years) in 26 High Poverty district all over the country.

The project will be implemented by Pakistan Bait-ul-mal to benefit 500,000 girl students in 5,000 Girls Primary Schools by providing meals for 25 days per month for 10 months per year with supplements of vitamins/micro-nutrients. On implementation the project is likely to improve nutritional status of girls in primary schools as well as in the community; increase enrollment and sustain attendance of girls; create awareness towards better living concepts in the community particularly on public health and nutrition; devolve responsibility to the beneficiary for ownership and sustainability of the program and reduce gender gap in school enrollment. On completion, the project will result in 18 percent greater weight gain for age, 10 percent height gain for age, 100 percent increase in girls enrollment in primary schools in target districts and decrease student drop out rates by 30 percent.

***B. Non Profit Organizations Programs***

***a) The Organizations Pilot Project (OPP)***

Dr Akhtar Hameed Khan, the pioneer of the Comilla and Daudzai rural development projects, moved to Orangi to show that community participation works to the benefit of the poor, both rural and urban. The OPP started in 1980 in shanty town of Karachi called Orangi comprising about a million squatters. The program included a people's financed and managed Low-cost Sanitation Program, a Housing Program, a Basic Health and Family Planning Program, a Program for supervised Credit for Small Family Enterprises Units, an Education Program; and a Rural Development Program in the

villages around Karachi. The research and extension approach that Dr. Khan adopted for the OPP had been applied only to rural development.

***b) The Agha Khan Rural Support Program (AKRSP)***

Based on the spirit of Comilla, Daudzai and OPP, the AKRSP was pioneered by Shoaib Sultan Khan in late 1982 in the Northern Areas of Pakistan. It focuses on income generation activities in collaboration with government departments, elected bodies, national and international development agencies and commercial institutions. AKRSP acts as a catalyst for rural development, organizing resources so that local institutional structures are gradually developed to sustain the process of development. Its acknowledged success and wide replication has won it the status of the best-practice example of rural poverty reduction program through community participation.

The entry point of the AKRSP was productive physical infrastructure and the key principle was to organize the community into village organizations to demonstrate that the diseconomies of small-scale could be effectively overcome through collective action by the whole community. Regular savings by all members were seen as an essential element in the discipline of community-based management. Once the village organization had learned by practice the empowerment flowing from organizing in accord with these principles, the community could take up further tasks for its own sustainable development. The idea of a support organization, providing technical and social guidance to village organizations, was crucial to the success of this approach.

Between 1982-91, productive physical infrastructure significantly increased cropped area and access to credit enabled effective input application, which led to the doubling of real household income.

With mature village organizations and savings exceeding immediate community credit needs, the future direction of the AKRSP is a subject of research. At the center of the debate lies the role of the support organization. Meanwhile, the message is spreading. The major adaptations include Balochistan Rural Support Program, Sarhad Rural Support Corporation, National Rural Support Program, and more recently, Punjab Rural Support Program.

At the local area level, AKRSP has helped develop local NGOs and other development organizations charged with yet broader sets of functions including helping build capacity of smaller village institutions, operating and managing social sector facilities, and protecting and enhancing common property resources. Capacity building services provided to these NGOs include intensive trainings in management, financial accounting, proposal development, and fund raising; linking them to possible funding sources; and exposure visits and workshops for their enhanced sensitization and awareness.

***c) National Rural Support Program (NRSP)***

NRSP was established in 1992 to set up a countrywide program for poverty alleviation. The program aims at setting up a network of grassroot organizations through social mobilization. NRSP's strategy is to 'harness peoples potential to help themselves' for which NRSP provides social guidance to the organized communities.

Social mobilization is the core of NRSP's philosophy. It is based on the concept that the community is the centre of all development activities. It is only informed and enlarged community members who can plan and undertake sustainable grassroots developments.

NRSP extends micro credit to the poor who do not have tangible collateral. In order to facilitate the community organizations and its members in the repayment of their loans in difficult times, NRSP encourages them to generate a matching saving before requesting NRSP for a loan. However, in order to ensure that this does not discourage the poorest community organization members, NRSP has set flexible ceilings for such mandatory savings. NRSP facilitates the community organizations in developing new enterprises or improving the existing ones through its vocational training program and natural resource management program. As part of the VIP, the community organization members also receive training in business development and financial management.

***d) Enhancing Indigenous Philanthropy***

Experience of the past 20 years shows that there has been substantial increase in private voluntary initiatives in the social fields in Pakistan. A well-developed network of organizations supported principally by local giving addresses a broad spectrum of social development needs including health, education, community development and shelter. The impressiveness of the aggregate individual and corporate sector giving of Rs. 70 billion in 1998 is substantially higher as compared to government expenditure on social protection programs in that year. The current individual and corporate sector philanthropists giving, which are largely used for consumption support need to be reformed to move into social investment to rehabilitate poor, the disabled and marginalized to sustainable livelihood.

**Social Investment:** The indigenous philanthropy philosophy recognizes that a society's capacity to shift from relief to development – from charity to social investing – is closely related to the credibility and effectiveness of philanthropy-receiving institutions. The disadvantaged and marginalized and delivery of social services. The government support mechanism is also under going transformation from control and regulation to facilitation to mobilize individual and corporate philanthropy contributions as social investment for improvement in the quality of life of the poor.

Establishment of institutions by developing partnership of the government with citizen sector and the corporate sector will help philanthropy receiving organizations to be more effective to mobilize and divert these resources for social sector development through their relationships with the philanthropy giving organizations, whose support can both provide finance and build capacity. Increasing public and private partnership is likely to help use individual and corporate giving of around Rs. 70 billion in 1998 (Table 10) for increasing the level of social sector investment.

*Table 10: Aggregate giving by individuals in 1998.*

	Rupees Billion	%
Volunteering	29.4	41
Zakat Money	13.7	20
Non-Zakat Money	16.0	23
Gifts-in-Kind	11.3	16
Total	70.4	100

Source: Aga Khan Development Network. 2000. Philanthropy in Pakistan: A Report of The Initiative on Indigenous Philanthropy, Islamabad: August, p.45

## **Rural Development and Poverty Reduction Strategy**

Poverty is multidimensional; therefore, poverty reduction efforts have to be multi-targeted. The rural development and poverty reduction strategy should aim priority actions, policies and sectoral focus encompassing economic, social, political and institutional factors. The instruments for achievement of this strategy should be: a) revival of the economy to create productive employment opportunities for the rural poor through use of labor intensive technologies, b) physical assets creation for the poor; c) human resource development; d) social protection system to reduce vulnerability, and e) development of institutional capacities.

The revival of the economy is the primary source for rural poverty reduction. Rural poverty reduction generally benefits from labor-intensive approaches. Employment-intensive policies, technologies and institutions help economic growth and poverty reduction (IFAD 2001). Targeting poor directly to increase crop and non-crop agricultural productivity is essential for overall economic growth and sustainable reduction in poverty.

Non-crop agriculture also has a significant poverty alleviation role. For the development of non-crop agriculture land requirement is small and potential return is high. For non-crop agriculture, several policy measures and legislative support are important: i) commercial poultry, beef and dairy farms could be promoted, ii) development of fisheries is an important source of additional household income and employment. Fish production in inland water and sea waters can be expanded using good management, quality control and adopting improved technologies, and iii) the development of planned agro-forestry household not only for supplementary household income but for needs for fuel, food, livestock and other activities.

Rural poverty is mainly the manifestation of lack of assets. Lack of assets limit opportunities for the poor household to generate income, get a gainful employment and have a better quality of life. Limited or no access to assets multiply sufferings of the poor households and increase their vulnerability in periods of crisis. Assets empower the rural poor by increasing their incomes, and provide protection from natural and financial shocks. The rural development strategy should, therefore, create sustainable means of living to reflect the complex range of assets and activities on which people depend for their livelihood (Cristina 1983; Norton and Foster 2001; Chambers and Conway 1992).

Human development is an essential component of poverty reduction efforts. Lack of access to social assets in terms of deficient skills, basic services – (education, health, nutrition, reproductive health, water supply and sanitation) and social exclusion are the major constraint in reducing poverty in rural areas. The poverty reduction strategy must improve health, nutrition and schooling facilities for the poor.

The poorest of the poor, the disadvantaged and marginalized facing extreme poverty need a social protection system to provide them access to instruments to mitigate and cope with shocks that affect their well being and ability to break the vicious circle of poverty. Strengthening the institutional capacities of rural institutions is necessary for economic reasons (e.g. productive and allocative efficiency), equity reasons and ensuring good governance.

## Conclusion

Poverty in Pakistan is mainly rural phenomena. Poverty reduction efforts, therefore, should focus on the development of rural areas and improving the farm and non-farm activities.

Public policy on rural development lacks coherent long-term strategy. Investment decisions are ad hoc and failed to address the problem of rural poverty and improvement in socio-economic well being of rural people. In the falling resource environment, it is important that available resources are used in an efficient manner.

Agriculture assumes a considerably important role in stimulating growth and creating a growth structure leading to alleviation of poverty and human well being. A high agriculture growth creates synergies for diversification of the rural economy and improvements in non-farm activities. Focus of poverty reduction in rural areas should be on increasing the agricultural production by providing necessary support in terms of assets, development of rural infrastructure, broadening of small credit facilities and development of an incentive system to help poor farmers to compete.

Community based rural development is the most effective way to reduce poverty. Collective community actions promote efficient allocation of scarce resources in a manner more responsive to the needs of the poor. Community participation in development activities can greatly enhance the quality of life in rural areas and poverty reduction.

Ownership of assets safeguards the poor households against extreme poverty. Minimizing biases against rural people, the poor and women to access to land necessary to improve their well being and come out from poverty trap and acquiring human assets, especially education and health should be reduced.

Rural credit markets needs substantial improvements. Efforts at the government level, private sector and civil society level need to be intensified.

Strengthening the institutional capacities of rural institutions is necessary for economic reasons (e.g. productive and allocative efficiency), equity reasons and ensuring good governance.

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