



## **Poverty Alleviation A Critical Analysis of Causes & Remedies 2001-2005**

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### **ABSTRACT**

Poverty is a great physical deprivation, which not only affects socially but also psychologically. The study focuses on the causes of poverty and recommendations. The research mainly emphasizes the lack of good governance, negligence of agriculture sector, unfair distribution of allocation and resources in education, health and other social sectors. The lack of infrastructure, the inadequate number of girls schools are specially focused. The social sector policies and micro finance also comes under discussion. Small & cottage industries have also been put under the centre of attention. Little share of national budget is spent on the programs of social development as compared to the national budget on defense.

**JEL Classification : E0; I32; J65**

### **1. INTRODUCTION**

Poverty means inability to obtain a minimal standard of living. Poverty is a complex and multidimensional phenomenon, which goes beyond the notice of income. It encompasses social, economic and political deprivation. Lack of such opportunities limits the ability of the poor to secure gainful employment and bring a change about in their lives (World Development Report, 2005).

According to ILO (1995) poverty is a situation in which a person or house hold lacks the resources necessary to be able to consume a certain minimum basket of goods. The basket consists either of food, clothing, housing, and other essentials (moderate poverty) or of food alone (extreme poverty).

According to the United Nations definition of poverty, every member of the family must earn at least one/two \$ in a day to cross the line. To be able to cross the poverty line, an average family of five must manage income of \$ 10 a day. It would workout to be \$ 300 or Rs. 18000/= a month. It means from UN standard majority of even the middle class is living below the poverty line (Dawn, 21st July 02-9)

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The existence of wide spread poverty and massive unemployment of our manpower in the midst of global prosperity is unquestionably the most serious challenge confronting to the world today. The proportion of people living in extreme poverty on the global level fell from 28 percent in 1990 to 21 percent in 2001, on the basis of 1\$ a day (Poverty Status 2001, 2004 and 2005 poverty evidence). The problem of poverty has proved intractable by the number of countries as classified by the United Nations “The least developed” have risen from 24% in 1971 to 49% in 2001. The recent trends in global and regional poverty clearly suggest one thing and that is, rapid economic growth over a prolonged period is essential for poverty reduction, at the macro level. Economic growth implies greater availability of public resources to improve the quantity and quality of education, and other services, at the micro level, economic growth creates employment opportunities. (Economic Survey, 2006).

Poverty in Pakistan is a major economic issue. A more recent review of poverty indicates that the incidence of poverty in the country is significantly noticeable. The world population is 6.5 billion. Out of the 5.1 billion people belong to less developed or poor countries and remaining 1.3 billion belong to the more developed or rich countries. Pakistan is placed as the sixth largest populated country on the globe, with a population of 159.19 million at the end of the year 2004. The population of the country is expected to reach a total of 294,99 million by 2050. It is alarming that Pakistan is facing a high rate of population growth and human poverty (Economic Survey of Pakistan, 2006).

The land covers 79.61 hectares, and the density is 183 persons / square mile. The literacy ratio is 53 percent, about 70% population is dwelling the hinterland (rural areas). The labour force has also increased from 41.38 million in 2001 to 45.76 million in 2004. About 3.52 million people were estimated to be unemployed in the year 2005 as compared to 3.72 million in the previous year, whereas unemployment contributes 3.32 million, with the annual growth 2.8 percent. Consequently the poverty line reaches to 23 percent (IBID, P.xxiv).

The poverty scenario over the period 2001 to 2005, the table indicates that in the year 2006, the estimate of inflation adjusted poverty line is Rs.878.64 per adult equivalent per month as compared to 723.40 in 2001. The Head Count Ratio i.e. percentage of Population living below the poverty has fallen from 34.46 percent in 2001 to 23.90% in 2005, a decrease of 10.6 percent. The percentage of population living below the poverty line in rural areas it has decreased from 39.26 in 2001 percent to 28.19 percent in 2005. While in urban areas it has decreased from 22.69 percent to 14.9 percent in 2005 respectively. The rural poverty has declined by 11.6 percent urban poverty is reduced by 7.79 percent.

**Table-1**  
**Poverty Indicators 2001 and 2005**

	Headcount		Poverty Gap		Severity of Poverty	
	2001	2005	2001	2005	2001	2005
Pakistan	34.46	23.90	7.03	4.76	2.13	1.48
Urban	22.69	14.90	4.55	2.87	1.35	0.84
Rural	39.26	28.10	8.04	5.64	2.44	1.77
Poverty line (Rs. Per adult equivalent per month)	723.40	878.64				

**Source:** CRPRID<sup>1</sup> /Planning Commission 2006; Economic survey of Pakistan 2006

<sup>1</sup> CRPRID = Centre for Research on Poverty Reduction and Income Distribution.

However, the estimation of poverty line enables the policy makers to further identify and group the population into various 'poverty bands' such as extremely poor, vulnerable and non-poor. A comparative profile of 2001 -2005 is at the table No: 2:

**Table-2**  
**Comparative Poverty Profile 2001 and 2004-05**  
**Percentage of Population**

	<b>2001</b>	<b>2004-05</b>
Extremely poor	1.1	1.0
Ultra Poor	10.8	6.5
Poor	22.5	16.4
Vulnerable	22.5	20.5
Quasi Non-Poor	30.1	35.0
Non-Poor	13.0	20.5

**Source:** CRPRID/Planning Commission, 2001-2005

There are six groups. While the percentage of population classified as 'extremely poor' remains almost identical in the two periods, the proportion of ultra poor and poor have declined appreciably. At the higher end, the percentage of quasi non-poor and non-poor in the economy increased notably.

**Table No. 3**  
**Poverty Trends in Pakistan**

<b>Year</b>	<b>Total</b>	<b>Rural</b>	<b>Urban</b>
1963-64	40.24	38.94	44.53
1966-67	44.50	45.62	40.96
1969-70	46.53	49.11	38.76
1979-80	30.68	32.51	25.94
1984-85	24.47	25.87	21.17
1987-88	17.32	18.32	14.99
1990-91	22.1	23.59	18.64
1992-93	22.40	23.35	15.50
1996-97	31.00	32.00	27.00
1998-99	32.60	34.80	25.90

(Economic Survey of Pakistan 2001)

## **2. CAUSES OF POVERTY**

The study conducted by the Asian Development Bank (2001) identified some of the causes of poverty in general. Poverty is impacted by a number of factors. The factors or causes of poverty can, be grouped into categories based on the channels through which they affect poverty levels. Issues of good governance and socio-economic institutions are foremost.

Governance is defined as the manner in which power is exercised in the management of a country's social and economic resources for development. Good governance is an essential pre-condition for pro-poor growth as it establishes the enabling regulatory and legal framework essential for the sound functioning of land, labor, capital and other factors of market.

### **Non Transparency in Resource Allocation**

The lack of transparency in public sector planning, budgeting and allocation of resources in Pakistan has ensured that those who do not constitute the political elite are unable to make political leaders and the government is not responsive to their needs or accountable to the promises. This has led to a supply driven approach to service provision, with development priorities being determined not by potential beneficiaries but by the bureaucracy and a political elite which may or may not be in touch with the needs of the citizens on a larger scale. Non-transparency in the management of public accounts has led to a distortion of development priorities and a tendency to safeguard the interests of specific groups at the expense of the larger public interest.

### **Weak Public Sector Capacity**

The public sector capacity is considered as a significant for the top performing in Asian Countries but due to their, little check and balance. Sectors do not come up to mark. This is despite the massive growth in the numbers of staff employed by the public sector over the years. The first and foremost reason for this decline in capacity has been the inability of the public sector to remain competitive in attracting better qualified and competent people owing to the dismal financial and career incentives offered. Secondly, there has been a steady weakening of meritocratic selection procedures in recruitment of staff as a consequence of rampant systemic corruption and nepotism. This has led to an unsustainable and unnecessary overextension of the public sector with the result that whatever internal capacity there was, had to be more thinly spread over in diverse sectors rather than being concentrated in a few key ones such as regulation and law and order. The result of this development has been the realization of low economic scale in the public sector.

### **Inadequate Access To Justice**

Inadequate access to justice is widely perceived in Pakistan to be a key governance issue that directly contributes to the powerlessness of the poor and reinforces social and economic inequities widely prevalent in the institutional fabric of society. With the general deterioration of public sector institutions in the country, and their uncontrolled politicization, those providing judicial services could not have been expected to remain insulated from this trend.

The constraints to effective dispensation of justice in the country are well known, and summarized recently in an ADB project document . These include the weak governance and administration of the judicial system; lack of professional management; inadequate budgetary resources and basic infrastructure; long delays in the court case decisions; absence of client focus; absence of grievance redressal procedures; and gender imbalances and under-representation of women in the judiciary.

## **3. ECONOMIC DETERMINANTS**

The slowdown in economic growth in Pakistan during the 1990s, was a key factor in rising poverty during the period. Growth declined in all sectors in the 1990s and there was also much greater volatility in the growth rate, particularly in agriculture. In addition, growth was slower than the average in labor intensive sectors, such as construction and wholesale and retail trade, and faster than the average in capital intensive sectors, such as electricity and gas distribution. Thus not only was growth slow, but was also not pro-poor. The causes of the slowdown in growth may be divided into two categories, i.e. structural and others. Among the structural causes, the burgeoning debt burden and declining competitiveness of the Pakistani economy in the increasingly skill-based global economy are the most important. Increasing debt service requirements resulted in a growing fiscal squeeze, which in turn led to a declining proportion of GDP being spent on development and social sectors

in the 1990s. Falling public investment, together with unsuccessful attempts at macroeconomic stabilization also adversely affected private investment. At the same time, reduction in tariffs, exhaustion of simple import substitution opportunities, and elimination of export subsidies in the 1990s meant that international competitiveness became an increasingly important determinant of investment opportunities in Pakistan. The adverse impact of structural factors was reinforced by other problems such as ethnic and sectarian violence, poor state of law and order, and a high degree of economic and political uncertainty because of the many changes in government. Throughout the 1990s, the government was implementing a series of medium term structural adjustment programs under the aegis of the International Monetary Fund (IMF). However, because of frequent changes in government, adherence to the adjustment program was unsatisfactory, (Asian Development Bank Report, 2001).

#### **4. INVESTMENT**

Investment is a key driving force for GDP growth, and declining investment levels point to low GDP growth rates. The early 1990s were characterized by the intensification of deregulation and privatization policies. Foreign resources in terms of loans, investment and foreign currency accounts, supplemented domestic savings, which were typically low at an average of 14 percent of GDP, and helped in enhancing investible resources and reducing investment risks. Resultantly, private investment during this period increased from 7.4 percent of GDP in FY1988 to 10 percent by FY1993. In subsequent years, the investment climate deteriorated even more significantly as a result of the imposition of sanctions on the country after the nuclear tests of 1998, and related policy decisions such as the freezing of foreign currency accounts. Total investment declined from 17.1 percent of GDP in FY1998 to just 14.7 percent in FY2001. This decline was entirely due to a sharp fall in private investment, which declined from 9.6 percent of GDP in FY1998 to 7.5 percent in FY2001. Initial estimates suggest that total investment further declined in FY2002, to 13.9 percent of GDP, primarily due to the post 11 September regional conflicts and further deterioration in internal security.

#### **5. FISCAL POLICY**

Pakistan was required to reduce the size of the budget deficit to less than 5 percent in this period under the IMF's structural adjustment program, the requirements of public debt servicing placed serious constraints on the government's budget allocation priorities. The Government's fiscal options have, in the last decade in particular, been significantly constrained because of the need to meet debt obligations, and the policy of sustaining expenditure on defense. Expenditure on defense and interest payments together accounted for 88 percent of total tax revenue in FY1991. From FY1998 to FY2000 expenditure on these two heads has remained at over 90 percent of tax revenue. The government has little flexibility in reducing expenditures on the defense. Furthermore, defense expenditure has the potential to rise sharply if tensions between the two countries are exacerbated. In FY2002, while rigidity in expenditure was one constraint on the government's resource allocation policy, the failure to mobilize additional revenue was the other side of the coin which had had equally damaging effects.

#### **6. SUBSIDIES**

If possible to encourage the industrial sector, their performance for improving their performance from a poverty assessment perspective, it is more revealing to look at the breakdown of subsidies. Subsidies in Pakistan are generally divided into two heads, current subsidies and development subsidies. Current subsidies include subsidies on wheat sugar and edible oils and development subsidies are given to the fertilizer industry, in the form of reduced price.

## **7. EMPLOYMENT**

The official unemployment rate had increased to 7.8 percent by 2000, 6.1 percent for men and 17.3 percent for women. However, unemployment statistics in Pakistan are generally unreliable because of the relatively high incidence of disguised unemployment; lack of investment in industrial sector not only affects our exports performance but also aggregates the employment situation in Pakistan. The fact that a significant proportion of total employment even outside agriculture is generated in the informal sector. In general the capacity to absorb labor in the economy is expected to have declined over time, given declining GDP growth,

## **8. INFLATION**

The fact is that inflation in Pakistan begins as a domestic factor with food inflation, which ultimately exceeded 13 percent, when food prices rose. All other prices rise along with the wages during the year 2004-05. Inflation as measured by consumer price index (CPI) averaged 9.3 percent. Food price inflation was recorded at 12.8 points. Pakistan experienced double digit inflation from FY 1991 to FY 1997 a period when the size of the fiscal deficit averaged 7% GDP. Experience shows that since FY 1997, which is beneficial to low income group. Inflation fell significantly to 7.8 percent in FY1998, and has continued to decline thereafter, largely because of macroeconomic management in the form of reduction in the budget deficit and a reduction in the average rate of increase of money supply to 9 percent between FY1998 and FY2001. In FY2002, inflation was estimated at 2.6 percent for the first ten months of the year, with food price inflation estimated at 1.4 percent. Inflation has also been controlled because of low average international prices of key commodities like petroleum and petroleum products, and because of improved supply of food items in markets all over the country (Government of Pakistan,2001).

## **9. SOCIAL DETERMINANTS**

The economic determinants of poverty are key to understanding the circumstances that can intensify poverty, the impact of economic causes of poverty tend to be accentuated under a regressive social structure and rigid societal mores can act as impediments to the equitable distribution of the benefits of growth.

## **10. LOW LEVEL OF HUMAN DEVELOPMENT**

A country's future growth potential and the ability to reduce poverty is strongly dependent on its stock of social capital, and investments made to increase that stock. The level of human development in Pakistan is currently very low. The persistent neglect of the social sectors has effectively translated into the disempowerment of a vast section of society. To the extent that poverty is defined as a limitation on the right to make decisions to improve one's quality of life,

## **11. POVERTY-RELATED SOCIAL SECTOR EXPENDITURE**

However, in recent years it is realized that growth alone is not sufficient for poverty reduction in the development policy and practice. The impact of growth, on employment and poverty, the pro-poor spending can be broadly categorized into three types (i) the impact of increased spending on education, health, population planning, governance on chronic poverty is long term, but in the medium to short term increasing access to these services

imply more investment and employment for even lower income strata especially in rural areas (ii) spending on irrigation, roads, highways, rural development, land reclamation,

village electrification, increase in employment in the short to medium term and mitigate transitory poverty (iii) spending on food subsidies, social security, and food support programs directly target the poor and vulnerable by raising their consumption levels. While the improvement in access to various kinds of social services during 2001-2005 have been extensively documented in government publications including the Economic Survey conducted in 2005.

The PRSP mainly relies on targeted expenditure on pro-poor sectors to cater to the needs of the poor and vulnerable sections of the society. All together, social sector and poverty related expenditures grew at an average rate of more than 20 percent per annum during the period under review. There is nearly a three fold increase in the projected PRSP expenditure for 2006-07 when compared with the actual expenditures of the base year 2001-2002.

Within the various categories of pro-poor expenditure, human development comes out on the priority of the government with expenditures under this head constituting, on average, more than 50 percent of all PRSP related expenditure given the fact that the majority of the poor reside in the rural areas. The study shows that rural development have received increasing importance during the last three years, which along with higher expenditure on human development have resulted in substantial increase in rural development expenditures.

**Table-3**  
**Social Sector and Poverty Related Expenditures on Social Sector and Poverty Related Expenditures**

(Rs. Billion)

	2001-02 Actual	2002-03 Actual	2003-04 Actual	2004-05 Actual	2005-06 Budget	2006-07 Projected
<b>Community Services</b>	<b>10.98</b>	<b>16.57</b>	<b>28.53</b>	<b>41.71</b>	<b>45.25</b>	<b>51.67</b>
i. Roads, Highways & Buildings	6.34	13.15	22.75	35.18	37.71	43.06
ii. Water Supply and Sanitation	4.64	3.42	5.78	6.53	7.54	8.61
<b>Human Development</b>	<b>90.67</b>	<b>105.81</b>	<b>134.05</b>	<b>155.81</b>	<b>196.84</b>	<b>244.6</b>
i. Education	66.29	78.61	97.69	116.87	148.2	184.75
ii. Health	19.21	22.37	27.00	31.42	39.97	49.95
iii. Population Planning	1.33	3.12	4.68	4.57	5.27	6.02
iv. Social Security & Welfare	3.66	1.30	4.14	2.03	2.34	2.67
v. Natural Calamities	0.19	0.41	0.54	0.92	1.06	1.21
<b>Rural Development</b>	<b>24.30</b>	<b>34.18</b>	<b>44.52</b>	<b>59.69</b>	<b>68.7</b>	<b>77.93</b>
i. Irrigation	10.13	15.54	22.50	37.87	43.6	49.2
ii. Land Reclamation	1.84	1.76	2.00	2.11	2.43	2.78
iii. Rural Development	12.33	16.88	18.60	15.36	17.7	20.22
iv. Rural Electrification			1.42	4.35	5.01	65.73
<b>Safety Nets</b>	<b>8.33</b>	<b>13.75</b>	<b>12.32</b>	<b>8.438</b>	<b>9.65</b>	<b>11.03</b>
i. Food Subsidies	5.51	10.8	8.51	5.35	6.17	7.05
ii. Food Support Program	2.02	2.24	2.80	2.70	3.11	3.56
iii. Tumhara Pakistan	0.80	0.59	0.59	0.078	0	0
iv. Low Cost Housing		0.06	0.42	0.31	0.37	0.42
<b>Governance</b>	<b>32.98</b>	<b>38.54</b>	<b>41.81</b>	<b>50.52</b>	<b>58.21</b>	<b>66.38</b>
i. Administration of justice	1.98	2.25	2.44	3.11	3.59	4.01
ii. Law and Order	31.00	36.29	39.37	47.	4154.62	62.37
<b>Total</b>	<b>167.25</b>	<b>208.84</b>	<b>261.30</b>	<b>316.24</b>	<b>378.81</b>	<b>453.42</b>

Source: CRPRID/ Planning Commission

## 12. AGRICULTURE SECTOR

The performance of agriculture sector in Pakistan is unsatisfactory. It is attributable to traditional methods of cultivation. Lack of motivation on the part of our illiterate and ill and un-informed farmers and the factors like shortage of water, salinity and water logging to natural disasters like floods and pests attack etc. Poverty in the rural areas is a result of neglect of the agriculture sector contribute much in increasing the poverty. Where as, agriculture in Pakistan is the single largest sector covering more than two third of the country's population involved in. Crop failure in one year translates into higher poverty which lag behind for of a period of time while higher agriculture growth contributes towards poverty reduction.

In the 1980's agricultural GDP growth averaged 3.9 percent per year contributing to a steady decline in the rural poverty from 49.3 percent in 1984 -85 to 36.9 percent in 1990-91. However, rural poverty did not decline further.

The percentage of people living in poverty remained unchanged during 1990-91 (36.9%) to 1998-99 (35.9%) (Economic Survey of Pakistan 2001).

The agricultural output in Pakistan has fluctuated sharply. Changes in agricultural output, due in large part of weather, the changes in rural real income over the periods, like the real expenditures of the poor, agricultural output and income have increased over the six years from 1998-99 to 2004-2005.

The majority of Pakistan's rural poor is neither tenant farmer nor farm owner. Non-farm house holds (excluding agriculture labourer households) accounted for slightly over half (57%) of the rural poor in 2004-05. Farmers comprised only 35 percent of household in the bottom 40 percent of rural per capita expenditure distribution. The remaining of 8% was agricultural labourer house holds.

The census of agricultural 2000 indicates that only 37 percent of rural households owned land, and 61 percent of land owned by the house or 15 percent of the total land and 2 percent of the households owned only 50 acres, or 30 percent of the total land. The results show that the crop of live stock and agricultural wage labour incomes account for only 25%. Out of crop 8 % of live stock and 4 percent respectively of total rural incomes; non farm income (40 percent) remittance (9.6%), and the other income (15%) comprise the remainder. Even for farm house holds, crop income accounts about half (49%) of the total income (World Bank 2002; Pakistan Economic Survey 2002 to 2003).

## 13. INEQUAL DISTRIBUTION

Structure of inequality is analyzed by inter-sectoral disparity on rural urban basis. The rural population has a lower standard of living as compared to their urban counterparts. This is attributed to their poor possession of productive assets, high unemployment and lack of socio physical infrastructure. As the time passes, the gap between the riches and the poor is widening. All programs made for reducing poverty have not achieved the target in the past. The poor in Pakistan are not only deprived of financial resources but also lack of access to basic needs such as education health, clean drinking water, and proper sanitation.

There are different approaches for measuring poverty. Some of the scholars only take into account the income dimension, while others go beyond nominal earnings and measure through holistic approach including consumption, calorie intake and basic needs.

The most commonly used measure of poverty is the Head Count Ratio (HCR), which is measured as percentage of population whose income or consumption level falls below the poverty line. Based on the requirements of 2150 calories the government has adopted the



official poverty line in 1998-99 as Rs.650 per capita per month (Economic Survey 2001-02).

During the period 1984- 88, Pakistan witnessed a high growth rate (6.8% average) that was accompanied by an improvement in income inequality. While the relatively slow growth rates during 1990-91 and 1992-93 were accompanied by rising income inequality, with the Gini Co-efficient rising from 0.407 to 0.41. However, when there was a decrease in growth from 4.5% in 1993-94 to 1.9% in 1996-97, it did not affect income inequality.

**Table-4**  
**Percentage of per Adult Equivalent Monthly Consumption Expenditure by Commodity Group**

Commodity Group	PIHS 2000-01	PSLM 2004-05
Food	49.5	49.1
Fuel and lighting	8.1	8.0
Personal care articles/services, laundry cleaning, paper articles	3.9	3.8
Personal transport and traveling expenses (no commercial)	3.7	4.9
Other misc; household exp. On goods and services (e-mail, internet etc.)	3.9	5.2
Clothing, clothing material /services (e-mail, internet etc)	5.7	5.0
Medical care	4.5	4.0
Education	3.5	3.0
House rent	12.0	11.9
Other remaining expenditures	5.1	5.1
Total	100	100.0

Source: CRPRID/ Planning Commission

Table-4 gives the percentage expenditure share of major items in the monthly per adult equivalent expenditure. Notable increase in shares between the two periods is observed in transport expenditure and other miscellaneous expenditure, e.g., email, internet etc. The share of medical expenses and education record a marginal decline from 4.5 to 4% 2001 to 2005 level. In case of education, this may reflect substitution by households of own expenditure with that provided by the government via up-scaling and better targeting of expenditure on education in PRSP.

**Table - 5**  
**Comparison of Per Adult Equivalent Monthly Consumption Expenditure Between PIHS 2000-01 and HIES 2004-05 at 2001 Prices by Commodity Group and Quintile**

Commodity Group	Poorest 20%			Richest 20%		
	2001	2005	Growth	2001	2005	Growth
Food	2885.5	322.0	11.6	799.8	951.8	19.0
Fuel and lighting	47.3	50.0	5.7	140.6	169.9	20.9
Personal care articles/services, laundry cleaning, paper articles	22.6	22.3	-1.4	66.9	82.8	23.9
Personal transport and traveling expenses (no commercial)	11.0	16.6	50.4	92.1	153.4	66.5
Other misc; household exp. On goods and services (e-mail, internet etc.)	14.3	16.4	15.2	101.0	165.3	63.6
Clothing, clothing material /services (e-mail, internet etc)	33.1	32.4	-2.2	93.5	101.4	8.4
Medical care	19.3	22.1	146	93.4	87.7	-6.1
Education	9.0	7.8	-13.7	96.5	108.0	11.9
House rent	39.3	43.0	9.3	313.2	365.7	16.8

Source: CRPRID/ Planning Commission

Table-5 compares the growth rate of per adult equivalent monthly consumption expenditure on few commodity groups of bottom 20% with the top 20% of the population for the year 2001 and 2004-05. Except for the negative growth in medical care, expenses of the richest 20% , all other commodity groups indicate a lower and in some cases, i.e., education, clothing, and personal care, a negative growth rate for the poorest 20% during the period. A marginal negative growth in clothing and items of personal care may reflect cheaper imports from China, while in case of education, increased expenditure on education by the government may have substituted household own expenditure on education. The highest growth (50.4%) for the poorest 20% occurred in the transport and traveling expenses.

#### **14. CONSUMPTION INEQUALITY**

The aggregate nature of income data collected in PSLM 2004-05 is strictly not comparable with the corresponding data collected in PIHS<sup>2</sup> 2000-01. Consequently inequalities in consumption expenditure are compared between the two periods. Inequality based on consumption expenditure are generally lower than inequality based on income as variation in consumption are less and it is based partly on a subset of homogenous (in terms of quality and price) food items.

The estimates also indicate that consumption inequality in urban area of Pakistan is higher than in rural areas of Pakistan. Moreover, urban inequality increased faster than rural inequality during the 2001-05 periods. The high urban inequality may be attributed to the fact that urban work force is more diversified in terms of skill and education. The wage income is, therefore more unequally distributed in urban areas than in rural areas. In addition, income from self-employment is more concentrated in urban areas than in rural areas because urban self-employed range from wealthy businessmen to petty traders whereas bulk of the rural self employed are homogenous in informal sectors.

#### **15. REMEDIES**

##### **Maximizing the Gains from Globalization**

Globalization is a multi-dimensional process which impacts all aspects of life, be it economic, social, cultural, or political. For globalization poverty reduction, domestic enterprises need to be increasingly competitive in the international market. This requires increased efficiency and upgrading skills of the labour force to improve level of human capital. quality control and standards. As for domestic enterprises to be competitive in the global economy, good investment climate is essential.

#### **16) TRADE LIBERALIZATION AND EXPORT PROMOTION**

The government has implemented a comprehensive program of trade reforms gradually moving the economy away from protectionism towards greater trade openness and global economic integration. The government has been taking a number of defensive trade measures in the context of WTO to protect the domestic industry against the dumping of cheap and illegal imports.

Sustained export performance is a key priority. Towards this end, the government is making efforts in the areas of trade facilitation, WTO related issues, export promotion and diversification, and extension of export promotion zones and industrial clusters. The government's policy will focus on measures to sustain textile exports and promote other sectors that are not yet capable of exporting. The government is committed to liberalize and deregulate Pakistan's trade and widen the export base through further strengthening of industrial activity and strong institutional supply side measures. The trade policy continues to focus on value addition for sustainable growth in export earnings.

<sup>2</sup> PIHS = Pakistan Integrated Household Survey

### **17. SMALL MEDIUM ENTERPRISE (SME'S)**

Small and medium enterprises industries are shouldered and encouraged by the respective authorities. There is no reason that, a radically visible change in economic sector will not take place. Minocha 1980, has suggested that the strategy of employment oriented industrialization should aim at the development of small scale industries in rural areas. Rajula (1984) analyzed rural industrial situation and found the following serious deficiencies (i) some part of the assistance was provided to relatively larger amongst small-scale units, (ii) assistance was diverted to towns which were excluded from the purview of the scheme (iii) rural artisans did not receive adequate credit.

In Pakistan, the small medium enterprises account for almost 80% of total employment, and 1/3rd of the output in manufacturing sector. The contribution export earnings 25% of annual growth rate of small scale industries, is not available, because no standard survey was carried out for small scale industries. Their behaviour is known over the last five years. The growth rate of 8.4 had been assumed according to survey of 1998. It was only 5.3% that is not enough, in order to encourage SME's, comprehensive package of venture capital credit, liberalization of contrast, technology and shift up gradation, marketing and management services are yet to be provided.

### **18. MICRO FINANCE**

How to alleviate poverty is the central concern of developing countries. It is indicated that the policies designed for faster economic growth significantly reduce the poverty and aimed specifically to alleviate poverty are also important.

In Pakistan, the use of micro-credit holds importance for the agricultural sector. The need for credit is particularly important for the poor farmers. Their requirement for agricultural inputs eg; seeds, fertilizer, pesticide etc. tends to be cyclical as they earn their income. Rural loans for non- agricultural purpose include such things as micro enterprises of unorganized sectors of rural economy.

Timothy Beshy (1996) took a short term finance perspective on program for alleviating poverty, assuming that income earning abilities are fixed. In addition, its dependence on state becomes less and more supportive in its role at the village and regional levels (Khan, 1987).

Micro finance plays a critical role in improving the lives of the poor people. The poor use financial services not only for business investment in their micro-enterprises but also to invest in health and education, to manage household emergencies, and to meet the wide variety of other liquidity needs that they encounter occasionally. Evidence from the millions of micro finance clients around the world demonstrate that access to financial services enables poor people to increase their household income, build assets and reduce their vulnerability to the crises that are so much a part of their daily lives.

### **19. CONCLUSIONS**

The article presents the following conclusions:

1. The effects of sluggish economic growth are clearly reflected in Pakistan's performance in the social sectors. A weakened social program is detrimental for growth as human development is essential for attracting investment and generating the capacity for future sustainable growth. However, Pakistan's progress almost on every social indicator e.g. education, health, and nutrition compares poorly with that of other developing countries. Poverty has remained a problem since the very inception of Pakistan. Poverty is deleterious dilemma that attacks not only economically, but also hinders the social capabilities of the

poor people. It hinders to attain a decent education for their children.

2. Pakistan is faced with sever macroeconomic imbalances, declining economic growth, rising poverty, and poor social indicators.

3. Despite the government's best efforts and the successful implementation of the program investors' confidence has not still been restored.

4. The agriculture sector has grown at a rate of only 1.8 percent over the last three years, significantly lower than the average growth rate of over 4 percent as targeted. Only the development of agricultural sector on scientific lines can release us from curse of unemployment and incidence of poverty.

5. The fluctuation in the production of various crops, is the result of changes in weather conditions, relative export prices, and non-availability of credit.

6. The goals of socio economic development can not be achieved unless the country possesses transparent and corruption-free institutions working under government.

7. The small and cottage industries have faced no warm shoulder from the government, in the shape of financial incentives as well taxation polices.

8. The micro finance scheme has proved very successful at international level, in terms of reducing poverty. However, this scheme has not been made available for the general access, and the investors are least aware of the programme at large.

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