



Country Study for Japan's Official Development Assistance to the Islamic Republic of Pakistan

— *Development toward a Sustainable Society:
Medium-and Long-Term Perspectives* —



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Although it has been decided that, starting from FY 2002, certain types of JICA schemes are to be collectively called “Technical Cooperation Projects,” this report refers to these types of schemes as “Project-type Technical Cooperation,” or using other traditional names, in order to avoid confusion.

Likewise, the JICA schemes conducted in cooperation with local or Japanese NGOs, such as Community Empowerment Programmes and the JICA Partnership Programme, have been officially recognized as part of “Technical Cooperation Projects” or “Grassroots Assistance Projects” since the start of FY 2002. To avoid confusion, however, this report refers to these schemes by their traditional names as well.

The analysis and recommendation of this report do not necessarily reflect the view of JICA. It is the fruit of a collaborative effort by the study committee headed by Prof. S. Hirashima, Faculty of International Studies, Meiji Gakuin University.

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Highlights of the Recommendations for Japan's ODA to the Islamic Republic of Pakistan

Perspectives on Pakistan's Development

The latest view of the Pakistan's macroeconomic performance shows strong recovery from the prolonged stagnation of the 1990s. Together with the various reforms that the present government has been attempting, this has to be truly appreciated. The serious concern of the study committee has been to examine its sustainability, since we have witnessed two period of a sharp economic recovery in the past; one under the Ayub regime and the other under the Zia-ul Haq regime. The substantial basis of these sharp economic recoveries is explained by the restoration of law and order and the strong pursuit of a consistent development strategy.

Conventional analyses on Pakistan's development experience have identified factors that have hindered better performance on the part of Pakistan. These are (i) lack of law and order and consistency in policy and development strategy, (ii) stagnant industrial structure and the black economy, (iii) the socio-economic structure inhibits free access to opportunities and persistent social disparities, and (iv) the low level of social development that has suppressed the growth of social monitoring capacity. (See the page iii of the highlights)

Through this analysis of the socio-political structure, the committee sees the root cause of the less than expected performance of Pakistan as an interaction between the two countervailing forces of the society; one is the limited number of the rent-seeking ruling elites, notably the local landed elite politicians in Pakistan, and the other is the weak and fragile social monitoring capacity. The road map toward sustainable development should be conceived from the medium- and long-term perspectives, not from a short-term one in which the structural factors are already determined.

Framework for Sustainable Development

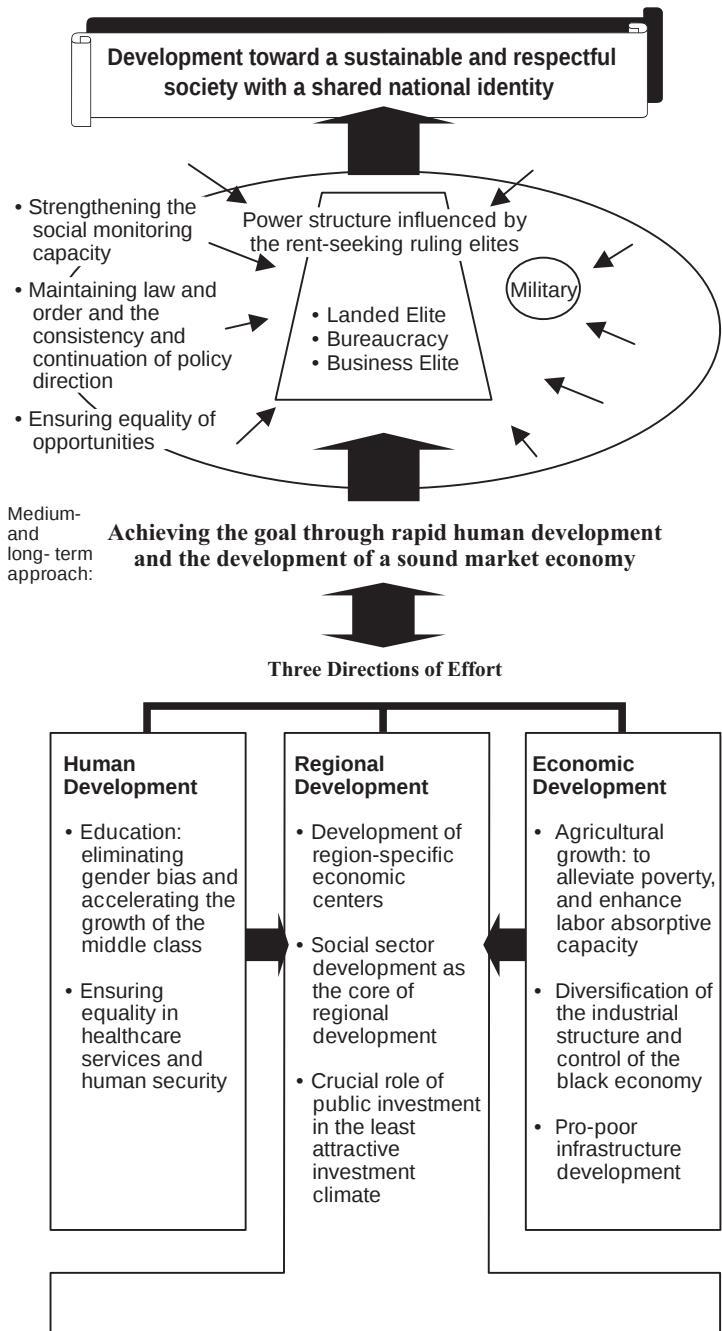
In considering the road map toward sustainable development, we have identified the necessary conditions and three directions in which efforts need to be made. As for the former, we have identified three factors: firstly, maintenance of law and order in the society, and the consistency and continuity of development policies; secondly, the provision of equality of opportunities and a socio-institutional framework within which social mobility is assured; and thirdly, healthy growth of the social monitoring capacity of the society.

With respect to the latter, we have identified three directions of development efforts that will support the building of a sustainable society (The chart 1 shows the three directions of the efforts). The first is the direction of human development, in which the main objectives are to eliminate gender bias, to accelerate the growth of the middle class, and to ensure equality in the medical and health services as well as human security. The second is the direction of economic development, in which the main emphasis is placed on agricultural growth to enhance employment absorption, controlling the 'black economy' to promote industrial growth, and the development of the pro-poor infrastructure.

The third is the direction of regional development, in which two factors are important. One is to reconsider the direction of public investment for the purpose of equalizing socio-economic opportunities, and to support the rapid development of regional capitals as economic centers.

We expect that the enhancement of the social monitoring capacity through rapid human development and the pro-poor growth of the market economy could create an environment in which the capabilities, leadership and resources of the rent-seeking ruling elites could be mobilized for development.

Chart 1. Framework for Sustainable Development



Direction of Japan's ODA to Pakistan

–Proposal from the Medium- and Long-Term Perspectives–

1. Significance of Japan's ODA to Pakistan

Japan's ODA is meaningful and necessary in relation to the following aspects: (i) geopolitical position of Pakistan, (ii) global security, (iii) diplomatic significance in maintaining good relations with a moderate Muslim state that has had a deep-rooted friendship with Japan, and (iv) responsibility of Japan as part of the international community.

2. Guiding Principles of Japan's ODA to Pakistan

(1) Overall framework of Japan's assistance to Pakistan should maintain consistency in achieving its goal of building a sustainable and respectful society in which people share a national identity.

(2) Every assistance program and project should address a clear need in terms of the three directions of development efforts from the medium- and long-term perspectives: human development, economic development, and regional development.

3. Basic Approaches to Donor Coordination and Debt Sustainability of Pakistan

The Study Report proposes basic approaches to be taken by Japan as to (i) the PRSP process, (ii) the sectoral coordination process, and (iii) budgetary support. The debt sustainability of Pakistan is studied in relation to its absorptive capacity for ODA loans.

4. Priority Setting for Japan's ODA

Although Pakistan faces a plethora of development issues, the capacity of Japan's ODA is limited both quantitatively and qualitatively. In the light of this reality the committee proposes five criteria to define priority issues for Japan's assistance and the screening the development issues of Pakistan according to these criteria.

The criteria cover five aspects: (i) development priorities, (ii) resource availability in Japan, (iii) effective donor coordination, (iv) impact of sending the Japanese message, and (v) constraints on the absorption of aid by Pakistan.

Furthermore, the screened priority issues for Japan's assistance can be classified into three types of priority issues: (A) focused input to achieve quantitative results from projects, (B) continuous support to reach a certain level, and (C) sending policy messages with a limited input.

Priority issues for Japan's ODA narrowed down and classified according to the five screening criteria and the three types are shown in the box.

5. Issues to be considered for Effective and Efficient Assistance

(1) The formulation of a Country Assistance Program to Pakistan is significant as a means of addressing clear objectives and to ensure the policy consistency of Japan's ODA from the medium- and long-term perspectives.

(2) More involvement of Pakistani resources and efforts to improve the public sector capacity of Pakistan should be enhanced effectively in implementing Japan's ODA programs.

(3) The organizational capacity of JICA, JBIC and the Embassy should be upgraded through greater delegation of authority and improved professionalism.

Proposed Priority Issues for Japan's Assistance

• Priority Issues in relation to the Necessary Conditions for Sustainable Development

- Search for stable law and order under the civilian government (Type C)
- Enhancement of devolution (Type C)

[Direction of regional development]

- Development of region-specific economic centers with their own characteristics that can lead the provincial economy (Type A)
- Improving the urban environment (Type C)

[Direction of human development]

- Improvement of female literacy and enrollment rates (Type B)
- Improvement of health service delivery to alleviate various disparities (Type A)
- Improving the quality of higher education and technical training education (Type C)

[Direction of economic development]

- Overcoming the rapidly deteriorating irrigation systems and securing water resources (Type A)
- Effective cooperation and demarcation of appropriate functions between the federal and the provincial institutions for developing, extending and diffusing agricultural technologies to producers (Type B)
- Infrastructure development including rehabilitation and revitalization of the existing infrastructure for facilitating market access, generating income opportunities, and improving living conditions of the poor in less developed regions (Type A)

Initial Conditions at Independence

The initial conditions of Pakistan at the time of independence were not favorable for its development. Compared with the Indian Congress Party, the political experience of the Muslim League was immature. The divide and rule policy of the British colonial government had discriminated against Muslims in social sector development, in particular, in higher education, which had narrowed the opportunities for Muslims to participate in the bureaucratic system. During the British period, the area under Pakistan was the main supplier of wheat and raw cotton. The foundation of the secondary and the tertiary sectors was almost negligible in Pakistan at the time of independence.

The partition of Pakistan from British India had caused the mass migration of Muslims from India and the majority of them settled in the major cities and engaged in various professional occupations, notably medical and legal practices. It is noteworthy also that the business communities who were given opportunities to grow during the Ayub regime were Muhajirs from Mumbai (Bombay) and Ahmedabad in India. These Muhajirs, from the interest of the 'local landed elites' who had controlled the regions socially, economically and politically, were also an important part of the initial conditions to take into consideration.

The single most important resource Pakistan inherited, in addition to its excellent human resources and the disciplined military consisting of Rajputs and Pashtoons, was the well developed irrigation networks constructed during the British period. It is this outstanding agrarian infrastructure that has supported not only agricultural production for the growing population and labor force, but also the growth of agro-based manufacturing industries.

50 Years of Development Efforts

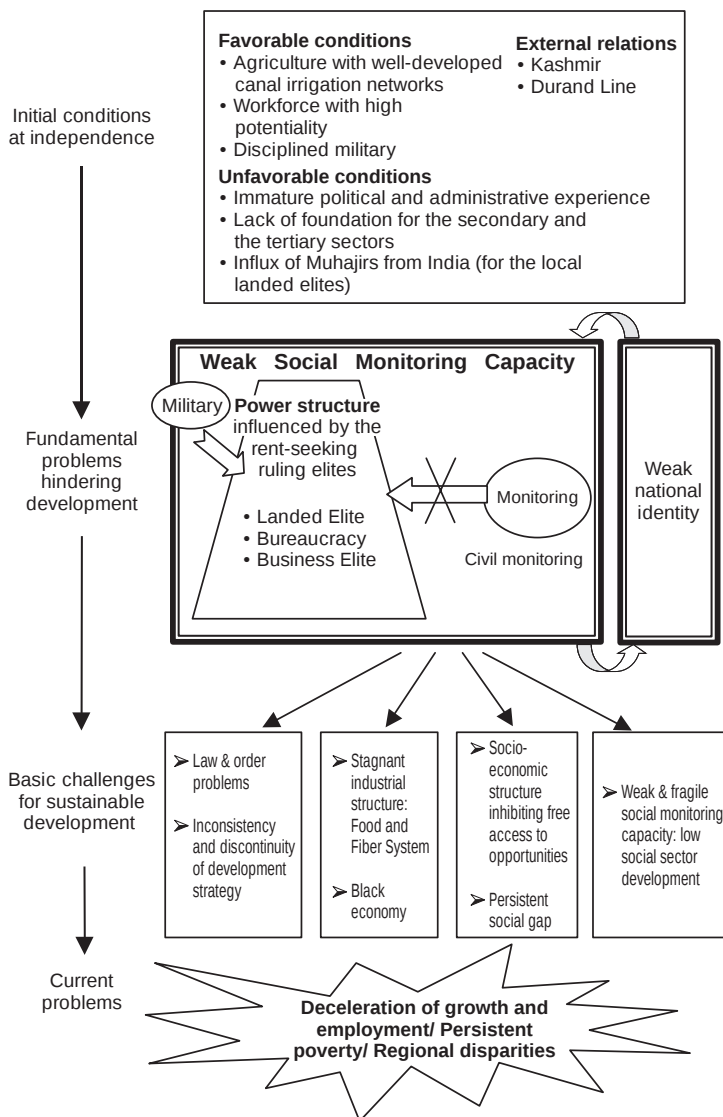
Considering the unfavorable initial conditions and the external factors disrupting the development process, Pakistan has fared quite well as a newly created independent state. In fact, the GDP in 2001/02 in real terms had shown a twelve fold increase over 1949/50 and recorded an average growth rate of 4.8%, which is higher than the growth rate of India up to the 1980s. With the successful dissemination of Green Revolution technologies, Pakistan has attained self-sufficiency in cereal production. Starting from a zero level of industrial base, Pakistan now has a strong textile industry and a few competitive small-to medium-scale industries. Yet, it is far to state that Pakistan could have fared much better with the available resources.

This much lower than expected performance can be attributed to the following factors.

Firstly, Pakistan has not been successful in developing the available human resources. In a broader context, this is expressed in terms of the weak and fragile social monitoring capacity of the society as a countervailing force against the rent-seeking ruling elites. The slow development of the social sector and the weak middle class are the key to explaining this. Secondly, Pakistan has not been keen on diversifying its industrial structure. Even though the share of the agricultural sector in the GDP has come down to 24%, it has not been accompanied by the growth of a strong and diversified manufacturing sector. In addition to the 'over-protected large-scale textile industry,' the uncontrolled 'black economy' had been one of the factors disrupting healthy industrial development. Thirdly, the development strategy of Pakistan has been suffering from inconsistency and lack of continuity. This is evidenced by the political development of the country, in particular when Islamic Socialism was introduced. Fourthly, Pakistan has not been able to maintain law and order under civilian governments. The maintenance of law and order is one of the most important preconditions for sustainable development. This is vividly evidenced by the sharp economic recovery after the collapse of the civilian governments.

Pakistan in the latter half of the 1990s was in crisis. With the declining GDP growth rate, its labor absorptive capacity declined sharply in both agriculture and industry and the proportion of people below the poverty line started increasing. Externally, the economic measures taken by the major developed countries as a result of the nuclear test in 1998, and the aftermath of the 9.11 incidence demanded difficult adjustments economically as well as politically for Pakistan. New tension emerging along the Durand Line have raised question with respect to the importance and the effectiveness of the balanced regional development for combating not only poverty, but also for maintaining law and order and peace.

Chart 2. Development Process of Pakistan 1947-1999





Foreword

The Japan International Cooperation Agency (JICA) has been pursuing a development approach that is designed to be better suited to the state of development in each developing country or region and to the consideration of related issues. The idea is that, while it is increasingly important to address global issues, including population growth, environmental degradation, and the food problem, developing countries need assistance that is fine-tuned to their respective characteristics as well as to their stage of development. To explore the optimal approach for Japan's assistance to these countries, JICA has to date organized a total of 41 country-specific study committees on Japan's official development assistance (ODA). With the cooperation of experts, these study committees have compiled their findings into their respective reports.

Pakistan has long been in the doldrums, without being able to overcome structural problems due mainly to frequent regime changes and incoherent policies. The nuclear testing that Pakistan conducted in 1998 prompted the country's isolation from the international community and leading to a long-lasting economic crisis. President Pervez Musharraf, who took power through a military coup in 1999, mended the country's relations with the international community with a policy change toward the Taliban in Afghanistan and a commitment to work with other countries in combating terrorism in the aftermath of the terrorist attacks in the United States. Nevertheless, the new government still faces many challenges at home, including rampant terrorism, the high poverty rate, the Kashmir conflict with India, and contraband traffic from Afghanistan.

Japan has been proactive in extending aid to Pakistan, taking into consideration two major factors: the important socioeconomic role that the country plays in Southwest Asia and the Islamic countries; and high development demand in Pakistan (the country is committed to development and reform in the face of many socioeconomic problems at home). To promote the stability of Pakistan and support the country's commitment to antiterrorism, in 2001 Japan lifted the economic sanctions that it had imposed following the 1998 nuclear testing and provided 4.7 billion dollars in emergency economic aid, as well as 300 million dollars in grant aid over the last two years.

This study committee on Japan's ODA to Pakistan is the third of its kind following the first and second committees in 1991 and 1996. It was established to accomplish two major goals. One is to get to the bottom of the challenges facing Pakistan from a socio-structural perspective, while paying attention to new developments in and around the country. The other is to explore both desirable directions for the development of Pakistan and the optimal approach for Japan's ODA to the country from the medium- and long-term perspectives.

This committee was made up of: the Chairman, Prof. Shigemochi Hirashima of Meiji Gakuin University, who also chaired the first and second study committees on Japan's ODA to Pakistan; committee members, who are well-versed in the development of and aid to Pakistan; a group of resource persons mainly comprising experts at JICA; a taskforce consisting of staff at JICA and the Japan Bank for International Cooperation (JBIC); and the secretariat, which took charge of planning

and administration. The committee met eight times in total. Teleconferences were held to accommodate the participation of experts stationed in Islamabad, and staff at JICA and JBIC offices and the Japanese embassy in Pakistan. In January 2003, the committee sent a study mission to Pakistan. In July, the committee held an open meeting to present its achievements. It also heard the views of interested parties in Japan and abroad. The findings of these activities were compiled into this report.

I hope that this report will be put to good use by JICA in the planning and implementation of aid programs for Pakistan. I also hope that concerned organizations will make good use of the report.

Finally, I would like to take this opportunity to express my sincere gratitude to the chairman, members and resource persons, as well as the organizations concerned for their tireless efforts and support in compiling this report.

September 2003

Takao KAWAKAMI
President,
Japan International Cooperation Agency

Preface

It is a great pleasure to submit this report of the Third Study Committee on Japanese ODA to the Islamic Republic of Pakistan, organized by the Japan International Cooperation Agency (JICA).

In the First Study Committee Report (1991), we placed strong emphasis on the development of the social sector, in particular, the education sub-sector. Development of the education sector was given momentum by the Social Action Program (SAP) assisted by the World Bank one year after our report was published. Pakistan was politically and economically in crisis when the Second Study Committee was organized in 1996. In this report we pointed out the importance of the development of the social sector, the diversification of the industrial structure, and reduction of the growing disparities in order to establish a society with assured access to social opportunities for all.

All of those who participated in the Third Study Committee share the view that Pakistan has fared quite well as a newly independent country, despite its initial handicaps. In fact, the average GDP growth rate was higher than that of India up to the 1980s. Pakistan has now attained self-sufficiency in cereal production. Starting from a non-existent industrial base, Pakistan now has a substantial textile industry and a few competitive export-oriented small and medium-scale industries. Yet, we all agree also that Pakistan could have done far better if the available resources, in particular its excellent human resources, had been properly harnessed for its development. Unfortunately, we have to admit that the important development issues in Pakistan that were described in our previous two reports still remain valid; ten years is too short a time for solutions to be fully realized.

In the meantime, Pakistan has had to face new challenges: the economic measures taken against the country after the conduct of a nuclear test of 1998; the deceleration of economic growth and the consequent increase in poverty and unemployment; and the military coup d'état in 1999. Externally, these challenges include the military action of the US against the Taliban in Afghanistan and the policy shift of the international agencies from the growth-oriented Structural Adjustment Program to the Poverty Alleviation based on the Poverty Reduction Strategy Paper (PRSP).

The new government has shown enthusiasm for restoring law and order and national pride by launching reforms of various kinds. A sharp recovery of macroeconomic fundamentals was witnessed by 2003. As we have mentioned elsewhere, Pakistan has already experienced a sharp economic recovery twice in the past; once under the Ayub regime and secondly under the Zia-ur Haq regime. The question to ask is whether the current recovery process is sustainable, or alternatively, the factors that make it sustainable. The following points are some of the major perceptions of our Study Committee.

Firstly, it is our view that the question of sustainability requires analysis beyond conventional macroeconomic approaches. We think it important to incorporate socio-political factors, which essentially demands analysis of the medium- and long-term perspectives, not a short-term one in which the structural factors are already determined.

Secondly, we presume that there are at least three necessary conditions for sustainable development: maintenance of law and order and the consistency and continuation of policy directions; ensuring equality of opportunities; and strengthening social monitoring capacity. The first condition is being met at the moment, but not the rest, which will require time and continuous efforts. We think it most important to strengthen the social monitoring capacity by ensuring access to social opportunities.

Thirdly, the military action of the US against terrorists in Afghanistan has highlighted the significance of imbalanced regional development. The redirection of public investment towards the area west of the River Indus, a hitherto neglected region, seems urgent.

Fourthly, based on a detailed analysis demonstrated in the main report, we set forth three broader directions of the efforts that need to be made toward building a sustainable society. We place regional development at the core of development efforts, but this cannot be pursued without strong and integrated support from the human development and the economic development that we have specified. We are convinced that the sustainability we questioned can be assured through the rapid growth of social monitoring capacity, a healthy market economy and balanced regional development.

It was our consensus decision to analyze the past 50 years of Pakistan's economy and society as objectively as possible, which should provide the basis for examining an appropriate ODA policy. It has to be clear that the conclusions we reached are no more than our perceptions of Pakistan's economy and society. However, as a result of this analysis, we think we are now in a better position to work together more effectively.

Since November 2002, when this Study Committee was set up by JICA, we have benefited from the enthusiastic support of many people who have a deep interest in Pakistan's development. On behalf of the Chairman of the Committee, I would like to extend my sincere appreciation to the Committee members, the Task Force, participants from the JBIC and the Ministry of Foreign Affairs. The Committee received the full support and involvement of the Islamabad office of JICA, JBIC and the Japanese Embassy. We are deeply indebted to the government of Pakistan for the kind assistance extended to us by them when we visited in January 2003. Lastly I have to mention that all of us appreciate the hard work (preparatory as well as editorial work) of the Secretariat, for which we are deeply grateful.

September 2003

S. Hirashima
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Background and structure of the report

1. Purpose of the study

This study committee on Japan's ODA to Pakistan is the third of its kind following the first and second committees in 1991 and 1996. It was established to accomplish two major goals. One is to get to the bottom of the challenges facing Pakistan from a socio-structural perspective, while paying attention to new developments in and around the country. The other is to explore both desirable directions for the development of Pakistan and the optimal approach for Japan's ODA to the country from the medium- and long-term perspectives.

2. Organization of the study committee

The Study Committee, chaired and led by professor S. Hirashima of Meiji Gakuin University, consisted of four groups of members according to the tasks: core committee members, resource persons, a task force, and the secretariat. The core members, who were the experienced scholars and researchers, regularly attended the meetings and prepared the report for the Part II in the area of their expertise. Resource persons, who were mainly experts currently working in Pakistan, gave comments from point of view specific to assistance and from experience in the field and some of them provided the drafts of parts of the report. The task force, which was composed of the staffs of JICA and JBIC, provided input from implementation point of view, reviewed and evaluated own experiences of development assistance implementation in Part III of the report.

3. Structure of the report

This report in English is a Summary Discussion of the main report, covering the Part I. The overall structure of the main report, composed of three parts: Part I, Part II and Part III, as shown in the chart. Part I is the Summary Discussion, which provides the committee's perspectives on Pakistan's development process and the framework for the future development as well as the direction of Japan's ODA to Pakistan. The chairperson, Professor S. Hirashima, authored Chapter 1 based on discussions in the committee's meetings as well as the draft of Part II: Review and Perspectives on Pakistan's Development. Chapter 2 was authored by Kyoko Kuwajima based on discussions at various levels of meetings including task force meetings and hearings from resource persons, who also provided the draft of Part III: Experience and Evaluation of Development Assistance.

Part II reviews the development process and identifies current issues related to Pakistan from the social, political and economic points of view in Chapters 1 to 5, and then in Chapter 6, which articulates the committee's perspectives.

Part III comprehensively reviews and analyzes experiences of Japan's assistance to Pakistan. This section includes an evaluation on Japan's development assistance and its challenges based on a questionnaire survey of Japanese aid personnel in Pakistan.

Structure of the main report

Part Summary Discussion

Chapter1 Direction and Issues for Sustainable Development in Pakistan

- 1.1 Development Performance in Pakistan – Medium- and Long- Term Perspectives –
- 1.2 Direction and Issues for Sustainable Development in Pakistan
-Medium- and Long-Term Perspectives-

Chapter2 Exploring the Optimal Approach for Japan's ODA to Pakistan

- 2.1 Significance of Japan's ODA to Pakistan
- 2.2 Guiding Principles of Japan's ODA to Pakistan
- 2.3 Priority Setting for Japan's ODA to Pakistan
- 2.4 Issues to be Considered for Effective and Efficient Assistance

Part Perspectives on Pakistan's Development Process and Issues

Politics and Society

Chapter 1 Political Environment of Development

- 1.1 Diplomacy 1.2 Domestic Politics

Chapter 2 Basic Social Structure from Regional Perspectives

- 2.1 Ethnicity and Regional Languages
- 2.2 Resource Endowment and Economic Activities
- 2.2 Rural Society and Power Structure

Chapter 3 Human Development and Challenges

- 3.1 Education 3.2 Health

Economics

Chapter4 Economic Development and Issues

- 4.1 Macro-fundamentals and Black Economy
- 4.2 Economic Growth, Poverty and Employment
- 4.3 The Role of the Agricultural Sector
- 4.4 Development of the Industrial Sector and Issues

Chapter5 Infrastructure Development and Issues

- 5.1 Review of Economic Infrastructure Development
- 5.2 Water and Irrigation
- 5.3 Power
- 5.4 Transportation
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- 6.1 Necessary Conditions for Sustainable Development
- 6.2 Direction of Human Development
 - 6.2.1 Education: toward Overcoming Gender Bias and Rapid Growth of Middle Class
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 - 6.3.3 Economic Infrastructure Development: Poverty Reduction, Economic Revival and Bridging Regional Disparities
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 - 6.4.1 Perception towards Regional Development
 - 6.4.2 Development of Region Specific Centers

Part Experience and Evaluation of Development Assistance

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Acronyms and Abbreviations

ADB	Asian Development Bank
ATTA	Afghan Transit Trade Agreement
DFID	Department of International Development
EAD	Economic Affairs Division
EFA	Education for All
EIA	Environmental Impact Assessment
FATA	Federally Administered Tribal Area
F-PRSP	Full Poverty Reduction Strategy Paper
IMF	International Monetary Fund
I-PRSP	Interim-Poverty Reduction Strategy Paper
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
LHW	Lady Health Workers
MDGs	Millennium Development Goals
MMA	Muttahida Majlis-e-Amal
MNA	Member of National Assembly
MQM	Muttahida Qaumi Movement
NWFP	North Western Frontier Province
O&M	Operation and Maintenance
PDF	Pakistan Development Forum
PHC	Primary Health Care
PIMS	Pakistan Institute of Medical Science
PRSP	Poverty Reduction Strategy Paper
SAP	Social Action Program
SME	Small and Medium Enterprises
WAPDA	Water and Power Development Authority
WB	World Bank

Chapter 1

Direction and Issues for Sustainable Development in Pakistan – Medium- and Long- Term Perspectives –

1.1 Development Performance in Pakistan

1.1.1 Introduction

From the macroeconomic point of view, Pakistan in the 21st century has achieved a strong recovery from the prolonged stagnation of the 1990s. The GDP growth rate in real terms reached 5.1% in 2002/03 from the low point of 1.7% in 1996/97. The rate of inflation (CPI) has stabilized at around 3%, and the budget deficit as a percentage of the GDP has come down to 4%. The current account is now positive after a long period of negative balance as a result of the substantial increase in foreign currency inflows. This is partly attributable to the improved trade balance, but notably to the increase in remittances as a result of the aftermath of the September 11 incident, namely the strict control of money laundering, which has made illegal money transactions risky. Pakistan now has as much as 11 billion dollars in foreign currency reserves, which is equivalent to 11 months of imports. Moreover, the improvement of the investment climate symbolized by the lower interest rates and stable exchange rates has activated the stock market and brought about a high rate of growth in the industrial sector (8%).¹ Together with efforts toward poverty reduction, social sector development and the reduction of public debt, the development strategy and its direction adopted by the present government should be evaluated highly.

The question to ask is the sustainability of this V-shaped economic recovery. This concerns whether the current economic trend and its sustainability is different from ones experienced in the past, notably the one during Ayub Khan's regime and the one during Zia-ur Haque's regime. It is a well known fact that economic growth rates under these two military governments were higher and more stable compared with those under the civilian governments. In this context, the V-shaped economic recovery under the present government is not surprising, but rather confirms past trends. Therefore, the task is to examine the factors that determine whether this trend is sustainable over the medium- and long- term. Before going into the discussion, the important "initial conditions" for the present government are briefly examined.

Pakistan in the latter half of the 1990s was in crisis. Domestically, this was indicated by the increase in the population below the poverty line and the decrease in labor absorptive capacity as a result of the decline in the economic growth rate, notably in the agricultural sector. Externally, the economic measures imposed after a nuclear weapons test was conducted in 1998, and the impacts of the military action by the United States against Afghanistan (under the Taliban regime) are important. In other words, the present government, which came to power through a coup d'état in 1999, had to face

¹ Ashfaq H. Khan

these emerging challenges in addition to the development problems that have been carried over from previous governments. Another new development that the present government had to deal with was the reorganization of the development strategy in line with the new assistance policy of the international development agencies, namely poverty reduction. In response to this new challenge, the government prepared an Interim-PRSP (Poverty Reduction Strategy Paper) in November 2001 and the challenging Devolution Plan in March 2000. Together with the Ten-Year Perspective Development Plan 2001-2011 and the Three-Year Development Program 2001-2004, the PRSP and the Devolution Plan are the documents that set out the development strategy of the present government.

Other emerging issues include the development needs of the hitherto neglected region between the River Indus and the Afghanistan border. In other words, the incident on September 11, 2001, and the consequent military action of the United States against Afghanistan has created a situation in which the Pakistan government cannot afford to be indifferent, namely, the development and management of the region between the west bank of the River Indus and the Durand Line. The need for the development of this area has become urgent not only from the point of view of political stability, but also for control of the black economy to ensure the healthy industrial development of this country.

The purpose of the present study committee was to articulate our understanding of the development process of Pakistan since independence, and then to formulate a framework within which an appropriate and effective Japanese ODA strategy can be devised.

1.1.2 Review of 50 Years of Development Experience

The initial conditions in Pakistan at the time of independence did not provide a hospitable climate for development. Compared to the Indian Congress Party, which had led the independence movement against the British Raj, the political experience of the Muslim League that had led the Pakistan Movement was immature. The policy of “divide and rule” adopted by the British colonial government had discriminated against Muslims in terms of social sector development, in particular, higher education, which had restricted the opportunities for Muslims to participate in the bureaucratic system. During the British period, the area under Pakistan was the main supplier of wheat and raw cotton, and the area under present day Bangladesh was known for the supply of raw jute to the jute factories in Kalkota (Calcutta). The foundation for the secondary and the tertiary sectors was almost nonexistent in Pakistan and Bangladesh at the time of independence.

The partition of Pakistan from British India triggered the mass migration of Muslims from India, the number of whom is estimated at around 6.5 million (20% of the total population). The majority of these migrants settled in the major cities and engaged in various professional occupations, notably medical and legal practices. It is also noted that the business communities who were given the opportunity to grow during the Ayub regime were Muhajirs from Mumbai (Bombay) and Ahmedabad in India. These Muhajirs, from among the interests of the ‘local landed elites’ who had control over the region socially, economically and politically, were also an important part of the initial conditions to take into consideration.

The single most important resource Pakistan inherited, in addition to the excellent human resources and disciplined military consisting of Rajputs and Pashtoons, was the well developed irrigation network constructed during the British period. It is this outstanding agrarian infrastructure that has supported not only agricultural production for the growing population and labor force, but also the growth of manufacturing industries based on agriculture.

The development process in Pakistan has involved facing the challenges arising from the initial conditions mentioned above by making full use of its inherited advantages. However, this process has also been disrupted by various external factors, most of which were beyond the control of Pakistan. Considering the development environment, which has been much more difficult for Pakistan to deal with than for the developed countries, such factors as the impact of the oil crises and the collapse of the international monetary system in the 1970s, the deteriorating terms of trade for primary commodities, the free mobility of capital and increasing concern over equity and environmental conservation, Pakistan has fared quite well since independence. However, it has to be admitted that, given the excellent human resources and agrarian base, the overall development performance has been much lower than expected. The past 50 years of Pakistan's development performance can be broadly summarized as follows.

Firstly, in spite of the unfavorable initial conditions, Pakistan's development performance has been comparable to that of other countries in South Asia. The GDP in 2001/02 in real terms had increased by 12 times what it was in 1949/50 and recorded an average economic growth rate of 4.8%, which is higher than the growth rate of India up to the 1980s. Although the share of the agricultural sector in the total GDP declined to 24% in 2001/02, this sector has generated a surplus to feed the growing population and laborforce and to contribute to growing industries. With the successful introduction of the Green Revolution technology, self-sufficiency in cereal production has been attained in practical terms and rice exports have been earning foreign exchange. Starting from an almost nonexistent industrial base, Pakistan has developed a strong textile industry and small-scale export-oriented industries, represented by surgical instruments, sports goods, and leather goods.

Secondly, despite the development efforts of the previous governments and their achievements, it has to be mentioned that Pakistan's performance in terms of mobilizing, utilizing and maintaining physical as well as human resources for the socioeconomic development of the country since independence has not been satisfactory. This can be evidenced by the low per capita GDP and the low level of social sector development.

Thirdly, Pakistan has not been successful in transforming its industrial structure to the extent desirable from the point of view of economic growth. Overall growth of the economy has been predominantly influenced by the performance of the agricultural sector, particularly cotton. Although the share of agriculture in the total GDP has been declining over the period concerned, it has not brought about rapid industrial development; the so-called Food and Fibre System still characterizes Pakistan's economy.

Fourthly, the development strategy of Pakistan has been suffering from inconsistency and lack of continuity. This is evidenced by the political development of the country. To be more specific, it was

during the Ayub regime that Pakistan achieved high and stable economic growth. The development strategy adopted was a growth-oriented market economy with the positive participation of the private sector. However, the cost of this strategy was twofold; concentration of economic power in the hands of a limited number of Karachi-based business houses and the separation of Bangladesh. The strategy of the new civilian government formulated after the separation of Bangladesh headed by Z. A. Bhutto, from the well-known landed elite in Sindh, was guided by two factors. One was to strengthen Pakistan's diplomatic position against the Indo-Russian alignment, and the other was to control the emerging business elites as economic and political centers of power. This was materialized through the establishment of diplomatic relations with China and by the nationalization of the growing industrial and financial firms in the name of Islamic Socialism. Although agriculture was not the object of nationalization, the growth of non-agricultural sectors was greatly disrupted. The subsequent regimes from Zia-ul-Haq to Nawaz Sharif tried to restore the growth-oriented market economy with partial success. The task of the present government seems to be to complete the process of the return to the Ayub regime's golden age of development.

As stated already, we are deeply concerned about Pakistan's sustainable development from the medium- and long- term perspectives. In this regard, we will set out our perceptions based on our understanding with respect to the development experience of Pakistan as mentioned above. However, before doing this, it would be useful to review how the international agencies such as the World Bank and the Asian Development Bank (ADB) perceive the current situation in Pakistan for the purpose of presenting our position.

The World Bank classifies development needs into seven areas and suggests a diagnosis.² These are; (i) macroeconomic stability, (ii) restoring the integrity and accountability of state institutions, (iii) an enabling investment climate, (iv) acceleration of rural growth, (v) education, (vi) health, nutrition and population, and (vii) pro-poor rural infrastructure and services and social security.

These seven areas can be rephrased and reduced into the following five, if (i) and (iii) are integrated, in addition to (v) and (vi). These are; (i) promotion of a market economy, (ii) improvement of governance, (iii) enhancement of agricultural growth, (iv) development of the social sector, and (v) development of the rural infrastructure and the construction of social safety nets for the poor.

The alleviation of poverty has become the central theme of the World Bank's strategy. However, it should not be interpreted that the Bank has shifted its strategic interest from growth to poverty alleviation. The Bank still maintains the effectiveness of the so-called 'trickle down theory.' Yet, there is a differences in that firstly the Bank has to monitor carefully the extent of poverty in addition to the state of macroeconomic indicators, and secondly that the Bank has to look into the structural aspects of poverty much more carefully than before. This is evident from the recent emphasis on the skewed distribution of land as a root cause of poverty.

² World Bank (2002)

Another important aspect of the Bank's strategy is its full support for the Devolution Plan set out by the government. The Bank places high expectations on the gender aspects of the plan and also its monitoring function.

The Asian Development Bank, after rendering full support to the PRSP and the Devolution Plan drafted by the government of Pakistan, summarizes its strategic position into three areas.³ These are; (i) pro-poor growth, (ii) socially inclusive development, and (iii) good governance and empowerment. There is not much difference between the World Bank and the ADB in terms of their basic perception of development issues and the required reforms. Both approaches are comprehensive and pro-poor, and are concerned with governance reforms.

However, the ADB is more direct in linking poverty issues with governance problems by stating that "poor governance is the key underlying cause of poverty in Pakistan. However, economic and social factors such as the slowdown in GDP growth in the last decade, and the persistence of a regressive social structure, stemming from the highly unequal distribution of land, have also contributed to the increase in poverty witnessed in the 1990s⁴." According to the same document, the ADB defines governance as "the manner in which power is exercised in the management of a country's social and economic resources for development."

Poor governance of Pakistan, according to the ADB, has four dimensions; firstly, political instability, the lack of continuity in policies and persistent corruption have discouraged private investment and caused capital flight; secondly, 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; thirdly, the weak public sector capacity due to the inability to attract qualified people owing to the dismal financial and career incentives, the weakening of the meritocratic recruitment system due to nepotism and corruption, inefficient public enterprises, and over-centralization; fourthly, the inadequate access to justice is perceived as contributing to the powerlessness of the poor and reinforces social and economic inequalities prevalent in the institutional fabric of society.⁵

It is indeed a welcoming trend to observe that multilateral donors such as the World Bank and the ADB have begun to examine the structural aspects of development, including poverty. We respect their perceptions regarding poverty alleviation, together with the efforts of the government to alleviate poverty and improve governance in their Ten-Year Perspective Development Plan, PRSP and the Devolution Plan. Although we share the conclusions of much of the analysis demonstrated in the relevant documents, our approach is slightly different in three aspects; the causal relationships among the variables, the time dimension, and the objectives. We have set the grand objective of our study as building a sustainable and respectful society in which people share a national identity. The time dimension of our analysis is, therefore, the medium to long term. Poverty alleviation is not the prime objective for us to examine, although it is an important and inevitable question of

³ ADB (2002a)

⁴ ADB (2002b)

⁵ *ibid.*

development. We are not using the term ‘governance’ in making a judgment as to whether or not the society is achieving economic development in a market friendly manner based on democratic institutions. It is no doubt a handy term with which to label cases of success as well as failure, but it is too broad and vague. We totally agree with the importance of the components listed under the term ‘governance.’ However, it is equally important to identify the causal framework within which governance is being questioned. As we will demonstrate later, we see governance in the framework of the interaction between the ruling structure and the countervailing forces of the society, which in our terms is defined as the ‘social monitoring capacity’ of the society.

1.2 Direction and Issues for Sustainable Development in Pakistan⁶

– Medium- and Long- Term Perspectives –

1.2.1 Introduction

As mentioned already, it is our conclusion that Pakistan could have fared much better if its potential resources had been properly utilized. We can see the root cause of the problem in the interaction between the two countervailing forces in society; one of which is the limited number of rent-seeking ruling elites, notably the local landed elite politicians in Pakistan, while the other is the weak and fragile ‘social monitoring capacity’ (see Chart 1). Our analysis in the main report suggests, therefore, that an understanding of the socio-political structure in considering sustainable development in Pakistan is as equally important as conventional macroeconomic analysis. It further implies that the road map toward sustainable development should be conceived from medium- and long- term perspectives, not from a short term one in which the structural factors are already given.

In considering the road map towards sustainable development, we have identified firstly the necessary conditions for achieving this, and secondly the direction of efforts towards its achievement. As for the former, we have identified three factors: firstly, the maintenance of law and order in society, and the consistency and continuity of development policies; secondly, the provision of equality of opportunities and a socio-institutional framework within which social mobility is assured; and thirdly, the healthy growth of the social monitoring capacity of a society, as already mentioned.

With respect to the latter, we have identified three directions for development efforts. The first is the direction of human development, in which the main objectives are to eliminate gender bias and to accelerate the growth of the middle class, and to ensure equality in medical and health services and human security. The second is the direction of economic development, in which the main emphasis is placed on agricultural growth to enhance employment absorption, control the ‘black economy,’ and ensure industrial growth and the development of a pro-poor infrastructure. The third is the direction of regional development, in which two factors are important. One is to reconsider the direction of public investment for the purpose of equalizing socio-economic opportunities and to support the

⁶ This section is based on the Chapter 6 of the Part II of the main report and “1.2.3 (1) Education” is based on the commentary note provided by JICA expert, Takumi Koide.

rapid development of regional capitals as economic centers.

Before elaborating on our viewpoints a little further, let us make a comment on our basic perception regarding the rent-seeking power elites that have been dominated by local landed politicians. If the removal of local elite politicians based on the skewed land tenure system of this country were the issue, the most effective means of modifying the power structure would be, as has been frequently asserted by the international agencies, the introduction of radical land reforms. This is indeed desirable, if it is possible. However, as discussed elsewhere, land reform, however effective it may be economically as well as socially, is a political process whose characteristics and degree of enforcement are decisively determined by the social character of the introducers.⁷ Given the social character of political forces in Pakistan, it would be unrealistic to draft a strategy incorporating the 'required land reform' for the achievement of sustainable development. Alternatively, we presume that the enhancement of social monitoring capacity by way of rapid human development and the pro-poor growth of a market economy could create an environment in which the capability, leadership and resources of the rent-seeking power elites could be mobilized for development.

1.2.2 Necessary Conditions for Sustainable Development

We have indicated above the three necessary conditions for sustainable development to be achieved. They are neither pre-conditions, nor sufficient conditions. However, it is hard to expect any society to have achieved sustainable development without satisfying these conditions. Let us elaborate on these conditions in the Pakistan context.

Firstly, Pakistan has had a law and order problem during the civilian governments. Although the factors behind the law and order problem are varied, it has been military intervention that has normalized the situation, as if there were a military cycle operating⁸. The very fact that the GDP growth rates have been consistently higher during the military regimes compared to the civilian regimes is attributable to the stable law and order situation and the consistency in development strategy. Private investment is sensitive to these conditions, in particular, foreign direct investment. We witnessed a similar phenomenon after 1999.

It is apparent that the development strategy of Pakistan underwent radical change during the Bhutto regime in the early 1970s as mentioned earlier; from a market-oriented and private sector led growth strategy to half-hearted socialism under the name of Islamic Socialism. This strategy discouraged the growth of the private sector and resulted in inefficiency in public enterprises, and the exodus of capital and business talent. Successive governments have not yet been successful in establishing a solid development strategy.

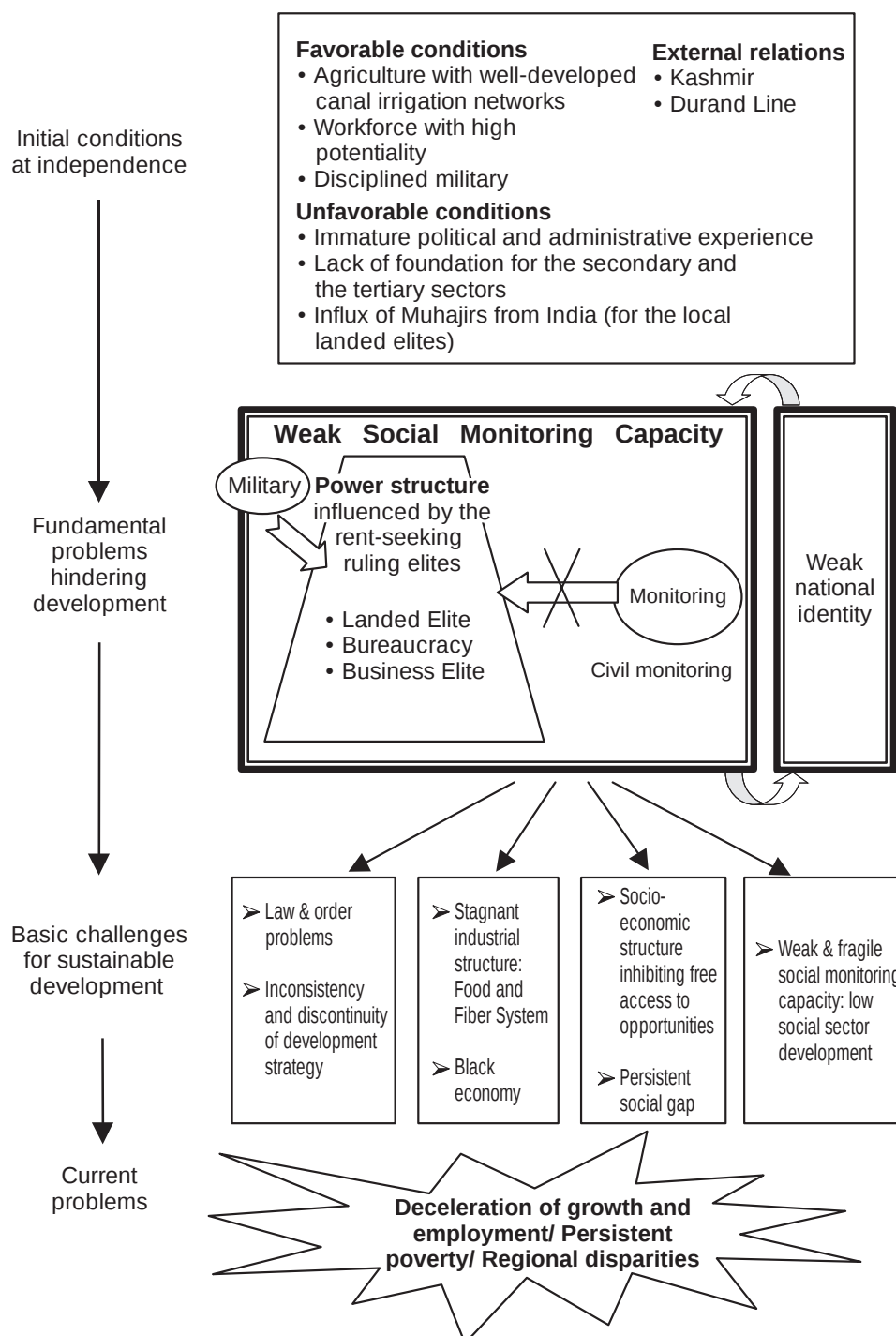
Secondly, it is our belief that equality of opportunities must be ensured in order to achieve sustainable economic development across gender, regions and social strata. Any social institutions

⁷ S. Hirashima (1978)

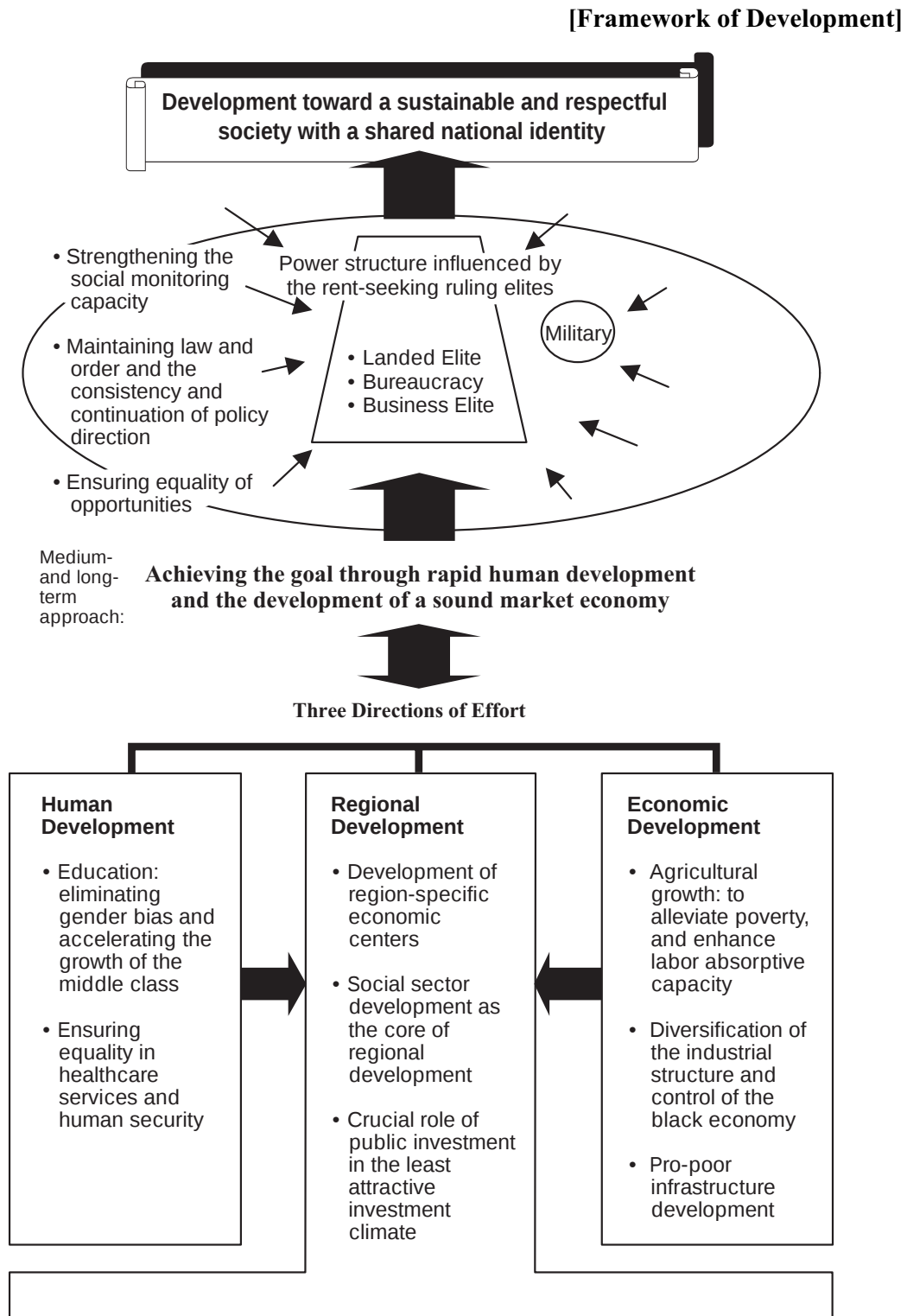
⁸ S. Hirashima (2001)

Chart 1. Development issues of Pakistan and

[Development Process of Pakistan: 1947-1999]



Framework of sustainable development



inhibiting social mobility and free access to opportunities and public services should be discouraged. In our main report, we have demonstrated that there is a high level of correlation between poverty, level of education and asset position. What we should be concerned with is not poverty in general, but poverty caused by factors beyond the control of the individual. In other words, if the choice of occupation is determined by birth, this is an inefficient system in terms of resource allocation and utilization. In Pakistan, there is no caste system in principle. However, the caste legacy has not been phased out from the society in practical terms. The distinction between *zamindar* and *kammee* in rural Punjab is one example, and *rishwat* and *safarish* observed among the ruling elites are other social practices inhibiting effective resource allocation. Former President Legari termed it a Culture of Collusion.⁹ Concerted efforts have to be made to eliminate all possible 'social biases' so that the factors of production can be mobilized effectively toward establishing a sustainable society.

Thirdly, as we have mentioned already, the less than expected performance of Pakistan's development can be attributed to the misallocation of resources by the limited number of rent-seeking ruling elites, and, equally importantly, the extremely weak and fragile social monitoring capacity of Pakistan. The most important cause of this weak and fragile social monitoring capacity is the lower than expected development of the social sector. Special emphasis is placed on gender bias in education and health, and the slower growth of the middle class. It is this weak social monitoring capacity that has failed to check the rent-seeking behavior of the ruling elites and invited military intervention at times of civilian government failure. This is a total waste of resources for the country if the potentially capable members of the society have been left uneducated, poor and under-nourished under the existing socio-economic and political structure.

1.2.3 Directions for Human Development

(1) Education: towards Overcoming Gender Bias and Rapid Growth of the Middle Class

It was in 1886 that the 4-year compulsory primary education system was introduced in Japan, which was extended to 6 years in 1907. The rate of illiteracy in Japan was as high as 73.5% in 1878 and it started declining rapidly only after 1900.¹⁰ It was 1910 before the student-population ratio in Japan became comparable to that of England and 1940 for the United States. It should also be noted that gender bias in enrollment disappeared in the 1920s.¹¹ It is fair to add, however, that gender bias in Japan in general persisted for a long time even after gender bias in education had been overcome.

Another notable fact to be mentioned in our experience is the emphasis on higher education in the early stages of industrial development. In order to introduce advanced Western technologies and transform them to suit local conditions, rapid growth in the number of students with a science major at the college level was the most urgent requirement. In fact, in 1880 as many as 90% of the students who graduated from the University of Tokyo were science majors. It was only in 1895 that the

⁹ President Legari (1996)

¹⁰ Toshio Toyoda (1998)

¹¹ Ryoshin Minami (1981)

number of students majoring in the humanities and social sciences became comparable to that of students majoring in the sciences¹².

Two more factors need to be mentioned in this connection. The first is the radical institutional reforms introduced at the time of the Meiji Restoration; the abolition of the status hierarchy system (the Japanese caste system), ensuring free choice of occupation and free mobility of labor. These reforms were necessary conditions for the market-oriented economy to grow. The second is the introduction of technical schools in the formal education system in Japan towards the end of the 19th century. It is important to note that technical education, involving three major fields (agriculture, commerce and industry), starts after the period of compulsory education is over. Although university education is open to those who follow the technical course, a majority of students take up employment. In this sense, the education system has a dualistic structure, but it is fair to admit that technical education in Japan has served the purpose of absorbing the children of low income households into the labor market, thus preventing growth in the number of school dropouts, and most importantly, generating the 'intermediate level technicians' necessary for development.¹³

Currently, the situation in Pakistan still compels us to assert that education is the key to development. Pakistan has failed to introduce a compulsory education system up to 2001. Gender bias in education is still predominant and private education has gradually crowded out public school education. The budget allocation for education under the Social Action Program introduced in the early 1990s has increased. Public perception in relation to education has undergone gradual change. Yet, the amount of resources allocated to education is too little to expect a radical change in this area.

As far as basic education is concerned, the low level of enrollment has three dimensions, or working hypotheses. Firstly, the ruling elites in Pakistan, in order to preserve their privileges, have not shown any enthusiasm for educational development. Secondly, gender bias in education and health is due to the inherent socio-cultural bias against females under the social hierarchy system in a patri-lineal society. Thirdly, the low enrollment rate is a direct function of the extent of poverty. We are not in a position to test these plausible hypotheses in a rigorous academic way at the moment, yet there may be some truth in all these dimensions.

In our main report, we have found that there is a high correlation between poverty and the level of education, between poverty and the asset-holding position, and between female education and human security. We have witnessed also the increasing trend towards female enrollment in good private schools in towns and cities. This seems to suggest that the real bottleneck that lies behind the gender bias in education is not the lack of enthusiasm on the part of females, but the quality of education and the safety of the educational environment. The latter factor is particularly notable in the case of female education beyond the primary level. Of course, this statement does not rule out the fact of poverty as one of the most important determinants of the low enrollment rate in Pakistan.

The deterioration in the quality of education is more serious for higher education in the public

¹² Michio Morishima (1982)

¹³ S. Hirashima (1982)

sector. The success of the private colleges and universities in Pakistan clearly indicates that the bottleneck is not on the demand side, but on the supply side. To be more specific, qualified teaching staff with well-thought out curriculums can attract good students, and not the other way around. With less than the expected performance in higher education in Pakistan, the growth of the middle class is dismally slow compared to other South Asian countries. This gives the impression that higher education in Pakistan has served the purpose of reproducing the existing ruling elites, rather than strengthening social monitoring capacity.

Since education is the key to overcoming social distortions of various kinds in the form of gender, ethnicity, region, income and assets, and social status, its development can be devised more effectively in the devolution process. However, the Pakistan experience seems to suggest that the single most important lesson to learn is to ensure that teaching is an attractive and rewarding profession from primary school through to university.

(2) Healthcare: Ensuring Fairness

In Pakistan, various kinds of disparities prevent the benefits of healthcare from being fairly shared, posing a threat to human security. To reduce such vulnerability rooted in the basic social structure, both short-term as well as medium- to long-term solutions are required. The former includes extending relief to the socially vulnerable. The latter includes solutions to a number of challenges such as: increasing employment and income generation opportunities; developing local infrastructure, including water supply and sewerage systems and community roads; and improving and promoting education.

In reducing this vulnerability, it is also necessary to make the most of the positive impacts and offset the negative impacts of development in other sectors on healthcare. For example, in areas where water supply is already available, part of the efforts that have been directed to combating diarrhea can be diverted to addressing other healthcare issues. The construction of a community road alone may allow for the consolidation of primary healthcare facilities in some areas. On the other hand, the expansion of irrigated agriculture in malaria-prone areas requires additional budgetary and human resources to combat potential epidemics. In addition, the mechanism for providing healthcare services should be reorganized with a view to rectifying social disparities.

Disparities between urban and rural areas

As is pointed out in our main report, health indicators are worse in rural areas than in the cities, and people lack confidence in public primary healthcare facilities partly because they have been disregarded under government policies. At the general assembly of the Pakistan Medical Association in April 2003, President Pervez Musharraf stated that it was necessary to urgently bolster the primary healthcare facilities that were no longer serviceable without the presence of doctors, given the fact that up to 70% of the poor live in rural areas. He cited the case of Punjab Province, which began to provide financial incentives to doctors who are willing to move to rural areas. The policy to provide such economic incentives is both important and effective. Yet the major challenge is how to

create a mechanism to train an adequate number of primary care physicians, since primary healthcare facilities need such healthcare workers rather than specialists.

Regional disparities

The federal government and even the provincial governments are facing difficulties in accurately assessing the situation or factors at the grassroots level and in taking effective measures accordingly. No decision maker has dared to adopt policies to close primary healthcare facilities that have little chance of being put to good use and divert the funds thus made available to such purposes as developing viable healthcare facilities and securing the necessary personnel. As a result, the healthcare sector has remained inefficient.

However, the ongoing Devolution Plan, if it proceeds as intended, may eventually pave the way for fine-tuned responses to healthcare needs at the district level. In this connection, the Health Services Academy should modify its curriculum to accommodate the devolution process. Local healthcare administrators, who play a key role in the healthcare sector, study public health at this school.

To measure the effects of devolution, a reliable information system for health management should be developed. Such a system allows for numerical comparison among the health policies of different districts in terms of their performance. Such information brings into sharp relief the local realities, such as the neglect of duties or lack of ability on the part of officials in charge of formulating or implementing health policies, as well as the practice of provincial governments to turn a blind eye to problems at the district level. The information, if disclosed to the local population, may serve as an important catalyst for the empowerment of people who are traditionally deprived of the opportunities to enable them to share the benefits of healthcare and raise objections to such unfairness. These people may come to play a central role in social monitoring.

Disparities among socio-economic strata

The relative importance of treating lifestyle-related diseases is increasing against the backdrop of rapid urbanization as well as the progress being made in the prevention and treatment of infectious diseases. As a result, not only people in the cities but also those in rural areas are increasingly calling for more advanced healthcare. This is leading directly to a sharp rise in national medical expenses. Pakistan has not yet been in a position to introduce a free healthcare service system like the UK. Nor could it follow the example of continental European countries and put in place a medical security system based on social insurance. To make matters worse, the direct impact of structural adjustment policies has undermined the public healthcare system.

In fact, people have been exposed to the harsh healthcare market with no resources to defend themselves. The wealthier people in the cities can afford private hospitals. The poor rural people also wish to opt for private medical practitioners or secondary and tertiary healthcare hospitals nearby, although that option is too expensive for them. In reality, the poor resort to alternative medicines, and women in rural areas resort to lady health workers (LHWs) at best.

Under these circumstances, the need for a medical insurance system aimed at sharing risks associated with serious illness and high medical costs is increasing for both the urban and rural populations. It is also important to reorganize the public health system so that it covers the range from primary to tertiary healthcare in order to provide a quality service at reasonable cost to the recipients. This action may not allow primary healthcare facilities to regain their original users, but it is expected to rein in the arbitrary actions of private medical institutions.

Gender disparities

To ensure that women have the same level of access to formal healthcare services as that for men, drastic improvements need to be made in the enrollment rate for women, as well as in their status within their families and communities. However, this will be a long-term process since, for example, well-educated women in the 15-49 age bracket will remain in a minority for years to come. In the meantime, LHWs provide a short-term solution since under this scheme designed to provide basic healthcare services, women who have received secondary education serve as supporters and advisors for uneducated women, thus helping to reduce the vulnerability of these service recipients. It is important to note that education can have a tremendous impact on the reduction in infant mortality and malnutrition. Political commitment is called for to adopt a school lunch system. Such a system has the potential to raise the enrollment rate for women, reduce the number of female dropouts, enhance the academic performance of girls, and even improve the dietary habits of women and their families in the long run. It is further noted, based on our experience in post-war Japan, that together with school uniforms, the school luncheon program played a crucial role in protecting the children of poor families from discrimination of various kinds.

People's ideas about diseases and nutrition will rapidly change when Pakistan adopts healthcare policies aimed at rectifying inequalities and the positive impact of education for women will eventually be reflected in their health status. Then people will acquire the capacity to monitor the public administration.

At its different stages of social development, Pakistan has always been subject to the current world trends. Unable to take advantage of its position as a latecomer, Pakistan has trailed behind its neighboring countries in health indicators. The waves of economic globalization, poverty reduction, and decentralization are washing the shores of Pakistan. It is hoped that Pakistan will seize this precious moment to catch up with its neighboring countries and realize equity in healthcare.

1.2.4 Direction of Economic Development

(1) Agricultural Growth: Employment Promotion and Poverty Alleviation

Incidence of poverty and agricultural growth

In spite of the improvements in some macroeconomic indicators, except for growth in the GDP, Pakistan has witnessed an increase in the proportion of people below the poverty line and a

weakening of its labor absorptive capacity in the latter part of the 1990s. Our analysis in the main report clearly shows that this was mainly due to the declining rate of growth of the GDP, notably in agriculture. The agricultural sector is the largest absorber of the national workforce (48%), while the industrial labor force is just one quarter that of the agricultural sector in Pakistan. Moreover, two-thirds of the population living in rural Pakistan. It follows, therefore, that the majority of poor people are in rural areas.

Poverty in rural areas is found among marginal and small farm households with a small marketable surplus, as well as landless non-farm households. These usually supplement their household income with income from the non-agricultural sectors. Therefore, the declining rate of growth in agriculture due to droughts and the resultant decline in employment elasticity have been the major cause of an increase in the poverty ratio in rural Pakistan. Let us summarize our findings first on this issue, and then discuss the role to be played by the agricultural sector in the medium term. Based on the Household Expenditure Survey, we have analyzed the incidence of income poverty in Pakistan. Our major findings are as follows.

Firstly, the incidence of poverty (headcount of those individuals whose consumption expenditure is below the poverty line) is relatively high at more than 30%, high in absolute numbers at about 40 million, and was increasing rapidly in the late 1990s.

Secondly, income poverty is more severe in rural areas among the landless, and closely correlates with deprivation in education and health.

Thirdly, macro performance during the 1990s was not pro-poor since the growth rate was lower and the labor absorption elasticity (the sectoral employment growth rate divided by the sectoral growth rate of added value) declined.

Fourthly, the income poor in Pakistan not only suffer from a low average level of consumption, but are also subject to extreme fluctuations in consumption due to income risk and the lack of safety net measures. The landless are more severely deprived than the landed if we focus on vulnerability.

Fifthly, in rural areas, permanent non-farm employment is associated with the exit from poverty. Education is the key to such employment.

Sixthly, social safety nets are weak, especially those provided by the public sector or by formal institutions. Private networks based on personal relations are more important as safety nets.

The policy implications of the above analysis are as follows. Firstly, when poverty reduction policies or social safety net policies are implemented, it is necessary to pay attention to the possibility that formal interventions substitute for private networks. To avoid this problem, targeting those with the least access to private networks (such as the landless households without permanent non-farm employment) is critically important.

Secondly, policies promoting labor-creating growth should be positioned at the center of poverty reduction policies. Without such growth, micro policies for poverty eradication, such as income

transfer or microfinancing, will be ineffective. Therefore, the current declining trend in labor absorption elasticity is of great concern. Promoting livestock activities in agriculture and export-oriented small-to-medium scale industries in manufacturing should be seriously considered.

The role of the agricultural sector: the medium-term perspective

The agricultural sector in Pakistan's development context is crucially important not only from the point of view of producing food grains and industrial raw materials, but also from the point of view of understanding the basic social structure and power structure of this country.

One of the most important assets Pakistan inherited at the time of Partition was its strong agricultural system based on the well-developed canal irrigation network. However, because of this, under the skewed distribution of land, the traditional landed elites who have controlled this country politically have not had much incentive to develop agriculture nor to transform the industrial structure over the last 50 years. They have been well-off on the basis of rental income, even at the extremely low level of land productivity in agriculture.

However, the rapidly growing economic integration at the global level in the 21st century has started to impose painful adjustments on the agricultural sector of this country. Among the various roles the sector can play in the process of development, the following three seems to be crucially important, at least in the medium term. They are; firstly, to absorb a substantial proportion of the increments in the population and labor force, secondly, to reduce the existing regional disparities in terms of income, consumption and assets, and thirdly, to alleviate persistent poverty.

In order to achieve these objectives, the agricultural sector has to overcome three broadly defined problems. The first one is how to overcome the rapidly deteriorating irrigation system. The second one is how to 'socialize' appropriate technologies among the producers. And the third one is how to enhance the multiplier effects of agricultural growth, or how to develop agro-related income generating opportunities in rural areas and nearby market towns and cities.

The landed political elites of this country have enjoyed the economic surplus generated by the huge capital stock in terms of canal irrigation built up during the British colonial period. However, the functioning of this system has been deteriorating over time. Construction of additional reservoir systems faces severe constraints from the point of view of environmental concerns. The priority has to be given to increasing the efficiency of water harvesting, use and system management, which is much more difficult compared to the construction of additional hardware.

Socialization of agricultural technology has two aspects. One is to introduce, transform and develop appropriate technologies at the Federal as well as Provincial levels, and more importantly to establish a functional division of R&D between Federal and Provincial institutions. The other aspect is to establish a well-perceived receiving mechanism at the village level. This aspect has to be seriously considered and integrated into the devolution plan.

Villages in Pakistan consist of farm households and non-farm households. Considering the poverty

alleviation strategy, the marginal and small peasant households from the farm household category and the non-farm households, most of which are landless, have to be targeted. For these targeted rural households, agricultural growth is essential. Yet, since the majority of them depend considerably on non-agricultural income, the multiplier effects or linkage effects of agricultural growth are equally important for them. Unfortunately, our understanding of the socio-economic status of these non-farm households is insufficient and there has therefore not been a well-perceived strategic plan specifically targeting the non-farm households in rural Pakistan. By the same token, our understanding of land market behavior is also far from adequate. Since we have found that land price has been increasing much faster than rent in rural Pakistan, a deliberate policy has to be adopted to make land acquisition possible for marginal and small farmers and landless non-farm households.¹⁴ This is necessary due to the high correlation between poverty and the asset holding position in rural Pakistan, as confirmed in our study.

(2) Diversification of the Industrial Structure and Control of the Black Economy

The industrial structure of Pakistan has been stagnant for a long time. Even though the share of the agricultural sector has declined to one quarter of the GDP, this has not been accompanied by an increase in the share of the industrial sector, in particular the manufacturing sub-sector. The industrial sector has been characterized by the so-called Food and Fibre System in which domestically produced agricultural products such as cotton, sugarcane, tobacco, etc., are used as raw materials. The Food and Fibre System is vulnerable to the performance of the agricultural sector. We have witnessed low industrial growth when agricultural production was affected by abnormal weather (drought) or plant virus attacks (cotton), for example. Pakistan's economy is not yet free from such risks. It is, therefore, necessary for Pakistan to diversify its industrial structure so as to grow faster through both forward and backward linkages.

There are five reasons for the stagnant industrial sector in Pakistan. Firstly, investment has been concentrated on existing industries. During the 1980s, the rate of return on investment in the existing over-protected industries, notably textiles, was sufficiently high, which resulted in overinvestment in the existing industries and underinvestment in new industrial frontiers. During the first half of the 1990s, overinvestment was made by industrialists without having a well-planned marketing strategy using bank loans bearing low interest rates obtained through various political connections. In this respect, it is appreciated that the present government has started strict monitoring of bank loan behavior. Secondly, the narrow domestic market due to the slow expansion of the middle class and the wide income gaps that exist in this country has discouraged industrial diversification. Thirdly, underdevelopment of the economic infrastructure has forced the cost of production higher, thus discouraging new investment. Fourthly, the lack of continuity and consistency in industrial development policies adopted by successive governments has increased the risk and uncertainty for domestic investors, not to mention foreign investors. Fifthly, although the present government has tried to control the black economy, including the revision of the Afghan Transit Trade Agreement (ATTA), the influx of foreign goods, particularly consumer durables, has continued and discouraged

¹⁴ S. Hirashima (1986)

domestic production.

As a percentage of the GDP, public investment has declined since the first half of the 1990s. Since public investment has a crowd-in effect on private investment in Pakistan, private investment started declining as well in the second half of the 1990s. The decline in public investment is mainly due to the crowd-out effect of debt payments and defense expenditures in the budget system. However, as pointed out, public investments that have high externalities in relation to private investments should be increased due to their crowd-in effect. In this context, investment in basic economic infrastructure should have a high priority. Infrastructure development will not only improve the capital productivity of private investment and the competitiveness of the manufacturing sector, but also generate a generally favorable investment climate.

As has already been pointed out, controlling the black economy is an important component of the investment climate in Pakistan. Growth of a diversified manufacturing sector is needed, since it is expected that the domestic demand for consumer durables will increase along with improvements in the economic conditions for people in general and the middle class in particular. However, it has to be pointed out also that conventional measures, such as border controls and tax policies are likely to prove to be insufficient. We strongly argue in our main report that a long-term solution should be sought in the economic development of the regions involved in illegal transactions. Apart from the inhibitory geographical and historical circumstances, the regions were left to their own devices in terms of economic development. Due to their poor agrarian base, the people in Federally Administrated Tribal Area (FATA), for example, have been deprived of socio-economic opportunities. It would be a formidable task to develop economic opportunities that are as profitable as smuggling. However, a concerted effort has to be made to generate income earning opportunities in the region. In this context, Peshawar and greater Peshawar have to grow as an economic centre. At present, the government designates specific industries at clusters of small and medium-sized industries and implements promotion policies for the people in FATA.

The development of small and medium-sized industries is one of the most important development policies of the present government for employment promotion and poverty alleviation. However, an attempt has not been made to categorize small and medium-sized industries in Pakistan for the purpose of formulating an effective strategy. It would be useful to classify small and medium-sized industries as follows.

Export-oriented units: These units import capital equipment and produce goods for export. Surgical instruments, sports goods, and leather goods in Sialkot are exclusively for export and textiles, such as apparel, hosiery, and bed linen, are partially exported.

Subcontracting units: These have developed together with the automobile and electrical industries. However, subcontracting industries are still underdeveloped in Pakistan. The smuggling of auto components and electrical goods has discouraged the growth of subcontracting units in Pakistan.

Traditional small-scale units: These produce goods such as gur and handicrafts employing traditional methods. Although employment elasticity is high, labor productivity is low. Generally the

wage rate is lower and, moreover, the demand for these products is less income elastic.

Modern small and medium-sized units: These are producing consumer goods for the domestic market, using cheap capital equipment and low-waged labor. Power looms are an example. The working conditions have generally not been modernized.

At present, the targets of promotion policies for small and medium-sized industries are the medium-sized export-oriented units and subcontracting units. As far as the former are concerned, the problem is how to transfer the technologies and quality control methods of the successful international subcontractors in Sialkot, for instance, to the industries primarily producing for the domestic market. As for the latter, a continuous effort has to be made to improve the cost structure and the quality under the guidance of foreign investors so as to compete with illegally imported goods. In either case, government support for improving the infrastructure is inevitable. In considering the potential size of the domestic market, there is a lot of room for investment in the production of consumer goods in rural areas. The most important issue, as we have pointed out repeatedly, is the radical improvement of the investment climate and business confidence. It should be noted that the FDI has so many options to follow. However, there will be no FDI if domestic capital investors are reluctant in the midst of risk and uncertainty.

(3) Economic Infrastructure Development: Poverty Reduction, Economic Revival and Bridging Regional Gaps

An analytical study of the current conditions of transportation, power, water supply and sewerage, and irrigation, has revealed the following three major challenges facing the economic infrastructure in Pakistan: (i) Whereas the infrastructure requires considerable improvement across the nation, special mention should be made of rural areas and provincial cities, where basic infrastructure development, which is essential for upgrading the living standards of local residents, is often fragile or unevenly distributed. (Maldistribution is more marked at the district level than the provincial level.) (ii) As a general trend, the operation and maintenance (O&M) of existing infrastructure has been inadequate, thus accelerating wear and tear. (iii) The underdeveloped infrastructure and problematic O&M mentioned above are not only attributable to the lack of funds. They are also plagued by the policies, and institutional elements of the government agencies, such as their planning and implementing capacity, O&M regimes, and financial and management bases. In view of these challenges, let us summarize the direction of infrastructure development over the medium- and long-term as follows.

Firstly, to improve living conditions, create employment, and increase market access for the poor, it is essential to promote basic infrastructure development in rural areas, which is lagging behind in this context. Although it has been widely confirmed that the electrification of villages boosts convenience in everyday life by alleviating the burden on labor and reducing poverty at the same time, power supplies are only extremely slowly penetrating the relatively isolated Balochistan Province and North-West Frontier Province (N.W.F.P.). Since these Provinces have received the smallest allocation of public investment to this day, it is essential to place the priority not only on

electrification, but also on infrastructure development as a whole in these Provinces, thereby contributing to the correction of regional disparities.

Secondly, in forging ahead with the electrification of the Balochistan and North-West Frontier Provinces, the government will have to explore how to supply the necessary power at low cost, without incurring an additional financial burden on itself. In this context, trading power with Iran, Tajikistan and other surrounding countries may be worth considering. From the geopolitical viewpoint, the Balochistan and North-West Frontier Provinces have the unrealized potential to form an integral part of the greater economic zone comprising Central Asia, Afghanistan and Iran. The government is thus recommended, when it implements infrastructure development in these Provinces, to take a strategic approach conducive to revitalization of the Pakistan's economy as a whole.

Thirdly, since the 1990s, driven by the need to reduce the budget deficit, Pakistan has continued to cut back on O&M expenses as well as development costs. The impacts of such economizing trends are seen, for example, in the irrigation system, with 90,000 aging waterways in need of rehabilitation. A large number of roads have also been left unattended without adequate O&M. If the government is endowed with only limited funding, and is set to implement effective infrastructure development, which is essential for the revitalization of the economy, then it should seek types of development that achieve maximum results with minimum investment. A case in point is the country's power sector, where substantial power losses occur in the transmission and distribution system. A decent level of investment in the rehabilitation of the existing transmission and distribution network could have significant positive effects, which are almost equivalent to those obtainable from the construction of a large-scale power station. Priority should be placed not only on new investments, but on other efforts as well, such as adequate O&M, rehabilitation, and upgrading of the existing infrastructure to prevent further deterioration.

Fourthly, in the 1990s, to supplement the government coffers, several power projects were implemented by mobilizing private financing. Problems emerged in the ensuing years, however, over electricity tariffs. There has hardly been any progress in private-sector financed infrastructure development or private sector participation in other industries, either. To boost private-sector participation and financing by the private sector, the government is called on to develop medium- and long-term strategies. One realistic strategy is to allow a private investor to enter the power sector without taking serious business risks. Effective management and equipment operation know-how possessed by private enterprises could be thus transferred to the power sector. The same knowledge transfer can be achieved through the signing of a management contract between the public corporation and the private sector investor as well, which will help improve the effectiveness of the public corporation's management and operation.

Fifthly, analysis of problems such as the early deterioration of the developed infrastructure and its lower-than-expected effectiveness reveals an entanglement of multiple root causes. In the power sector, the executing agency's financial standing has lost ground due to the inappropriate fee structure, low rate of collection and high level of system loss. This has resulted in shrinking budget

allocations for new development and O&M. The water supply and sewerage sector faces a similar challenge. Major water supply problems such as water supplies that are unaccounted for and water pollution in urban areas are intertwined with the fragile financial base of the government agencies. In addition, water demand will increase sharply, as the non-irrigation water that accounts for only 7% of the total water use at present is expected to increase up to 15% in 2025 along with the ongoing population increase, economic development and urbanization. On the other hand, the irrigation sector is being urgently called on to make a switchover to a more flexible, effective, and demand-oriented system, in order to supply the appropriate amount of water in a timely manner to meet the farmers' needs. Specifically speaking, it is important to install physical equipment for monitoring, including irrigation water control systems and water supply meters. At the same time, the government is required to address the task of policy/regime upgrading and institutional enhancement by introducing appropriate water and power tariff structures, providing farmers' organizations with legitimate water rights, relaxing bans on water transactions, and drawing up cross-sectoral and comprehensive water management policies.

Sixthly, to ensure the greater effectiveness and sustainability of infrastructure development in rural areas, including villages, consideration should be given to social and environmental aspects, and the participation of and dialogue with local residents should be actively pursued. If development in rural areas is intended to generate synergistic effects in relation to poverty reduction, a comprehensive approach should be taken. Specifically, such an approach comprises not only roads, electrification of villages, small-scale reservoir and other individual infrastructure development projects, but also small-scale lending and technical assistance, including guidance on livelihood and farming skills. In this context, it would be desirable if local municipalities, which have closer ties with the inhabitants, are able to handle infrastructure development in rural areas. In this context, support should be given to the efforts of the government to strengthen the institutional capacity of local governments, in line with the devolution policy that is currently moving ahead on its own initiative.

1.2.5 Direction of Regional Development

(1) Perception towards Regional Development

Regional disparities have been growing over time in Pakistan. These are usually expressed as disparities in terms of income and assets between urban and rural areas, between provinces, or between districts within a province. However, concern should be focused on the direction of public investment that brings about such varied types and levels of disparity. For example, as discussed in the main report, farmers in the canal-irrigated region can derive extra benefits for a given capital and labor input compared with farmers in non-irrigated regions. These benefits include higher and more stable incomes as a result of more flexible cropping patterns and reduced cost (subsidized water rate), higher rental income and rates of return on private investment, and higher land value which enhances the capacity to stand on reduces risk and uncertainty.

The military operations of the United States in Afghanistan have raised the question of

development in the areas between the west bank of the Indus River and the Durand Line. The emergence of Muttahida Majlis-e-Amal (MMA) in N.W.F.P. and Balochistan Province at the recent election of Members of National Assembly (MNA) is suggestive in this regard. Considering the strategy for regional development, there seems to be three important factors to be incorporated.

The first is the importance of social sector development as the core of regional development planning. To be more specific, this means that the required resources, in particular skilled manpower and management capability, cannot be retained in the region without good educational and medical facilities.

The second is the importance of public investment as a leading input. As discussed already, public investment and the private investment it induces can be utilized in two ways; it could widen disparities or it could reduce disparities depending upon its direction. Obviously, the objective of public investment should be to equalize opportunity profiles among the regions. It has to be noted that employment generation is needed in the less developed regions, where the investment climate for private investors is least attractive. Public investment should play a leading role in encouraging private investment in such regions.

The third is the leading role of the regional capital as a regional economic centre. This should not be interpreted as suggesting that investment in transportation and electricity networks linking cities, market towns and villages has a low priority. Conversely, we would argue that it would be difficult to imagine prosperity in rural areas with a stagnant and deteriorating regional capital. In this context, the growth of Karachi, Peshawar, Quetta and Lahore as strong regional economic centers has symbolic significance in the medium to long term development efforts of Pakistan.

(2) Development of Region-Specific Economic Centers¹⁵

There is no need for every regional city to grow homogeneously. Each city has its own specificities and advantages. What we are most concerned with is balanced regional development in which access to opportunities for the members of each region is assured. Let us elaborate on this aspect taking Peshawar and Karachi as examples.

The stagnation of Karachi, which once flourished as an economic center of Pakistan, is serious. Karachi is a center of trade and a financial center with its highly educated manpower, where the number of firms and the industrial production index both declined during the 1991/92 - 1995/96 period.

Karachi flourished during Ayub's regime. Business communities, most of which consisted of Muhajirs from Ahmedabad and Mumbai in India, were given opportunities to grow. However, their further growth was blocked under the Islamic Socialism adopted by the Bhutto regime. Pakistan lost not only private capital and entrepreneurs, but also the most promising economic center of the

¹⁵ This part is based on the JICA commissioned study undertaken by Professor Akbar Zaidi, Economic and Social Development and the Urban Sector in Pakistan: The Possibilities for Intervention in Peshawar and Karachi, 2003.

country. Economic stagnation gave rise to conflicts between the locals and the Muhajirs and the frustration of the Muhajirs was politicized by Muhajir Qaumi Movement (MQM) in Sindh. Law and order problems seriously affected the investment climate in Karachi. Many business houses have shifted their production bases to other cities, notably Lahore.

In spite of its economic stagnation, migration to Karachi from other parts of Sindh, and more so from the Punjab and N.W.F.P. has continued, which has aggravated living conditions in Karachi. It is said that about 50% of the population are living in so-called *katchi abadi*. Although Karachi's development requires not only improvements in the investment climate, including the law and order situation, but also improvements in the living and working conditions, its development as a leading economic centre seems to be urgent and imperative.

Unlike Karachi, Peshawar, the land-locked capital of N.W.F.P. has not been an important industrial center of Pakistan. However, Peshawar has the potential to grow as an economic center whose function is different from that of Karachi. The expected role is to bring prosperity and stability to the region west of the River Indus, including FATA by generating employment. Nowadays, Swat is known for its silk production, Swabi for plastics production, and Mardan as a center of sugar production in the North. In terms of population, the Peshawar District alone has one million inhabitants. If the attempt at developing Peshawar or greater Peshawar as an economic center is successful, it could become a model for Quetta, and its impact would also go beyond Afghanistan and Central Asia. Admitting the difficulties associated with refugee problems, its development as a regional center seems to be the key to its economic prosperity, as well as the political stability of the hitherto neglected regions of the North, and, equally importantly, for controlling the black economy.

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Chapter 2

Exploring the Optimal Approach for Japan's ODA to Pakistan

2.1 Significance of Japan's ODA to Pakistan

The stability and development of Pakistan, as well as Japan's ODA to Pakistan is important and necessary for Japan from the following aspects:

- 1) Geopolitical importance of the stability and development of Pakistan
 - The tense relationship between Pakistan and India over Kashmir
 - Rivalry of the close relationship (alliance) between Pakistan and China vis-à-vis that between India and Russia
 - Ethnic problems between Pakistan and Afghanistan over the Durand Line
 - Changes in the relations between Muslim countries and the United States over terrorism
 - Growing importance of Pakistan's relations with the Gulf countries and central Asian countries
- 2) Implications for global security of the possible destabilization of Pakistan as a nuclear state
- 3) A moderate Muslim state with a population similar in size to that of Japan
- 4) A profound friendship with Japan, which was unaffected even by the economic sanctions Japan imposed after Pakistan conducted nuclear weapons testing
- 5) The responsibility of Japan as a member of the international community to extend ODA as international public goods to Pakistan, which is addressing numerous development issues to achieve the Millennium Development Goals (MDGs)¹⁵

2.2 Guiding Principles of Japan's ODA to Pakistan – towards Building and Developing a Sustainable Society

In light of the basic perceptions discussed in the preceding chapter, Japan's ODA should be more focused and be clearly positioned in the wider context of a development strategy with medium and long-term perspectives. Also, it is increasingly important for Japan to ensure integrated and coherent coordination with other donors to make better use of Japan's assistance resources and send a clear message to that end. Moreover, Japan should explore ways to contribute to the long-term solution of the debt problem of Pakistan in the use of its ODA loans. These guiding principles are discussed in detail in the following subsections.

¹⁵ This refers to the development goals the international community committed itself to share in the Millennium Declaration, which was adopted at the U.N. Millennium Summit in September 2000. These Millennium Development Goals (MDGs) consist of seven goals and targets in such sectors as economic development, social development, and environmental conservation—notably the target of halving by 2015 the proportion of people whose income is less than one dollar a day—plus the eighth goal that calls for increased aid and more liberalized terms of trade from donors. The MDGs are in line with two kinds of developments. One is the moves aimed at committing the international community to share social development goals, which mainly originated from the World Education Summit in 1990 and the World Summit for Social Development in 1994. The other is the New Development Strategy that the DAC adopted in 1996.

2.2.1 ODA Aimed at Building and Developing a Sustainable Society – From the Medium- and Long- Term Perspectives

As has been discussed in Chapter 1 on the basic perceptions of development issues for Pakistan, a number of factors lie behind the fact that the country has not been able to make best use of its high potential and achieve sustainable development. These factors include the power structure in Pakistan and the lack of three necessary conditions for sustainable development: (i) maintenance of law and order in the society and the consistency and continuity of development policies, (ii) provision of equality of opportunities and the socio- institutional framework within which social mobility is ensured; the free mobility of production factors (human resources in particular), and (iii) healthy growth of the social monitoring capacity. To encourage structural changes in Pakistan towards the development of a sustainable society, it is necessary to pursue development assistance from the medium- and long-term perspectives.

In planning and implementing an assistance program or project, it is important to ensure medium- and long-term consistency in policy making. This requires clear positioning and target-setting of such a program or project in relation to the three directions of development efforts toward a sustainable society, as suggested in Chapter 1, Section 1.2: “Direction and Issues for Sustainable Development in Pakistan” as well as to have clear objectives and policy directions. More specifically, the following procedure should be followed. Firstly, narrow down the priority development issues to focus on after considering a number of factors, including (i) Japan’s experience of assistance in the sector, (ii) role sharing with other donors, (iii) the effectiveness of the policy message to be sent, and (iv) the operational constraints facing Pakistan. Secondly, define the details of the program or project, including its scope and time frame from a long-term perspective. (For more details on specific priority issues, see Section 2.3: Priority Setting for Japan’s ODA to Pakistan)

2.2.2 Basic Approaches to Aid Coordination among Donors

There is a growing emphasis on aid coordination within the recent assistance framework in Pakistan. Such aid coordination has been sought in (i) the formulation of results-based strategies based on the Poverty Reduction Strategy Paper (PRSP), (ii) increased support for fiscal management in the healthcare and education sectors, and (iii) expansion of assistance directly to local governments in line with the devolution policy. Further, there are also calls for more effective forms of the division of labor and coordination among donors, including multilateral assistance through multilateral donors. The proposed approaches to aid coordination are described below:

(1) Aid Coordination for PRSP Formulation and Implementation

The Pakistan government formulated the Interim-PRSP (I-PRSP) in November 2001. The Full PRSP(F-PRSP) was scheduled to be completed by autumn 2002, but its formulation process was delayed with the government citing the preparations for general elections in that year as a major

reason. Provincial PRSPs are also in the process of being formulated. At the Pakistan Development Forum (PDF) in May 2003, a draft summary of the F-PRSP was distributed for discussion. The Pakistan government intended to complete the F-PRSP by August or September of 2003. The basic requirements of the PRSP include the achievement of a results-based form of development that makes the best use of limited development resources (foreign assistance and local funds), and a focus on support to the socially or economically vulnerable.

As has been discussed at the outset of Section 1.1, it is not that the PRSP has effected a policy shift from macroeconomic management and economic growth to poverty reduction. The novel aspects of the PRSP can be summarized in four points. Firstly, it has made poverty reduction an important criterion for evaluating macroeconomic management. Secondly, it has laid down socioeconomic development indicators, including a reduction in the poverty ratio, that are consistent with the Millennium Development Goals (MDGs). Thirdly, it has emphasized public expenditure management under the PRSP strategy. Fourthly, it has made it mandatory to hold consultations with local governments and civil society in its formulation and implementation processes in line with the devolution policy.

The PRSP has its limitations and problems, although it is desirable and even necessary for Pakistan to formulate the PRSP through partnerships with donors and other development actors and to promote donor coordination along this policy line. Firstly, there are concerns about the practicability of the implementation of the PRSP for a number of reasons, including a heavy emphasis on the social sector, a weak fiscal foundation, the lack of baseline data of all kinds to verify development performance, tardy progress in fiscal devolution, and the weak capacity of local governments. Secondly, the PRSP is not inclusive, even though it is one of the policy frameworks for sustainable development in Pakistan.

Given these limitations and problems, Japan's ODA should stress consistency with the PRSP and at the same time have medium- and long-term perspectives. As discussed later, specific approaches may include: (i) defining the direction of and priority issues for Japan's ODA and maximizing the poverty reduction effects of development projects in the sectors where Japan has experience, (ii) preferring a program approach and defining the status of Japan's assistance projects in the context of sector programs, and (iii) contributing to strengthened public sector capacity, for instance in developing management information systems in such sectors as healthcare and education.

(2) Sectoral Aid Coordination

Sectoral aid coordination is being pursued through consultative group meetings of donors separately working on five sectors or issues: healthcare, education, gender equality, the environment, and good governance. Although the need for aid coordination cannot be overemphasized, there is also a need for a practical approach that takes account of the cost-effectiveness of consultations and negotiations as well. In other words, Japan has to selectively decide the degree of its involvement in each sector or issue at such meetings.

Firstly, the healthcare sector is given special priority in assistance to Pakistan according to the aid coordination policy of the Ministry of Foreign Affairs of Japan. Secondly, the need for aid coordination in education is expected to grow further. For one thing, there are world trends toward establishing basket funds (discussed later) in this sector. For another, Pakistan is among the targeted countries both in Education for All (EFA) ¹⁶ advocated by the United Nations and in the World Bank's First-Track Initiative.¹⁷ Thirdly and fourthly, gender and the environment are given second priority in aid coordination following the above two sectors, as they are stressed in the MDGs. Fifthly, good governance is a priority sector in the PRSP of Pakistan, and a significant portion of aid from donors is diverted to this sector. Japan should therefore proactively participate in the consultative group meeting of donors in this sector to avoid unnecessary duplication and competition and to exchange, share and utilize the available knowledge and experience. At any rate, Japan is required to further articulate its position and exchange views on effective donor coordination, with the emphasis on the sectors where Japan enjoys a comparative advantage in terms of experience, as well as on the priority issues for Japan's ODA, as discussed later.

(3) Financial Support to the Common Basket Fund and General Financial Support

Assistance programs to Pakistan provided by donors, including the UK Department of International Development (DFID) and the World Bank, have been changed in the education and health sectors from project-type cooperation to program-oriented assistance¹⁸. They are now designed to enhance the function of the public sector through financial support, including technical assistance to the financial management apparatus, in light of the failure of the previous Social Action Programs (SAP and SAP II)¹⁹. This approach allows the aid recipient country to promote its ownership of programs and to help reduce the transaction costs of the aid itself and its management. At the same time, the financial management and program monitoring capacities of the Pakistan government are still weak, therefore DFID and other aid agencies are comprehensively providing technical assistance and financial assistance by making the best use of local human resources in Pakistan. In this regard, it would be difficult for Japan to take the same approach as the UK.

¹⁶ The World Conference on Education for All, held in 1990 in Thailand, adopted the World Declaration on Education for All (EFA). These universal goals stress, among others, basic education as an opportunity for all the people of the world to acquire the knowledge and skills required for living and address the diverse issues they face.

¹⁷ This is the initiative the World Bank launched in 2002 as an action plan to accelerate progress toward ensuring basic education for all. It calls for support for, among others, 18 countries—including Pakistan—that have formulated a PRSP and agreed with donors on an education sector program, and five countries with the largest numbers of children out of school.

¹⁸ See the main report, Subsections 4.1.2 (Education) and 4.1.3 (Healthcare) in Part III, Chapter 4: Sectoral Aid Trends and Prospects.

¹⁹ This is a national program of the Pakistan government aimed at increasing the physical availability of services and improving their quality in four distinct target areas: elementary education, basic healthcare, family planning, and rural water supply and sanitation. The World Bank, the ADB, the EU, the Netherlands, and other donors extended budgetary support and technical assistance through the SAP fund.

The SAP was implemented in two project phases. The first phase, SAPP-1, covered the period from 1993/94 to 1996/97 with a total fund of 4.02 billion dollars. The second phase, SAPP-II, began in 1997/98 and ended in the year 2001/02 (June 2002) with a total fund of 10.56 billion dollars. The program has made some progress in terms of enhanced funding and more physical facilities. Some improvements have also occurred in health indicators and access to the related infrastructure. However, the program has fallen short of expectations in terms of the quality of service delivery, partly because the program budget was not used in the expected manner. In particular, experts have pointed to poor performance in the education sector. Although Japan has not contributed to the SAP fund, it has made a commitment to support the SAP, especially in the social sector. Japan's assistance to the program includes the Balochistan Middle Level Education Improvement Project (yen loan) and aid to the Pakistan Institute of Medical Sciences or PIMS (project-type technical cooperation and grant aid).

While some people argue that providing financial assistance alone makes Japan's presence invisible and weakens its voice, Japan has already provided financial support to Pakistan and should ensure its best use. For example, Japan provided emergency economic assistance to Pakistan in 2001 and sector program grant aid in 2002 and 2003. These counterpart funds will be mobilized (for the implementation of projects) in PRSP's strategic sectors. In response to the actual conditions in developing countries, general financial support and project-type cooperation should be combined to optimize the mutual complementarities of the aid modalities. To this end, the establishment of a systematic and strategic assistance framework is urgently needed.

More specifically, technical cooperation to enhance administrative accountability and accessibility of the service function should be promoted in the sectors of education and health. At the same time, with grant aid if required, traditional project-type technical cooperation that is collaborative under sector programs should be carried out strategically. In addition, support for program monitoring systems in each of the sectors will be required.

(4) Division of Labor and Coordination between Multilateral and Bilateral Assistance

The role of the international community is not always identical with that of Japan as a bilateral donor in development assistance. Therefore, it is important for Japan to articulate its assistance strategy and to commit itself to project formulation from an early stage. When Japan provides bilateral assistance it should target sectors and issues in which it has a particular advantage and can assert its contribution to sectoral development assistance. Selection of such sectors and issues should be determined based on the framework detailed in "Priority Setting for Japan's ODA to Pakistan," discussed in Section 2.3. As for cooperation between multilateral and bilateral assistance, Japan should seek opportunities for policy dialogue with multilateral donors and become involved in project formulation at an early stage to incorporate its vision into projects wherever Japan identifies benefits from such cooperative efforts.

Cooperation with multilateral donors offers an advantage in terms of the mobilization of intellectual resources. This involves information sharing on sectoral or cross-sectoral issues and the exchange of intellectual views through aid policy dialogue with other organizations as one of the fruits of cooperation. With regard to loans, if not co-financing (financial assistance under the same projects), policy dialogues might bring about a cooperative form of assistance leading to Coordinated Financing (The Japan Bank for International Cooperation [JBIC] and multilateral donors such as the ADB implement the same kind of projects separately in different regions).

2.2.3 A Scenario for Solving Debt Problems and the Role of Development Assistance²⁰

The debt servicing capacity of Pakistan has substantially improved in recent years due to changes in the regional situation as well as efforts by the government of Pakistan. It is unlikely that an incident

²⁰ This subsection has been compiled by JBIC, based on the discussions of the subcommittee on the economy, comprising JBIC officials, the members of this study committee in charge of the economy, and advisors.

such as the debt crisis in the wake of the conducting of a nuclear test in 1998 will occur over the short-term. However, to maintain a stable debt servicing capacity for the medium- and long- term, sustained economic growth is essential. Increases in investment, especially public investment, hold the key to that end. In this sense, infrastructure development is vital.

The current status of development assistance to Pakistan shows that major donors who curtailed assistance in the wake of the nuclear test in 1998 and the coup d'état in 1999 have been gradually increasing assistance, given the increasing geopolitical importance of Pakistan since the terrorist attacks in the United States in September 2001. Yet major donors other than Japan tend to place emphasis poverty reduction before economic growth. Moreover, in the absence of yen loans, few donors are providing assistance for infrastructure development, which requires heavy investment. A recommended option for Japan under these circumstances is to send a clear message that Japan is committed to helping Pakistan to improve its debt servicing capacity and achieve high economic growth, and for this purpose will resume assistance for high-quality infrastructure development with yen loans. This option will be effective in differentiating Japan from other donors and impressing the recipient country of Pakistan with an unambiguous message.

In the past, yen loans were extended mainly to support infrastructure development in the transport and power sectors. However, yen loans to Pakistan sometimes failed to ensure project sustainability or produce the expected results, since they did not adequately address the issues concerning policies or institutional conditions. It is therefore advisable for Japan to overcome these challenges and extend strategic infrastructure support in line with the direction of infrastructure development in Pakistan. Its direction is suggested in Chapter1 “Directions and Issues for Sustainable Development in Pakistan – medium- and long-term perspectives –.” Such support will contribute not only to building an industrial basis, but also to high economic growth and sustainability of the long-term debt of the country (see Box 2.2.1).

2.3 Priority Setting for Japan's ODA to Pakistan

As mentioned in the previous chapter, Pakistan faces numerous development challenges on the path towards a sustainable society. For the effective use of ODA to this end, it is prudent for Japan to take the following steps: (i) to articulate a clear message regarding the objectives of Japan's ODA; (ii) to screen the development issues to be addressed; (iii) to put in place the necessary arrangements for supporting the screened issues, including financial and physical resource mobilization and the assignment and training of personnel; (iv) to explore an appropriate mix of inputs; and (v) to maintain consistency during the whole process, including policy dialogue and subsequent project formulation with Pakistan, policy dialogue and aid coordination with other donors, and the planning, implementation and evaluation of assistance projects. The following subsections discuss specific priority issues for Japan's ODA to Pakistan, as well as the criteria for screening them.

Box 2.2.1 A Scenario for Solving the Debt Problem in Pakistan

Pakistan faced a foreign debt crisis due to the repercussions from the nuclear testing that it conducted despite the opposition of the international community, including economic sanctions imposed by major donors, foreign currency outflows from foreign currency deposit accounts, and a drop in foreign investment. The Paris Club of creditor nations approved rescheduling of the country's debt three times, in January 1999, January 2001, and December 2001. In May 1998, Japan suspended new yen loans, together with new grant aid (excluding emergency grant aid, humanitarian grant aid, and grant aid for grassroots projects) in line with the economic measures that Japan imposed in response to the nuclear testing. Japan lifted these measures and resumed new grant aid in October 2001, but the suspension of new yen loans has remained in place to this day due to concerns over the debt servicing capacity of Pakistan.

However, the debt servicing capacity of Pakistan has substantially improved thanks to recent events. Firstly, the Paris Club struck an exceptionally generous deal with Pakistan in December 2001 to provide substantial relief of its external debt burden for the time being. Secondly, a global clampdown on illegal remittances in the aftermath of the terrorist attacks in the United States in 2001 has prompted a shift in the means of making remittances from Pakistanis abroad from illegitimate routes to regular routes via banks. As a result, Pakistan's foreign reserves, which had dropped below one billion dollars in the aftermath of the nuclear testing, have surged to a post-independence high of nine billion dollars, which is equivalent to ten months worth of imports. Together with increased inflows of aid from donor countries, Pakistan's foreign reserves have rebounded to the level where there is no problem in servicing foreign debt for the time being. Thirdly, the current administration of President Pervez Musharraf, who took office in 1999, has been pushing ahead with economic reforms with the grand goal of economic independence. Under the Debt Reduction and Management Strategy, the administration has been radically strengthening its debt management through such means as establishing a government office in charge of debt management and repaying high-cost debts by taking advantage of rescheduling periods. As a result, significant progress has been made in terms of both fiscal discipline and the debt portfolio.

30 these favorable trends continue, it is unlikely that an incident such as the debt crisis in the wake of the nuclear testing in 1998 will occur over the short term. The IMF has bolstered Pakistan's efforts toward economic reforms and recovery over the past two to three years and stated that substantial improvements have been made regarding the vulnerability of the Pakistani economy to external shocks.²¹

How then should Pakistan achieve 5% economic growth? The key is to increase investment in Pakistan, whose real GDP growth was 4.6% on average during the 1990s. A study by this committee shows a close correlation between the level of private investment and that of public investment in Pakistan. This means that continued public investment will boost public capital, which in turn will lead to an increase in private investment. This study points to the importance of infrastructure development as a promising sector for public investment. The study demonstrates that an increase in investment in infrastructure development is a prerequisite for achieving high economic growth and boosting the long-term debt sustainability of the country. The "absolute quantitative deficiency" of basic infrastructure, such as that for transportation and power supply, needs to be addressed.

²¹ As stated by an IMF representative at the Pakistan Development Forum, which was held in Islamabad in May 2003.

2.3.1 Criteria for Screening Priority Issues for Japan's ODA

The screening criteria should be defined from the following five aspects:

1) Positioning of the developing needs

Clarity of positioning in relation to Chapter 1, Section 1.2: "Directions and Issues for Sustainable Development in Pakistan"

2) Comparative advantage of Japan

Availability of Japan's assistance resources (including experience and human resources)

3) Aid effectiveness

Effective donor coordination (ensuring that Japan and other donors complement each other as much as possible; giving preference to the sectors not covered by other donors)

4) Effectiveness of the policy message

The impact of policy messages Japan intends to send in the light of its experience in development issues (e.g., the importance of environmental impact assessment, urban environmental management, etc.)

5) Absorptive capacity of Pakistan (constraining factors)

Priority issues for Japan's development assistance can be classified into the following three types:

Type A: issues in relation to which aid resources are concentrated on a specific sector and/or geographical area to produce outputs that can be quantitatively evaluated

Type B: issues in relation to which assistance resources are mobilized over the long term to produce certain levels of outputs

Type C: issues in relation to which aid resources are mobilized sparingly, but with the aim of the development of the process itself over the long-term and sending policy messages based on Japan's experience

It is necessary to hold accountable not only JICA, which became an independent administrative institution in October 2003, but also other government offices in charge of ODA. To this end, these institutions need to explain the performance of ODA to the public in an easily understandable manner. This does not mean, however, that assistance resources should be concentrated on projects that produce tangible results over the short term. In order to extend ODA from the medium- and long-term perspectives, as discussed in the preceding subsection (2.2 Guiding Principles of Japan's ODA to Pakistan), resources should also be mobilized for projects that may take time to execute and for those aimed at conveying policy messages and providing policy alternatives from Japan according to the significance of each project appropriately positioned in terms of priority issues.

2.3.2 Proposed Priority Issues for Japan's Assistance

Table 2.3.1 shows the priority issues for Japan's ODA that have been narrowed down and classified according to the screening criteria and the aforementioned types. Proposed issues are also in line with the directions and issues for the medium- and long-term development of Pakistan discussed in Chapter 1, Section 1.2. The table also includes examples of priority aid programs to illustrate the priority issues and types.

In the following, specific priority issues for Japan's ODA are proposed.

(1) Priority Issues in Relation to the Necessary Conditions for Sustainable Development

The maintenance of law and order and the enhancement of devolution are keys to establishing the necessary conditions for the development of Pakistan. Japan should send a message that these two conditions are important elements for sustainable development and thus contribute to awareness-building in Pakistan. Specific projects to this end may include providing small-scale training of police officers in Japan and developing forms of best practice for improving public service delivery at the district level.

Priority issues for Japan's ODA:

- Search for stable law and order conditions under the civilian government (Type C)
- Enhancement of devolution (Type C)

(2) Priority Issues Concerning the Three Directions of Development toward a Sustainable Society

There is a key concept that underlies the three directions of development efforts suggested in Section 1.2 in the preceding chapter: human development, economic development, and regional development. That is, a direction for broad-based development involving a greater focus on the regions—incorporating an optimal mix of human development and economic development (the direction of regional development). This is because regional development through human development and the development of a sound market economy should play a catalytic role in reforming the political and social structures of Pakistan over the medium- and long- term. In this scenario, such regional development should have many favorable impacts, such as creating jobs, improving the social infrastructure, attracting foreign investment, restoring law and order, ensuring effective resource allocation based on equal opportunities, and strengthening the social monitoring capacity of civil society to act as a countervailing force in relation to political leaders. In this case, it is necessary for the synergistic effects of these favorable changes to be maintained and developed over the long term.

Regarding each of the three suggested directions, major development issues for Pakistan are screened to identify priority issues for Japan's ODA. In addressing these priority issues, it is of primary importance to accommodate Pakistan's major policy on devolution and promote a shift in

the aid recipients from the federal government to provincial and even district governments. For the promotion of broad-based regional development, it is also necessary to explore the possibility of a more holistic approach (program approach) that stresses coordination and interrelationships between different aid projects and issues, with a view to ensuring medium- and long-term continuity and effectiveness.

[Direction of regional development]

- Development of region-specific economic centers with their own characteristics that can lead the provincial economy (Type A)
- Improving the urban environment (Type C)

[Direction of human development]

- Improvement of female literacy and enrollment rates (Type B)
- Improvement of health service delivery to alleviate various disparities (Type A)
- Improving the quality of higher education and technical education (Type C)

[Direction of economic development]

- Overcoming the neglect of the rapidly deteriorating irrigation systems and securing water resources (Type A)
- Effective cooperation and demarcation of appropriate functions between the federal and the provincial institutions for developing, extending and diffusing agricultural technologies to producers (Type B)
- Infrastructure development including rehabilitation and revitalization of the existing infrastructure for facilitating market access, generating income opportunities, and improving living conditions for the poor in less developed regions (Type A)

Table 2.3.1 Relationship between “Important issues for Pakistan” and “Priority issues for Japan’s Assistance”

Necessary conditions for sustainable development	Topic	Important development issues for Pakistan	Screening criteria*				Priority issues for Japan’s ODA
			(i)	(ii)	(iii)	(iv)	Types: A: Focused input to achieve quantitative results B: Continuous support to reach a certain level C: Sending policy messages with small-scale inputs (<i>Examples of priority aid programs in italics</i>)
Necessary conditions for sustainable development	Maintenance of law and order; consistency and continuity in the policy direction	▪ Search for stable law and order under the civilian government ▪ Ensuring the continuity of the development framework and strategy	×	○	-	○	<As policy messages> <As objectives in terms of the three directions of development efforts> C: Building a system to maintain law and order <i>C: Support for police reform with the emphasis on police serving the citizens</i>
	Overcoming a social stratification that inhibits human development and restricts the mobility of production factors	▪ Counteracting nepotism based on ethnic groups, tribes, and endogamous groups ▪ Achieving effective resource allocation based on the principle of sound competition	×	-	-	-	<As policy messages> <As objectives in terms of the three directions of development efforts>
	Building and enhancing social monitoring capacity	▪ Building a countervailing force that can check the rent-seeking behavior of the ruling elites, including landed elites, business elites, and bureaucrats ▪ Building the capacity of the society to monitor the country’s policies • Enhancement of devolution	×	-	-	-	<As policy messages> <As objectives in terms of the three directions of development efforts> C: Enhancement of devolution <i>A: Administrative capacity building for local governments (including at the district level)</i>

*(i): Japan’s experience and resources; (ii): effective donor coordination; (iii): impact of sending the Japanese message; (iv): absorptive capacity of Pakistan

Necessary conditions for sustainable development	Topic	Important development issues for Pakistan	Screening criteria*				Priority issues for Japan's ODA
			(i)	(ii)	(iii)	(iv)	
Direction of human development: Education	Overcoming gender bias and accelerating the growth of the middle class	▪ Eradicating gender bias over the long term by raising the female literacy and enrollment rates • Restructuring the public education system (e.g., improving facilities, and retraining teachers)	○	○			Types: A: Focused input to achieve quantitative results B: Continuous support to reach a certain level C: Sending policy messages with small-scale inputs <i>(Examples of priority aid programs in italics)</i>
		• Ensuring an environment where female teachers can work normally (e.g., drastic reform of the payroll system, and better arrangements for commuting and housing) • Free education at the primary level • Improving non-formal education	○	○	○		B: Improvement of the female literacy and enrollment rates <i>B: Supporting female secondary education (support for facilities and administrative management for secondary education in Balochistan Province)</i> <i>C: Supporting the EFA policy of the Federal Ministry of Education and administrative capacity building for local government</i> <i>C: Extending support for facilities and administrative management for primary education in the North-West Frontier Province</i>
		▪ Encouraging the growth of the middle class over the medium term by ensuring access to higher education and improving its quality • Raising the quality of education by improving facilities and equipment	○	○	○		<i>B: Extending support for building a literacy/information management system</i> C: Improving the quality of higher education and technical education
		• Improving scholarship systems • Stopping the brain drain with better scholarship systems • Fair personnel management for teachers	○	×	-	-	<i>C: Supporting technical education</i> <i>C: Supporting universities of science and engineering</i> <i>C: Supporting better access to higher education using distance learning</i>
			×	-	-	-	
			×	-	-	-	
			×	-	-	-	
			×	-	-	-	
			×	-	-	-	
			×	-	-	-	

*(i): Japan's experience and resources; (ii): effective donor coordination; (iii): impact of sending the Japanese message; (iv): absorptive capacity of Pakistan

Necessary conditions for sustainable development	Topic	Important development issues for Pakistan	Screening criteria*				Priority issues for Japan's ODA
			(i)	(ii)	(iii)	(iv)	
Direction of human development: Health	Fairness in healthcare; human security	▪ Extending relief to the socially vulnerable as a short-term solution ▪ Reducing the vulnerability rooted in the basic social structure with a comprehensive approach ▪ Rebuilding the healthcare service delivery system with a view to rectifying social disparities • Rectifying regional disparities by training local healthcare administrators and strengthening the information systems for health management at the district level • Rectifying disparities among socio-economic strata by rebuilding the framework for public healthcare (including primary, secondary, and tertiary healthcare) and providing quality services at a fair rate • Rectifying disparities between urban and rural areas by bolstering the delivery of public primary healthcare services • Raising public awareness through LHWs as a short-term solution (combined with a medium- and long-term program for female education aimed at rectifying gender disparities to form a comprehensive approach)		○	○		Types: A: Focused input to achieve quantitative results B: Continuous support to reach a certain level C: Sending policy messages with small-scale inputs <i>(Examples of priority aid programs in italics)</i>
			○	○		×	<Reducing the vulnerability rooted in the basic social structure with a comprehensive approach (as an assistance approach)> A: Rectifying social disparities by rebuilding the healthcare service delivery system <i>A: Strengthening the monitoring capacity of the public health sector through the management of health management information</i> <i>B: Building public service capacity through support for the fight against infectious diseases</i> <i>B: Supporting the development of local human resources in healthcare at PIMS and other organizations</i> <i>B: Improving health facilities in Balochistan</i> <i>B: Supporting family health (support for LHWs; a school lunch program for PHC and nutrition improvement)</i>
Direction of economic development	Agricultural growth: to alleviate poverty and enhance the labor absorptive capacity	▪ Promoting medium-term agricultural growth to provide employment opportunities to an increasing population/workforce, reduce widening regional disparities, and alleviate poverty				○	

*(i): Japan's experience and resources; (ii): effective donor coordination; (iii): impact of sending the Japanese message; (iv): absorptive capacity of Pakistan

Necessary conditions for sustainable development	Topic	Important development issues for Pakistan	Screening criteria*				Priority issues for Japan's ODA
			(i)	(ii)	(iii)	(iv)	
Direction of economic development	Agricultural growth: to alleviate poverty and enhance the labor absorptive capacity	- Public investment aimed at overcoming the neglect of the rapidly deteriorating irrigation system and securing water resources “Socializing” agricultural technologies (division of labor and coordination between the federal and provincial institutions in introducing and diffusing such technologies; the establishment of an appropriate mechanism for diffusion at the village level) - Creating non-farm employment opportunities (promotion of agro-related industries—including livestock and agro-processing activities in rural areas, market towns, and nearby cities, promotion of non-agricultural sectors, and reform of the land market, all aimed at the landless and households without permanent non-farm income)	○	○			Types: A: Focused input to achieve quantitative results B: Continuous support to reach a certain level C: Sending policy messages with small-scale inputs (<i>Examples of priority aid programs in italics</i>)
	Diversification of the industrial structure and control of the black economy	Boosting the competitiveness of the domestic manufacturing industry and promoting industrial diversification - Public investment in productive infrastructure projects - Improving the production management and quality control of medium-sized export-oriented businesses and subcontracting businesses				○ ○	<In conjunction with the development of region-specific economic centers> A: Boosting the competitiveness of the domestic manufacturing industry and promoting industrial diversification

*(i): Japan's experience and resources; (ii): effective donor coordination; (iii): impact of sending the Japanese message; (iv): absorptive capacity of Pakistan

Necessary conditions for sustainable development	Topic	Important development issues for Pakistan	Screening criteria*				Priority issues for Japan's ODA
			(i)	(ii)	(iii)	(iv)	
Direction of economic development	Diversification of the industrial structure and control of the black economy	▪ Providing employment opportunities to replace the smuggling business in FATA • Industrial promotion that takes advantage of clusters of SMEs in Peshawar ▪ Creating jobs to alleviate poverty • Promoting and protecting traditional small businesses as a short-term solution		○		○	Types: A: Focused input to achieve quantitative results B: Continuous support to reach a certain level C: Sending policy messages with small-scale inputs (<i>Examples of priority aid programs in italics</i>)
	Alleviating poverty, stimulating the economy, and reducing regional disparities through economic infrastructure development	▪ Infrastructure development including rehabilitation and revitalization of the existing infrastructure for facilitating market access, generating income opportunities, and improving living conditions for the poor in less developed regions. ▪ Strategic infrastructure development with an emphasis on Balochistan Province and the North-West Frontier Province that is expected to reduce regional disparities through revitalization of the local economy and takes into account relations with Afghanistan, Central Asia, and Iran. ▪ Effective infrastructure development that entails better policy and institutional arrangements and strengthened institutional capacity to make the best use of limited resources, plus economic revitalization through the sustainable operation and maintenance (O&M) of such infrastructure • Development of municipal water supply and sewerage systems that address the problems of deterioration in the water distribution networks, non-revenue water, and low water quality • Development of rural water supply and sewerage systems aimed at improving access for the rural poor	○			○	A: Infrastructure development including rehabilitation and revitalization of the existing infrastructure for facilitating market access, generating income opportunities, and improving living conditions for the poor in less developed regions. <i>A: Integrated regional development that encompasses infrastructure development (including rural electrification and local road construction), microfinance, and technical cooperation</i> <Effective infrastructure development that entails better policy and institutional arrangements and strengthened institutional capacity, plus economic revitalization through the sustainable O&M of such infrastructure (as an assistance approach)> ○ <i>A: Municipal water supply and sewerage systems</i>

*(i): Japan's experience and resources; (ii): effective donor coordination; (iii): impact of sending the Japanese message; (iv): absorptive capacity of Pakistan

Necessary conditions for sustainable development	Topic	Important development issues for Pakistan	Screening criteria*				Priority issues for Japan's ODA
			(i)	(ii)	(iii)	(iv)	
Direction of economic development	Alleviating poverty, stimulating the economy, and reducing regional disparities through economic infrastructure development	• Water resources development that takes full account of the local residents (appropriate relocation of local residents) and environmental conservation • Efficient and sustainable utilization and management of water resources by such means as: strengthened fiscal discipline and institutional capacity of government offices; beneficiary participation; integrated water management that cuts across sectors; and the introduction of demand-driven systems • Rehabilitation and improvement of degraded weirs, irrigation channels, terminal irrigation facilities, tube wells, drainage canals, and other facilities in the Indus irrigation system • Development of new electric power resources (notably hydropower) to prepare for the anticipated shortfall in the supply of power; development of the power grid; and examination of the possibility of power trading with neighboring countries • More efficient management and equipment operation of the Water and Power Development Authority through the improvement of its financial position and the utilization of the expertise possessed by private enterprises • Rehabilitation and upgrading of the existing roads that entail the strengthened institutional capacity of government offices and better O&M of such roads • Upgrading of the status of railways as an economical mode for long-distance mass transportation through better institutional arrangements and other means		○		○	Types: A: Focused input to achieve quantitative results B: Continuous support to reach a certain level C: Sending policy messages with small-scale inputs <i>(Examples of priority aid programs in italics)</i>
				○		○	A: <i>Water resources development</i> B: <i>Capacity building for government offices in charge of the utilization and management of water resources</i> A: <i>Rehabilitation of irrigation systems</i> A: <i>Boosting power supply</i> A: <i>Rehabilitation and upgrading of roads</i>

*(i): Japan's experience and resources; (ii): effective donor coordination; (iii): impact of sending the Japanese message; (iv): absorptive capacity of Pakistan

Necessary conditions for sustainable development	Topic	Important development issues for Pakistan	Screening criteria*				Priority issues for Japan's ODA
			(i)	(ii)	(iii)	(iv)	
Direction of economic development	Three requirements for regional development	• Importance of social sector development in regional development • Public investment as a leading pump • Leading role played by the provincial capital in promoting broad-based development	-	-	-	-	Types: A: Focused input to achieve quantitative results B: Continuous support to reach a certain level C: Sending policy messages with small-scale inputs <i>(Examples of priority aid programs in italics)</i>
	Development of region-specific economic centers with their own characteristics	▪ Development of region-specific economic centers that can lead the provincial economy • Development of a regional economy with the economic and financial center at the provincial capital as its core (improving the living environment and developing the transportation network) ▪ Improving the urban environment	○	○			A: Development of region-specific economic centers that can lead the provincial economy <i>A: Support for the formulation and implementation of regional development plans with the regional capital at the center</i> C: Improving the urban environment <i>C: Support for improvement of urban environment and pollution control</i>

*(i): Japan's experience and resources; (ii): effective donor coordination; (iii): impact of sending the Japanese message; (iv): absorptive capacity of Pakistan

2.4 Issues to be Considered for Effective and Efficient Assistance

For more effective assistance to Pakistan, Japan should define both the objectives and priority issues discussed in Section 2.3: "Priority Setting for Japan's ODA to Pakistan" and clarify the positions of projects in a wider context from the medium- and long-term perspectives. To this end, the study committee proposes the following recommendations regarding the issues and problems in policy, institutional, and operational arrangements for Japan's assistance to Pakistan. These recommendations can be described as recommendations aimed at improving governance regarding Japan's ODA.

2.4.1 Policy Arrangements

– Country Assistance Program, Consistency, and "Selection and Concentration" –

As discussed in the main report, Japan's ODA is extended under complicated institutional settings

whereby JICA, JBIC and other agencies each deploy a number of aid schemes. Such a regime can accommodate a wide range of assistance needs, but experts point to its drawbacks: lack of focus, and the difficulty in ensuring organic coordination between different agencies and aid schemes. It is essential to further strengthen the capacity for consultation, coordination and integration to overcome these inter-ministry and inter-scheme obstacles if Japan is to promote assistance that conveys a consistent and clear message to Pakistan.

For this, Japan should, as a guiding principle, first and foremost share its national assistance policy with each recipient country and thus ensure consistency among the aid implementation plans of different ministries and agencies. It is also extremely important for Japan to take the following two actions. One is to ensure more regular and close exchanges of views and consultations among the local offices of JICA and JBIC and the Japanese Embassy in Pakistan, which should play a central role here. The other is to enhance the dialogue between these Japanese entities as a whole and the Pakistani side.

Fortunately, the Board on Comprehensive ODA Strategy, an advisory panel to the Minister of Foreign Affairs, has selected Pakistan as one of the recipient countries for which a fresh Country Assistance Program should be formulated this fiscal year. A task force in charge of formulating the Country Assistance Program has recently been established. In Pakistan also, the Japanese Embassy and the offices of JICA and JBIC have joined together to launch a local task force on ODA designed to make preparations for the formulation of the program and hold policy dialogues at the local level.

This study committee sincerely hopes that these moves will be expedited and that, based on the discussions described in this report, the Country Assistance Program will be formulated from a strategic point of view. In this way, Japan can work out coherent assistance policies with clear priorities and disseminate them as a clear message from Japan.

2.4.2 Institutional Arrangements

–Utilization of Local Human Resources, and Engagement in the Policy and Institutional Reforms–

As discussed in the main report, development assistance from the medium- and long-term perspectives has been persistently hindered by a number of factors contributing to political instability and deteriorating order in Pakistan. Among such factors are frequent regime changes, the conduct of a nuclear test in 1998, the conflict with India over Kashmir, U.S. military action in Afghanistan, and terrorism by Muslim extremists within the country. Moreover, most people engaged in aid activities in the country agree that the weak implementation capacity on the part of Pakistan, including the inefficient administrative machinery and slow decision-making process under the centralized regime, is hampering the smooth implementation of assistance programs and projects.

There is no quick fix for fundamental problems that have given rise to political instability and difficulty in maintaining law and order. As discussed in Section 1.1: “Development Performance in Pakistan” what is required is a long-term process of awareness-building for Pakistan, notably

building its social monitoring capacity. The question is not so much about how Japan should extend assistance. It is more significant for Japan to maintain policy consistency over the long term and continue to send a coherent message through policy dialogue and other channels.

Ingenuity is required more than ever to tackle issues concerning the smooth implementation of assistance programs and projects. For example, financial assistance should be designed to strengthen the more effective implementation capacity of Pakistan, with coordinated use of technical cooperation as necessary. For progress in the management of assistance programs and projects, it may be necessary to make better use of human resources in Pakistan, including personnel at universities and research institutes, and consultants. A viable option in the healthcare sector would be to take advantage of human resources and information in the private sector to boost healthcare activities. For assistance projects in areas where there are security concerns, it would be important to cooperate with local organizations and personnel or seek collaboration with other donors.

Many Pakistanis have come to Japan under JICA programs such as the Group Training Program, Counterpart Training Program, and Youth Invitation Program, as well as under the scholarship program of the Ministry of Education, Culture, Sports, Science and Technology. These Pakistanis can work as local experts to facilitate technical cooperation. As they understand both Japanese and Pakistan societies, they can serve as a bridge between the two countries. Notably in sectors where Japanese experts are difficult to recruit, Pakistanis who have received training or education in Japan may well have an important and useful role.

Appropriate policy, institutional and implementation arrangements are essential not only to facilitate the implementation of assistance projects, but also to sustain assistance effectiveness and even promote the sustainable development of Pakistan. It would therefore be advisable to extend assistance on condition that better financial management or public service delivery is achieved, so as to enhance public sector capacity. This idea is in line with the concept of program assistance that embraces budgetary support, which is discussed in Section 2.2: “Guiding Principles of Japan’s ODA to Pakistan.” Even in the case of an individual project, it is necessary, with such conditionality combined with policy dialogue, to help Pakistan strengthen its institutional capacity in such areas as financial management, personnel management, policymaking, information management (e.g., better information-gathering capacity, continuous collection of baseline data), O&M, coordination with other organizations concerned, utilization of expertise possessed by private enterprises, and rapport with local residents.

2.4.3 Operational Arrangements

– Reinforcing Local Offices, Delegating Greater Authority to Local Offices, and Promoting the Specialization of Aid Agencies –

(1) Reinforce the Staffing of Local Offices in Pakistan

As discussed in Subsection 2.4.1, Japan should first define its policy direction toward the medium- and long-term development of Pakistan, priority issues for Japan’s ODA, and the approach it will

take to addressing them, and then formulate priority programs and mix resources at home and abroad in line with this approach to establish optimal implementation arrangements. To this end, attention should be paid to personnel arrangements in local offices to enable them to regularly hold substantial policy consultations and working-level dialogue with the Pakistani government offices and other donor agencies concerned. Such arrangements should also allow decision making that accommodates the local realities in a timely manner.

At the policy level, Japan should send a coherent policy message on its ODA and exchange in-depth views on priority issues through the local task force on ODA, which holds policy dialogue with the Pakistan side and consultations with other donors at the local level. At the implementation level, Japan should regularly hold working-level dialogues with the Pakistan side and other donors to formulate and manage assistance projects in a timely and flexible manner.

To meet these needs, it is necessary to reinforce the staffing of local offices. Specifically, it is important to secure personnel with expertise (experts, project formulation advisors, etc.) on a regular basis to follow developments among other donors at the consultative group meetings on the healthcare and education sectors where coordination is more important than in other sectors.

(2) Delegate More Authority to Local Offices

In line with efforts to make better use of local human and organizational resources and improve coordination with other donors, Japan should accelerate the process of transferring greater authority and budget allocations to local offices and staff on the ground. The Japanese Embassy and Consulate-General in Pakistan should increase the role of consultations at the policy level, and delegate greater responsibility to aid agencies at the implementation level as well.

In fact, JICA has already taken steps in this direction. In 2000, JICA established a number of regional departments, which are in charge of drafting implementation plans for JICA Country Programs. Under the implementation plan thus drafted, JICA's headquarters needs to delegate greater authority to its office in Pakistan concerning program formulation and budget execution to ensure lower costs, reduced time, and greater promptness in implementation. The headquarters should commission the head of the local office to conduct the planning, implementation, and evaluation of some aid programs. Specifically, the head of the local office should be given authority within the predetermined budget.

(3) Promoting Expertise and Improving the Implementation Capacity of Aid Agencies

Securing human resources that serve as a bridge between the aid needs of Pakistan and the aid resources of Japan is the key to implementing assistance programs that take advantage of the comparative advantage of Japan and accommodate the realities in Pakistan. The short-term solutions to this include making better use of local human resources, and exploring ways to hire, on a regular basis, experts, Japan Overseas Cooperation Volunteers, and others who have experience in Pakistan, India, and other South Asian countries. The medium- and long-term solutions include for JICA to

train its staff so that they can acquire more expertise on a specific region of the world under the new organizational arrangements featuring regional departments.

The local office of JBIC in Pakistan has already been delegated authority in terms of project implementation to a certain extent. Yet, it may be necessary to increase staff from the current level of two Japanese officers and two senior local officers. However, substantial staffing reinforcement cannot be expected. Therefore, more practical options to improve operational arrangements include: ensuring integrated links between the local office and the headquarters, with officials at the latter traveling more frequently to the former regardless of the delegated authority to the local offices; training staff to become well-versed in the region, and promoting the fixed assignment of expert staff.

Furthermore, JBIC and JICA should further promote collaboration. Based on the experience of cooperation in this study committee, the next step will be the joint formulation of assistance projects. They should go further and promote not only exchanges of views at the local level.

It is essential to implement assistance programs under a clear and coherent assistance policy. To this end, aid agencies should formulate their respective program implementation strategies for Pakistan, after holding dialogues with the Pakistani side based on the unified country assistance policies reflecting the discussions of the study committee as well as in-depth analysis of sectoral issues.

Appendix: Key Economic and Social Indicators

Economic Indicators	Unit	Pakistan		Bangladesh		India	
		1980	2001	1980	2001	1980	2001
Total population	(million)	83	142	85	133	687	1,032
Population growth (annual)	(%)	2.8	2.4	2.5	1.7	2.2	1.5
GDP growth (annual)	(%)	10.2	2.7	1.5	5.3	6.7	5.4
GDP per capita	(%)	318	517	225	386	228	477
Value added in Agriculture	(% of GDP)	29.5	25.0	49.6	23.3	38.9	25.1
Industry	(% of GDP)	24.9	22.9	15.9	25.1	24.5	26.5
Services	(% of GDP)	45.6	52.1	34.4	51.6	36.6	48.4
Growth in Agriculture (annual)	(%)	6.6	-2.7	1.0	3.1	12.9	5.7
Industry (annual)	(%)	10.8	4.5	-5.2	7.2	4.7	3.1
Services (annual)	(%)	5.9	4.2	5.1	5.5	3.1	6.6
Employment in Agriculture	(% of total employment)	52.7	47.3 ^{*ii}	58.8 ^{*vi}	63.2 ^{*iii}	69.1 ^{*v}	66.7 ^{*iv}
Industry	(% of total employment)	20.3	17.1 ^{*ii}	11 ^{*vi}	9.6 ^{*iii}	13.6 ^{*v}	12.9 ^{*iv}
Services	(% of total employment)	26.8	35.6 ^{*ii}	24.2 ^{*vi}	25 ^{*iii}	17.3 ^{*v}	20.3 ^{*iv}
Inflation (GDP deflator)	(%)	9.1	5.7	13.4	1.6	11.5	3.5
Exports of goods and services	(% of GDP)	12.5	18	5.7	15.4	6.2	13.7
Growth of exports of goods and services	(annual % growth)	19.5	11.8	3.1	22.8	1.6	9
Imports of goods and services	(% of GDP)	24.1	19.4	18.4	22.8	9.8	15.4
Growth of imports of goods and services	(annual % growth)	4	1.5	33.4	23.5	18.2	10.6
Current account balance	(%of GDP)	-3.7	-1.9	-4.8	-1.7	-2.0	0.3
Overall budget balance, including grants	(% of GDP)	-5.7	-4.7	1.8	..	-6.2	-4.7
Gross foreign direct investment	(% of GDP)	0.3	0.5	0.0	0.6	0.0	0.6
Aid per capita	(current US\$)	14	14	15	8	3	2
Total debt service	(% of exports of goods and services)	18.3	25.8	20.5	7.3	9.8	11.7
Gross international reserves in months of imports	(months)	3.1	3.4	1.5	1.5	7.8	7.4
Population. below the National poverty line	Urban Rural (% of population)	24.2 35.9	32.6 (98-99)	19.1 37.4	33.7 (2000)	24.7 30.2	28.6 (99-00)
Social Indicators	Unit	Pakistan		Bangladesh		India	
Life expectancy at birth, total	(years)	55	63	49	62	54	63
Infant mortality rate	(per 1,000 live births)	105	84	129	51	113	67
Under-five mortality rate	(per 1,000 live births)	157	109	205	77	173	93
Total fertility rate	(births per woman)	7.0	4.6	6.1	3.0	4.9	3.0
Adult illiteracy rate	Female Male (% of 15 and above)	86.1 59.6	71.2 41.8	82.8 60.0	69.2 50.1	73.5 45.4	53.6 31.0
Primary school gross enrollment rate	Female Male (%)	27.1 52.0	54.4 [*] 93.3 [*]	46.3 75.1	100.9 [*] 99.7 [*]	67.1 98.2	91.7 ^{*ii} 110.8 ^{*ii}
Secondary school gross enrollment rate	Female Male (%)	7.7 20.1	19.3 [*] 28.7 [*]	8.6 26.0	46.9 [*] 44.6 [*]	19.8 39.1	40.1 ^{*ii} 56.7 ^{*ii}
Public spending on education	(% of GDP)	2.0	1.8 [*]	1.1	2.5 [*]	2.8	4.1 [*]
Births attended by health staff	(% of total)	..	20.0	2.0	12.0	23.0	42.0
Urban population	(% of total)	28.1	33.4	14.9	25.6	23.1	27.9

Source: The World Bank(2003)World Development Indicators,World Development Indicators CD-ROM

Figures in this table may differ from those cited in the report because it refers different sources.

* 2000 ^{*ii} 1999 ^{*iii} 1996 ^{*iv} 1995 ^{*v} 1990 ^{*vi} 1983

