

Poverty

Poverty is about denial of opportunities and fulfilment of human potential. Poverty and inequality are closely related, and inequality appears to have been on the rise worldwide in recent decades at both national and international levels. More than 80 percent of the world's population lives in countries where income differentials are widening. The poorest 40 percent of the world's population account for only 5 percent of global income. On the other hand, the richest 20 percent account for 75 percent of world income, according to the United Nations Development Programme.

Poverty is the principal cause of hunger and under nourishment. According to most recent estimates of the Food & Agriculture Organization of the United Nations (FAO, 2009), the number of hungry people world wide has reached 963 million, or roughly 15 percent of the estimated world population. This represents an increase of 142 million over the figure for 1990-92.

Poverty essentially consists of two elements, a narrowly-defined "income" poverty and a broader concept of "human" poverty (referred to as the *poverty of opportunities* by late Dr. Mahbub ul Haq). Income poverty is defined as the lack of necessities for minimum material wellbeing determined by the national poverty line. Human poverty means the denial of choices and opportunities for a tolerable life in all economic and social aspects.

Three poverty measures are commonly used;

- a) Head count ratio (HCR): the proportion of population below the national or international poverty line as the case may be.
- b) Poverty gap ratio; a measure of poverty obtained by multiplying the head count by the average relative distance at which the poor are from the poverty line.
- c) Severity of poverty measure; where the weight given to each poor person is proportional to the square of the income shortfall of the poor from the poverty line.

The head count ratio is a crude measure of poverty because it completely ignores the gap in incomes from the poverty line and the distribution of income among the poor. The severity of poverty index has more desirable properties.

In case of Pakistan, poverty line is calorie-based. Expenditure on calorie intake of 2350 calories per

adult equivalent per day, alongwith consumption expenditure on non-food items, is aggregated to construct a poverty line. This poverty line is adjusted at the time of the poverty estimation after accounting for the inflationary impact in intervening years.

| Pakistan Poverty Line in Historical Perspective (Rs) | |
|--|--------------|
| Year | Poverty Line |
| 1998-99 | 673.40 |
| 2000-01 | 723.40 |
| 2004-05 | 878.64 |
| 2005-06 | 948.47 |

Poverty Overview - Global Profile

Global Poverty Trends; 1981-2005

Poverty is most often measured in monetary terms, captured by levels of income or consumption per capita or per household. The commitment made in the Millennium Development Goals to eradicate absolute poverty by halving the number of people living on less than \$1.25 a day represents the most publicized example of an income focused approach to poverty.

Based on income approach, the last 20 years have seen a significant reduction in the depth and severity of extreme poverty in the developing world. In absolute terms, extreme income poverty has fallen substantially, with the number of people living on less than \$1.25 a day having declined from a high of 1.9 billion in 1981 to a low of 1.4 billion in 2005. In relative terms, the proportion of people living in extreme poverty more than halved from 52 to 25.7 percent during this period.

As a consequence of the fast economic growth and increase in standards of living, developing countries in Asia and the Pacific made significant progress in reducing poverty. Fifteen countries representing 93 percent of the population witnessed their headcount poverty rates reduced from 52 percent in 1990 to around 25 percent in the mid 2000s (Table-9.1). Decline in poverty rates were sharpest in China, Indonesia, Vietnam and Thailand. In only one of the countries shown in the Table i.e. in Turkey, did the poverty rate increase over the period.

Table-9.1 : Poverty reduction between 1990 and the mid-2000s

| Country | Period | Headcount poverty rates (%) | | Number of Poor (Million) | | | % age share of each country in the total poverty reduction |
|----------------------------------|-----------|-----------------------------|-------|--------------------------|-------|-------------------|--|
| | | Initial | Final | Initial | Final | Poverty reduction | |
| Bangladesh | 1992-2005 | 66.8 | 9.6 | 80.4 | 76.0 | 4.4 | 0.7 |
| Cambodia | 1994-2004 | 48.6 | 40.2 | 5.4 | 5.5 | -0.1 | 0.0 |
| China (rural) | 1990-2005 | 74.1 | 26.1 | 614.2 | 204.2 | 409.9 | 68.8 |
| China (urban) | 1990-2005 | 23.4 | 1.7 | 73.2 | 9.1 | 64.1 | 10.8 |
| India (rural) | 1988-2005 | 55.6 | 43.8 | 344.5 | 353.3 | -8.9 | -1.5 |
| India (urban) | 1988-2005 | 47.5 | 36.2 | 98.1 | 117.3 | -19.2 | -3.2 |
| Indonesia (rural) | 1987-2005 | 70.5 | 24.0 | 85.7 | 27.3 | 58.3 | 9.8 |
| Indonesia (urban) | 1987-2005 | 62.0 | 18.7 | 29.0 | 19.7 | 9.3 | 1.6 |
| Iran (Islamic Republic of) | 1990-2005 | 3.9 | 1.5 | 2.2 | 1.0 | 1.2 | 0.2 |
| Kazakhstan | 1996-2005 | 5.0 | 3.1 | 0.8 | 0.5 | 0.3 | 0.1 |
| Lao People's Democratic Republic | 1992-2002 | 55.7 | 44.0 | 2.5 | 2.5 | 0.0 | 0.0 |
| Pakistan | 1991-2005 | 64.7 | 22.6 | 76.5 | 37.5 | 39.2 | 6.6 |
| Philippines | 1988-2006 | 30.5 | 22.6 | 18.1 | 19.7 | -1.6 | -0.3 |
| Russian Federation | 1993-2005 | 2.8 | 0.2 | 4.2 | 0.2 | 4.0 | 0.7 |
| Sri Lanka | 1985-2002 | 20.0 | 14.0 | 3.2 | 2.7 | 0.6 | 0.1 |
| Thailand | 1988-2004 | 17.2 | 0.4 | 9.5 | 0.3 | 9.2 | 1.5 |
| Turkey | 1987-2005 | 1.3 | 2.7 | 0.7 | 1.9 | -1.2 | -0.2 |
| Viet Nam | 1993-2006 | 63.7 | 21.5 | 44.7 | 18.2 | 26.5 | 4.4 |
| Median | | 48.0 | 22.0 | | | | |
| Total (15 countries) | | | | 1492.9 | 896.9 | 596.0 | 100.0 |

Source: Economic and Social Survey of Asia and the Pacific 2010. ESCAP, UN

The total number of poor in the 15 countries shown in Table-1 was reduced significantly to 596 million from 1,493 million in 1990 to 897 in the mid-2000s. Almost all of the reduction took place in just a few countries of which China represented 79.5 percent and Indonesia 11.4 percent. In other countries such as Cambodia, India the Lao People's Democratic Republic and the Philippines the cuts in poverty rates were insufficient to reduce the total number of poor. India had 28 million more poor in 2005 than in 1988, according to ESCAP (UN).

As regards poverty status in Pakistan, no uni-directional movement of head count ratio has been observed. The HCR ratio of 30.6 percent in 1998-99, increased to 34.5 percent in 2000-01, before declining to 23.9 percent and 22.3 percent during 2004-05 and 2005-06.

In a global perspective, the reduction in employment and income opportunities since 2007 has led to a considerable slowdown in the progress towards poverty reduction and the fight against hunger. Estimates by the Department of Economic and Social Affairs of the United Nations suggest that, in 2009, between 47 and 84 million more people have remained poor or will have fallen into poverty in developing countries and economies in transition than would have been the case had pre-crisis growth continued its course. This setback was felt predominantly in East and South Asia, where between 29 and 63 million people were likely affected of whom about two thirds were in India. (Source: World Economic Situation & prospects 2010, UN). By these estimates, the crisis has trapped about 15 million more people in extreme poverty in Africa and almost 4 million in Latin America and the Caribbean. In the outlook for 2010, the economic recovery is expected to encourage a resumption of the declining trend in global poverty in the years prior to the crisis. Nonetheless as growth in income per capita is expected to fall well short of pre-crisis levels, poverty reduction will still be significantly less than it would have been under pre-crisis trends.

Certain Developments with Relevance to Incidence of Poverty

After a high growth rate of 6.8 percent in 2006-07, Pakistan has experienced a declining rate of economic growth, during 2007-08 and 2008-09 (3.7% and 1.2% respectively). However, there has been an increase to 4.1 percent in 2009-10. As may be seen, the growth rate declined, given the international economic crisis during 2008-09 - although it was not negative as in case of some other countries.

Inflation which was declining over 2004-05 to 2006-07, started increasing since 2007-08 and touched the peak of 20.77 percent in 2008-09 in line with the world inflation trend. Inflation has subsided in 2009-10 but is showing an upward trend of recent. Food inflation which has immediate impact on poverty, increased to 23.7 percent in 2008-09, but declined to 12 percent in 2009-10. However, it is showing an upward trend of recent.

Unemployment rate decreased to 5.2 percent in 2007-08 from 6.2 percent in 2006-07. However it has increased to 5.5 percent during 2008-09. Agriculture sector, the largest source of employment (45.1%) although improved in terms of growth in 2008-09 is projected to witness a lower growth rate in 2009-10 i.e. 2.0 percent. On the other hand, the Services sector, the second largest job provider (34.5%) and having the highest employment elasticity, is expected to grow at 4.56 percent in 2009-10 compared with 1.58 percent in 2008-09.

In spite of world economic crisis, job loss for Pakistani emigrants, among others in countries of destination, and world forecast for lower workers remittances, workers remittances in case of Pakistan are showing a robust upward trend; estimated at \$5.3 billion in 2007-08, \$6.4 billion in 2008-09 and \$7.3 billion during 2009-10 (July-April).

A major factor in operation over the past two years which could have possibly mitigated pressure on poverty has been the substantial increase in support prices of wheat, the largest staple food crop, which were raised to Rs950/40 Kg from Rs 625/40 Kg in September 2008. Prima facie, the increase in support prices in conjunction with a much larger commodity procurement program run by the government (under which 9.2 million tons of wheat was procured in 2008-09) has led to a substantial cash injection into the rural economy.

On the flip side, however, there are more “consumers” than “producers”, and the income transfers to the rural economy come at the expense of the urban population. While the Benazir Income Support Programme (BISP) caters to the needs of the ‘poorest of the poor’ of the society in terms of cash assistance for day to day subsistence, it is targeted primarily towards rural areas. There is anecdotal evidence that the ranks of the vulnerable in urban areas is increasing, especially in the low-income category. To this extent, a better targeting – or wider coverage – may be needed.

For the current financial year, an amount of Rs. 70 billion was allocated, to target 5 million vulnerable families. Expenditures amounting to Rs. 17.8 billion were incurred up till March, 2010. In FY 2008/09, a total of Rs. 14 billion was disbursed to 1.76 million beneficiaries in the shape of a cash grant of Rs 1000 per month.

Box-1: New International Poverty Line

The dollar-a-day poverty line has its roots in the purchasing power parity (PPP) exchange rates generated by the International Comparison Program project, undertaken jointly by the United Nations Statistics Division, the World Bank and the University of Pennsylvania. The PPPs were used first to construct an “average” poverty line for a group of countries for which the International Comparison programme provided information and then to convert this common line into national currencies in order to estimate the incidence of poverty using national distributional data. The Programme has produced three rounds of estimates; in 1985, when the programme covered 22 countries, with a poverty line of \$1 per person per day; in 2000-20001, when the estimates were revised using the PPP exchange rates of the program’s 1993 round with a poverty line of \$1.08 per person per day; and in 2005; when the programme produced new estimates using its 2005 PPPs, with the poverty line raised to \$1.25 per person per day. Each subsequent round leads to a re-estimation of the incidence of poverty.

The potential strength of the monetary poverty-line approach, entailing, for example, the dollar-a-day line, is considerable; it defines absolute poverty in a simple manner which is intuitively attractive and seems to provide a universally applicable definition for making comparisons among countries cross-sectionally as well as (for single countries) inter-temporally.

Growth-Poverty Nexus

Both the global crisis and deteriorating security situation in South & South-West Asia countries saw economic growth come under pressure in 2009 decelerating to 2.9 percent as compared to 4.7 percent in 2008 (Table-9.2). Barring Afghanistan, a country highly dependent on foreign aid, India achieved

highest growth rate at 7.2 percent in 2009. Growth contracted in only two countries, Maldives and Turkey.

Table-9.2: Rate of economic growth and inflation in South and South-West Asian economies, 2008 to 2010
(Percentage)

| | Real GDP Growth | | | Inflation | | |
|----------------------------|-----------------|------|----------------------|-----------|-------|----------------------|
| | 2008 | 2009 | 2010 (Projection) | 2008 | 2009 | 2010 (Projection) |
| South and South-West Asia | 4.7 | 2.9 | 6.1 | 11.5 | 11.2 | 8.4 |
| Afghanistan | 3.4 | 15.1 | 7.6 | 26.8 | -10.0 | 8.4 |
| Bangladesh | 6.2 | 5.9 | 6.0 | 9.9 | 6.7 | 6.0 |
| Bhutan | 5.0 | 5.7 | 6.6 | 6.3 | 7.2 | 8.4 |
| India | 6.7 | 7.2 | 8.3 | 9.1 | 11.9 | 7.5 |
| Iran (Islamic Republic of) | 3.3 | 2.0 | 5.0 | 25.5 | 16.0 | 15.0 |
| Maldives | 5.8 | -2.6 | 2.1 | 12.3 | 8.5 | 6.0 |
| Nepal | 5.3 | 4.7 | 3.5 | 7.7 | 13.2 | 7.5 |
| Pakistan | 3.7 | 1.2 | 4.1 | 12.0 | 20.8 | 9.0 |
| Sri Lanka | 6.0 | 3.5 | 6.0 | 22.6 | 3.4 | 8.6 |
| Turkey | 0.9 | -6.0 | 3.0 | 10.4 | 6.3 | 7.2 |

Source: Economic and social survey of Asia and the Pacific 2010 (ESCAP, UN)

GDP Growth, Employment and Poverty Headcount Ratio

Productive employment is the economic foundation of decent work. Increased focus on the generation of decent work opportunities is central to achieving the goals established by the United Nations Millennium Summit. Access to productive. Work that provides an adequate income for working men and women and is the surest route out of poverty. As shown in Table-9.3 there exists a negative correlation between GDP growth rate, and poverty head count and a positive correlation between unemployment and poverty head count ratio.

Table-9.3: GDP Growth Rate

| | 1998-99 | 2000-01 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2014-15 |
|--------------------------|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| World | - | - | 4.9 | 4.5 | 5.1 | 5.2 | 3.0 | -0.6 | 4.2 | 4.3 | 4.6 |
| South Asia | - | - | - | - | - | 8.5 | 5.7 | 5.7 | 6.9 | 7.4 | - |
| Pakistan | 4.2 | 2.0 | 7.5 | 9.0 | 5.8 | 6.8 | 3.7 | 1.2 | 4.1 | - | - |
| Unemployment Rate | | | | | | | | | | | |
| World | - | - | 6.3 | 6.2 | 6.0 | 5.7 | 6.0 | 6.1 | - | - | - |
| South Asia | - | - | 5.3 | 5.4 | 5.3 | 5.3 | 5.4 | 5.4 | - | - | - |
| Pakistan | 6.1 | 6.0 | 8.3 | 7.7 | 7.6 | 6.2 | 5.2 | 5.5 | - | - | - |
| Poverty Head Count Ratio | | | | | | | | | | | |
| South Asia | 38.42 (2001-02) | - | - | 40.3 | | | | | | | |
| Pakistan | 30.6 | 34.5 | - | 23.9 | 22.3 | | | | | | 22.8* |

* : 29.3% target to reduce HCR of 58.5%, living on less than \$1.25 per day in 1990 to reduce poverty to half of 1990 as per MDGs.

Note: In 2005-6, Pakistan had achieved the 2015 target of halving poverty using 1990 (58.5) as the base line

Source: (i) World economic outlook 2010. IMF (ii) global employment trends 2009 ILO (iii) Pakistan National Accounts 2010 (iv) Pakistan labour force survey 2008-09 (v) Rethinking poverty, report on the world social situation 2010 UN (vi) Pakistan Economic Survey.

Accelerating economic growth is necessary but not sufficient

Accelerating economic growth is necessary but not sufficient to bring down poverty levels. As past experience in the case of Pakistan and other countries has repeatedly suggested, periods of high growth that have occurred at the expense of macroeconomic stability do not tend to produce the desired outcomes with regards to poverty reduction in a sustainable manner.

The challenge is, as always, how to make growth more inclusive by spreading its benefits to large segments of the population. The allocation of more resources for the provision of basic services such as education, health sanitation, and housing particularly for those belonging to lower income groups, and targeted programmes for the benefit of the poor in the broader framework of social protection, as is being done over the past two years, remain critical drivers of long run reductions in poverty.

World Economic Growth Prospects

While the world economic situation has been improving since the past six months, the global economic recovery is expected to remain sluggish, while un-employment rates are expected to stay high. Developing countries, especially those in Asia, are expected to show the strongest recovery in 2010. Nonetheless, growth is expected to remain well below potential and the pre-crisis levels of performance in the developing world. As a consequence, it will take more time and greater efforts to make up for the significant setbacks in the progress towards poverty reduction and the fight against hunger, as well as the other Millennium Development Goals. The crisis has impacted severely, on low-income countries and the most vulnerable. Even given the signs of economic recovery, many are still facing declines in household incomes, rising unemployment and the effects of dwindling government revenue on social services. Where these adverse impacts cannot be countered because of weak social safety nets and lack of fiscal space to protect social spending and promote job creation there is a high risk of long-lasting setbacks to human development.

Inflation Behaviour and Prospects

Just as the sharp rise in food and fuel prices generated a rapid acceleration of headline inflation in both high income and developing countries during 2008, and the un-precedented slowdown in the global economy witnessed a mixed trend of inflation during 2008-09. The median rate of year-over-year consumer price inflation in high income countries, which peaked at 5.2 percent in mid 2008, turned negative in July, but was 0.6 percent in November 2009. The median inflation rate in developing countries has declined from a peak of 12.4 percent in mid-2008 to only 2.6 percent. Notwithstanding the declines in headline inflation, core inflation has remained relatively stable in high-income countries.

Inflation developments have changed drastically among middle and low-income countries. Median inflation in low-income countries peaked at 15.4 percent in the middle of 2008, but as of October 2009 it was 1.2 percent well below the levels observed before the food and fuel boom. However, food inflation in developing countries has not been falling as rapidly as overall prices in the two-thirds of developing countries for which data are available through May 2009. As a result, by the end of May 2009, food prices in developing countries had risen about 8 percent faster than non-food prices, when compared with January 2003. This suggests that the poor in these countries may not be benefiting from lower international food prices to the same degree as the poor in richer countries and that a significant portion of the 130 million pushed into extreme poverty during the food price spike may not have exited poverty as might have been expected given the fall in international food prices.

Table-9.4 : Summary of Inflation

| | Average 1992- 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Projections | | |
|-----------------------------------|--------------------------|------|------|------|------|------|------|------|------|-------------|------|------|
| | | | | | | | | | | 2010 | 2011 | 2015 |
| Advance Economies | 2.5 | 2.3 | 2.1 | 2.0 | 2.1 | 2.2 | 2.1 | 3.8 | 0.8 | 1.6 | 1.7 | 2.0 |
| Emerging and Developing Economies | 8.5 | 3.6 | 4.4 | 4.5 | 6.0 | 6.1 | 6.5 | 10.3 | 3.9 | 4.9 | 4.6 | 4.0 |

Source: World Economic Outlook April 2010 (IMF)

Table-9.5 : Pakistan Inflation Profile

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 Jul-Apr |
|----------------|---------|---------|---------|---------|---------|---------|---------|---------|--------------------|
| 1. General CPI | 3.54 | 3.10 | 4.57 | 9.28 | 7.92 | 7.77 | 12.0 | 20.77 | 11.49 |
| (i) Food | 2.50 | 2.83 | 6.01 | 12.49 | 6.92 | 10.28 | 17.64 | 23.70 | 12.03 |
| 2. SPI | 3.37 | 3.58 | 6.83 | 11.55 | 7.02 | 10.82 | 16.81 | 23.41 | 12.96 |

Source; Economic Adviser's Wing, Finance Division

Food item weightage in the consumer basket (CPI) = 40.34%

Food item weightage in the consumer basket (SPI) = about 70%

Table-9.6 : Food Weights in CPI

| Economy | Share (%) | Economy | Share (%) |
|-------------------------|-----------|---------------|-----------|
| China, People's Rep. of | 33.20 | Malaysia | 30.0 |
| Hong Kong, China | 26.94 | Philippines | 46.58 |
| India | 57.00 | Singapore | 23.38 |
| Indonesia | 42.30 | Taipei, China | 25.00 |
| Korea, Rep of | 14.00 | Thailand | 32.71 |
| - | - | Pakistan | 40.34 |

Source: ADB

Impact of rise in food prices on poverty

The rise in food prices is worrisome precisely because food price inflation is the most aggressive of all taxes – it hurts the poor the most. The effects of rising food prices will differ across households. There will be some households that may benefit from higher prices; there may be households that are adversely affected. Rising food prices may lead to income gains for net producers who are in rural areas. The food price increase should contribute to higher incomes for these net surplus producers. However, to the extent that net surplus producers tend to be the relatively well-off, rising food prices may be expected to adversely affect even the rural poor. Certainly the urban poor, who are food consumers and unlikely to be food producers, can be expected to suffer more from rising food prices.

In this context, it is important to examine how different groups will be affected by rising food prices. It is also important to investigate what would be the net impact of food price increases on poverty. Concerns over high prices are mounting because inflation eats into real incomes and expenditures and can undermine the gains from poverty reduction and human development that developing countries have

achieved over the last decade or so.

In order to gain a sense of the varying impact of increases in food prices on different subgroups of the population, food expenditure shares by income quintile are examined in table below in case of Bangladesh, India, Indonesia and Philippines which may serve as a fair proxy for Pakistan (Table-9.7). The average share of food in total expenditure is inversely related to income across quintile groups, as seen from household expenditure survey data from Bangladesh, India, Indonesia, and Philippines. It is perfectly clear that poorer population subgroups spend a larger share of their total expenditures on food than richer ones. In each of the four countries, a clear majority of the expenditure of the poorest 20% is on food. In contrast, the share of food in total expenditure tends to be around 25 percentage points less for the richest 20%. As a result, the poorer population subgroups are more vulnerable to rising food prices

| Quintile | Bangladesh | India | Indonesia | Philippines |
|-----------------|------------|-------|-----------|-------------|
| 1 st | 69.3 | 62.0 | 63.3 | 64.6 |
| 2 nd | 66.9 | 59.4 | 58.1 | 59.2 |
| 3 rd | 63.2 | 56.2 | 54.1 | 54.1 |
| 4 th | 58.7 | 50.8 | 49.0 | 47.7 |
| 5 th | 45.2 | 36.4 | 37.9 | 36.4 |

Source: Special Report Food, Prices and Inflation in developing Asia (ADB). April 2008

To the extent that some households produce (and consume) their own food, they will tend to be relatively shielded from increases in food prices. In fact, those with a marketable surplus may even benefit. Nevertheless, the household expenditure survey data used here suggest that for all quintile groups in all four countries, a majority of food consumption is purchased. In the case of rice, for example, typically an average of around 70% or more of total rice expenditures is purchased in any given quintile group in rural areas. A smaller percentage is purchased for some quintile groups in rural Bangladesh (a little less than 60%). However, this is for the top two quintiles.

Employment – Poverty Scenario

As a stylized fact, strong positive correlation exist between employment generation and poverty reduction. Increasing opportunities for decent work is central to shaping an enabling environment for the achievement of the goals of the Millennium Declaration. This will entail crucial choices about the pattern of development. Dialogue, involving trade unions, employers' organizations and others, is vital to finding the right balance of policies for employment creation, productivity growth, and poverty reduction.

Global Prospects

Labour market will remain weak in the outlook. The experience of previous recessions shows that employment recovery typically lags output growth by a significant margin. During the last two recessions in the United States (in 1991 and 2001), for instance, output started to recover after eight months, while it took 30 and 48 months, respectively, before unemployment rates were back to pre-crisis levels. Recovery from the present crisis has only just begun and large output gaps remain characteristic of the situation in most major economies. This will slow new hiring until output growth has become more robust.

Labour market conditions in developing countries are expected to remain difficult in the outlook for three main reasons. First most of the 47 million new workers who enter labour markets worldwide each year will be searching for jobs in developing countries. In Asia alone for increase an estimated 51 million additional jobs will need to be created to absorb that region's growing labour force during 2010 and 2011.

Second, as in developed countries, employment creation in developing countries is expected to lag output recovery.

Third, the shift to informal sector jobs during the crisis will likely be long lasting for many workers. This adds considerable pressure on earnings for those in vulnerable employment and will keep the level of working poverty high, especially in rural areas where job opportunities are already scarce. In addition, on top of vulnerable employment, as social protection coverage is relatively limited and working poverty levels will increase. This will be difficult to reverse as observed in previous crises.

As regards Pakistan, whereas labour force employed in agriculture and industry increased in percentage terms it has decreased in the services sector in the year 2008-09 over the year 2007-08. This is a significant development in the employment perspective; given the highest employment elasticity in the services sector. However, the Services sector has recovered to a growth rate of 4.56%. Share of agriculture, industry and services sector in Pakistan was 44.6% 20.1% and 35.3% during 2007-08 compared with the respective

PRSP-II – Profile of Pro-poor Expenditure

PRSP pro-poor expenditures are reported regularly under five broad categories i.e. i) Market Access and Community Services; ii) Human Development; iii) Rural Development; iv) Safety Nets; and v) Governance. These five categories cover 17 pro-poor sectors for tracking of budgetary expenditures.

Pro-Poor spending is significantly rising over recent years; from 3.77 percent of GDP in FY 2001-02 to 7.46 percent of GDP in FY 2008-09 which remained well above the projected expenditure of Rs.760 billion for the year. Aggregate pro-poor spending for the first nine months of current financial year 2009-10 amounts to Rs. 651.2 billion which has increased from Rs. 618.0 billion in the corresponding period of the previous financial year 2008-09, showing an uptrend of 5.4 percent (Table-8). An amount of Rs 860.0 billion was projected to be spent in FY 2009/10 which would be 6.01 percent of GDP. Actual expenditure during July-March FY 2009-10 represents 75 percent of the projected pro-poor expenditure for the whole FY 2009-10 and represents 4.3 percent of estimated GDP for the current financial year.

An upward trend is observed in the expenditures of three categories, Human Development (17.0 percent), Rural Development (14.49 percent) and Governance (45.62 percent) between FY 2008-09 (July-March) and FY 2009-10 (July-March). An amount of Rs. 234.6 billion was incurred on Human Development during July-March, 2009-10 as compared to Rs. 200.5 billion in the corresponding period of previous financial year. In Human Development, all three sectors, Education, Health and Population Planning registered growth, with Health representing the maximum YoY increase of 27.6 percent followed by Education expenditure depicting a YoY increase of 14.12 percent.

A recurring pattern is the rise in expenditure related to Governance, from Rs. 104.7 billion during July-March 2009-10 relative to Rs. 71.9 billion during the same period of FY 2008-09, largely attributable to increase in Law & Order expenditure explained by the internal conflict and militancy compelling higher outlays on public safety and security.

Safety Net shows a significant YoY decrease, 18.28 percent which is mostly concentrated in Subsidies, showing 26.96 percent YoY decrease. Within Safety Net, in FY 2009-10, Social Security & Welfare record an impressive growth of 56.6 percent over the corresponding period of previous year. Expenditure on Safety Net moved down from Rs. 203.5 billion in FY 2008-09 (July-March) to Rs. 166.3 billion in FY 2009-10 (July-March) while on Social Security & Welfare, it increased from Rs. 17.3 billion in FY 2008-9 to 27.1 billion in FY 2009-10. Consistent decline in the outlays on Subsidies reflect a shift in resources towards programmes comprising Social Security and Welfare. Under the IMF Stand By Arrangement in place since November 2008, the Government of Pakistan is committed to gradually replace the subsidies with direct and targeted assistance to the poor and needy.

| Sectors | 01/02 Actual | 02/03 Actual | 03/04 Actual | 04/05 Actual | 05/06 Actual | 06/07 Actual | 07/08 Actual | 08/09 Actual | 08-09 (Jul- Mar) Actual | 09/10 (Jul- Mar) Actual | 09/10 Projected |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------------------------|----------------------------------|--------------------|
| I. Market Access and Community Services | 11 | 16.6 | 28.5 | 41.7 | 63.6 | 76.6 | 104.5 | 121.8 | 60 | 51.7 | 70.2 |
| i. Roads, Highways & Bridges | 6.3 | 13.1 | 22.7 | 35.2 | 53.2 | 60 | 85 | 99.6 | 48.6 | 38.8 | 59.2 |
| ii. Water Supply & Sanitation/Environment | 4.6 | 3.4 | 5.8 | 6.5 | 10.3 | 16.6 | 19.5 | 22.2 | 11.4 | 12.9 | 11.0 |
| II. Human Development | 86.8 | 103.9 | 129.4 | 152.9 | 191.1 | 222.3 | 256.8 | 329.4 | 200.5 | 234.6 | 327.2 |
| iii. Education | 66.3 | 78.4 | 97.7 | 116.9 | 141.7 | 162.1 | 187.7 | 240.4 | 153.6 | 175.3 | 260.6 |
| iv. Health | 19.2 | 22.4 | 27 | 31.4 | 39.2 | 53.2 | 62.4 | 83.7 | 43.1 | 55.0 | 62.1 |
| v. Population Planning | 1.3 | 3.1 | 4.7 | 4.6 | 10.2 | 7 | 6.7 | 5.3 | 3.8 | 4.3 | 4.5 |
| III. Rural Development | 24.3 | 34.2 | 44.6 | 59.7 | 78.5 | 101.8 | 151.5 | 136 | 82.1 | 94 | 140.5 |
| vi. Agriculture* | 10.1 | 15.5 | 22.5 | 37.9 | 59.8 | 74.8 | 122.9 | 88.9 | 49.3 | 53.5 | 109.6 |
| vii. Land Reclamation | 1.9 | 1.8 | 2 | 2.1 | 2.7 | 2.3 | 3.1 | 2.7 | 1.5 | 1.3 | 3.2 |
| viii. Rural Development | 12.3 | 16.9 | 18.6 | 15.4 | 15 | 22.2 | 22.8 | 16.4 | 6.3 | 10.7 | 11.3 |
| ix. Peoples Works Programme-II** | 0 | 0 | 1.4 | 4.4 | 1 | 2.5 | 2.7 | 28 | 25 | 28.5 | 16,418 |
| IV. Safety Nets | 11 | 15.4 | 17 | 11.4 | 36.1 | 18.8 | 435.2 | 276.1 | 203.5 | 166.3 | 271.6 |
| x. Subsidies*** | 4.3 | 10.9 | 8.5 | 5.4 | 6 | 5.5 | 398.5 | 220.6 | 175.8 | 128.4 | 178.3 |
| xi. Social Security & Welfare | 3.7 | 1.3 | 4.1 | 2 | 7.6 | 4.5 | 22.5 | 29.1 | 17.3 | 27.1 | 73.5 |
| xii. Food Support Programme | 2 | 2 | 2.8 | 2.7 | 3.1 | 3.5 | 4.3 | 12.4 | 3.5 | 0 | 11.8 |
| xiii. Peoples Works Programme-I**** | 0.8 | 0.8 | 0.6 | 0.08 | 0 | 0.02 | 1.9 | 3.3 | 1.7 | 2.5 | 2.9 |
| xiv. Natural Calamities & Disasters | 0.2 | 0.4 | 0.5 | 0.9 | 19.1 | 5 | 7.4 | 10 | 4.9 | 7.5 | 3.5 |
| xv. Low Cost Housing | 0 | 0.01 | 0.4 | 0.3 | 0.3 | 0.3 | 0.6 | 0.6 | 0.3 | 0.77 | 1.5 |
| V. Governance | 33 | 39 | 41.8 | 50.5 | 6.8 | 7.2 | 94 | 113.9 | 71.9 | 104.7 | 50.5 |
| xvi. Law & Order | 31 | 36.7 | 39.4 | 47.4 | 1.1 | 2.1 | 88 | 104.7 | 66 | 97.6 | 43.7 |
| xvii. Justice Administration | 2 | 2.2 | 2.4 | 3.1 | 5.6 | 5.1 | 6 | 9.2 | 5.9 | 7.1 | 6.8 |
| Total | 166.1 | 209 | 261.3 | 316.2 | 376.1 | 426.7 | 1042 | 977.2 | 618 | 651.2 | 860.0 |
| As % of GDP | 3.77 | 4.33 | 4.63 | 4.81 | 4.93 | 4.89 | 9.7 | 7.46 | 5.7 | 4.3 | 6.01 |

* Agriculture sector has been included for tracking PRSP expenditures instead of irrigation with effect from FY 2008/09

** Village electrification has been replaced with People Works Programme-II in FY 2008/09

***Food subsidy has been renamed as subsidy with effect from FY 2008/09

**** Khushal Pakistan Fund has been renamed as People Works Programme-I from FY 2008/09

Source: Finance Division.

The proportionate shares of respective expenditure categories in Pro-Poor spending for FY 2009-10 illustrate a change from FY 2008-09 (Table 9.9). During July-March, FY 2008-09, Safety Nets holds the maximum percentage share, 32.93 percent, followed closely by Human Development, 32.44 percent. Rural Development holds the third largest share, 13.28 percent.

Table 9.9: Percentage share in aggregate Pro-Poor expenditure

| Sectors | Actual | | % share | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2008/09 (July-March) | 2009/10 (July-March) | 2008/09 (July-March) | 2009/10 (July-March) |
| I. Market Access and Community Services | 60.0 | 51.8 | 9.71 | 7.94 |
| II. Human Development | 200.5 | 235.7 | 32.44 | 36.02 |
| III. Rural Development | 82.1 | 94 | 13.28 | 14.43 |
| IV. Safety Nets | 203.5 | 158.37 | 32.93 | 25.53 |
| V. Governance | 71.9 | 104.7 | 11.63 | 16.08 |
| Total | 618.0 | 644.57 | 100 | 100 |

Source: Finance Division

During nine months of current financial year, 2009-10, Human Development holds the maximum proportionate share i.e 36.02 percent, 3.58 percent points higher than the previous year, followed by Safety Nets, 25.53 percent, representing a decline of 7.4 percent points over the same period in previous financial year. Shares of Governance i.e 16.08 percent and Rural Development i.e 14.43 percent, represent an increase over the previous financial year. Market Access and Community Service holds the smallest share compared to other categories, in both the years.

Other Initiatives to Alleviate Poverty

(i) Benazir Income Support Programme (BISP)

Benazir Income Support Programme (BISP) caters to the needs of the ‘poorest of the poor’ of the society not only in terms of cash assistance for day to day subsistence but also enabling them to exit the vicious cycle of poverty. An amount of Rs. 70 million was allocated for the current financial year, 2009-10 to target 5 million families. Expenditures amounting to Rs 17.8 billion were incurred up till March, 2010. In FY 2008/09, a total of Rs. 14 billion was disbursed to 1.76 million beneficiaries in the shape of the cash grant of Rs 1000 per month.

Initially, the targeting of the beneficiaries was carried out through Federal and provincial parliamentarians since there was no poverty data in the country. Since, there was an urgent need to provide relief to the poor, it was decided by the Management board that the targeting may be done through the Parliamentarians to identify beneficiary families. However, an inclusion and exclusion criteria was devised, based on the information available with NADRA. The said criteria were used by NADRA while processing the BISP’s application forms recommended by the parliamentarians.

Reforms of the targeting process: poverty survey –a paradigm shift

In pursuance of the international best practices, it was felt that a more objective method of targeting the beneficiary families is needed. Therefore, with the help of World Bank the Government has decided to reform the targeting process to minimize the inclusion and exclusion errors and give equal chance to each one for applying to the programme for benefits. The World Bank approved instrument named “Poverty Scorecard” based on Proxy Means Testing which has been adopted and a nationwide Poverty Survey was planned to identify the poor families. Hence beneficiary identification through Parliamentarians was stopped on 30th of April 2009. In this context, a test phase of the survey, financed by GoP has already been conducted in sixteen districts in four provinces and AJK/GB. The survey is carried out house to house thus providing an equal opportunity to all to apply for the BISP’s benefits. The questionnaire, which includes questions about the household members, household characteristics and assets, is used to determine their poverty status. Data entry of the 15 surveyed districts has been

completed and a cut-off score has been decided by the BISP Management Board at 16.17. All those falling at or below the cut off point will be paid BISP benefits. Approximately 600,000 beneficiary families have been identified during the Pilot Phase of the Survey in the fifteen Districts. Such present beneficiaries in these districts who fall below the cut-off score will continue to be BISP beneficiaries, but others have been eliminated.

A nationwide survey is targeted to be launched by June 2010 with the financial support of the World Bank. Request for proposals (RFPs) have been issued to shortlisted survey firms. However in view of the fact that GOP is implementing a "Aghaz-e-Huqooq Balochistan", it has been decided to complete the survey in the Balochistan by 31st May 2010. Population Census Organization has been entrusted the task. For the Poverty Survey, the whole country, except Balochistan, has been divided into five clusters namely; Upper Punjab & AJK, Southern Punjab, Sindh, Khyber Pukhtunkhwa & Gilgit-Baltistan & FATA. The clusters have been offered for competitive bidding to conduct the survey. Five firms, one for each cluster, are being hired following Quality and Cost Selection (QCBS) method. During the targeting process, number of evaluation activities will be carried out ensuring therein that participating Organizations have followed the process outlined in the Targeting Manual of the BISP. To carry out the evaluation processes, quantitative and qualitative assessments will be made through hiring of separate firms for both the exercises.

(a) Emergency Relief Packages

BISP is also implementing an Emergency Relief Package for Internally Displaced Persons (IDPs) of FATA, Swat and earthquake affectees of Balochistan. A total of Rs. 28 billion has been paid to 3,965 families from FATA and Bajaur and Rs. 34 billion has been paid to 3,729 earthquake affected families in Balochistan.

(b) The Rights Source (Waseela-e-Haq) Initiative

BISP also initiated "Waseela-e-Haq" programme for providing the poor an opportunity of self-employment. One beneficiary has been selected out of the each sub group through a computerized draw for award of a cash loan of Rs. 300,000/-. This one time loan is conditional and the beneficiary will have to spend it for some income generating purpose. Six draws have been held so far. As a result, 4,526 beneficiaries have been pre-selected during these draws and those falling below the cut off score will be eligible for the loan. In this regard implementation in case of 20 beneficiaries was started in April, 2010.

(c) Vocational Training Product

In order to transform the poor segment of society from depending upon the government's monthly financial assistance to self-reliance, one member from each qualifying household will be equipped with technical and vocational skills making them the earning hands. The second phase of the skill development programme will be provision of microfinance for poor families to help them run small businesses.

(d) Health Insurance

Health insurance is also a major component of this programme and will cover the entire family including household head and spouse, children up to 18 years, dependent parents, and unmarried daughters aged 18 and above. The policy benefit will cover full hospitalization, pregnancy, daycare treatment and diagnostic tests. This insurance policy will also provide accident compensation for earning members of the family. For this, consultations with different ministries and provincial governments are in process.

(ii) Peoples' Works Programme (PWP) -I & II

People's Works Programme-I & II cover small development schemes for provision of electricity, gas, farm to market roads, telephone, education, health, water supply, sanitation and bulldozers hours facilities to the rural poor. Budget allocated for FY 2009/10 stood at Rs 35.0 billion out of which Rs 31. billion has been utilized during July-March, FY 2009/10 compared to an expenditure of Rs.26.8 billion during the same period in FY 2008-09, reflecting a YoY increase of 15.7 percent. Up till March, 2010, 904 schemes were approved under PWP I, with the highest number of schemes under Road i.e. 320 followed by 272 schemes related to Water Supply and 209 electrification schemes.

(iii) Pakistan Bait-ul- Mal (PBM)

Pakistan Bait-ul-Mal (PBM) disburses to the destitute, needy, widows, orphans, invalids and infirm irrespective of their gender, caste, creed or race. PBM provides assistance under different programmes and schemes such as Food Support Programme (FSP), Individual Financial Assistance (IFA), Institutional Rehabilitation through Civil Society Wing (CSW), National Center for Rehabilitation of Child Labour (NCRCL), Vocational Training Institutes/ Dastkari Schools (VTIs).

PBM disbursed an amount of Rs. 1.65 billion during July-March FY 2009-10 relative to Rs. 2.7 billion incurred in the corresponding period of FY 2008-09, marking a decrease of 38.9 percent. This reflects a decline in number of beneficiaries by 22.8 percent from 1,437,569 during July-March FY 2008-09 to 1,110,264 over the same period in the current financial year. The decline in disbursements and number of beneficiaries is caused by the merger of Food Support Scheme, a major component of Pakistan Bait-ul-Mal into Benazir Income Support Programme since FY 2008-09.

(iv) Employees' Old Age Benefits Institution (EOBI)

Employees' Old Age Benefits Institution (EOBI) provides monetary benefits to the old age workers through different programmes including Old Age Pension, Invalidity Pension, Survivors Pension and Old Age Grants. During the first half of FY 2009-10, EOBI disbursed an amount of Rs. 3.2 billion compared to Rs. 2.7 billion over the same period in the previous financial year, representing YoY increase of 16 percent. Number of beneficiaries up-till third quarter of current financial year increased to 590,246 from 549,449 during the same period in the previous financial year, showing an upward trend of 7.42 percent. During July-March, FY 2009-10, about 65 percent of the total amount was distributed through Old Age Pension, 33.16 percent through Survivors' Pension, 1.49 through Invalidity Pension and .29 through Old Age Grants.

(v) Zakat

Zakat provides financial assistance such as Guzara Allowance, Educational Stipends, Health Care, Social Welfare/rehabilitation, Eid grants, and Marriage assistance through Regular Zakat Programme and other Zakat Programme and National Level Schemes. A total of Rs.768.7 million was disbursed under different programmes of Zakat during July-March FY 2009-10 as compared to Rs. 1,421 million during the same period, FY 2008/09 registering a decrease of 46 percent. Number of beneficiaries recorded a decrease of 25 percent, from 538,050 during July-March in the previous financial year to 404,124 in the same period of current financial year.

Of the total Zakat disbursements, 52.7 percent was disbursed under Regular Zakat Programmes, 17.25 percent under Other Zakat Programmes and 30 percent under National Level Schemes during July-March, FY 2009-10.

(vi) Microfinance

Microfinance is recognized as an effective tool to pull the poor and vulnerable out of poverty and vulnerability. It enables the poor to enhance their income earning capacity and empower them, especially women. Microfinance comprises Microcredit, Micro-savings and Micro-Insurance. It is provided as package through Microfinance Banks (MFBs), Microfinance Institutions (MFIs), Rural Support Programmes (RSPs), and Others including Commercial Financial Institutions (CFIs) and Non-government Organizations (NGOs). Credit disbursements under Microcredit, amounting to Rs 21.7 billion were made during July-December, FY 2009-10 as compared to Rs 18.7 billion during the same period, FY 2008-09 showing an improvement of 16.04 percent. Number of active borrowers increased by 5.38 percent during July-December, FY2009-10, from 1,732,879 number of beneficiaries up till second quarter of previous financial year to 1,826,045 number of beneficiaries during the corresponding period of the current financial year.

Micro-Savings and Micro-Insurance components of Microfinance depict growth in terms of number of active savers and policy holders. Micro-Savings recorded an increase of 58.8 percent during July-December FY 2009-10 over the same period in the previous financial year. This translates into an increase of 34.8 percent in the number of active savers. Micro Insurance registered a YoY increase of 47.52 percent in the number of active policy holders while the value of sum insured has moved up from Rs. 34,340 during July-December FY 2008-09 to Rs. 43,539 million during July-December of the current financial year.

Poverty-inequality-household consumption

Rising inequality can adversely affect the speed of poverty reduction with growth. Table 9.10 shows that the Gini coefficient increased between 1990 and the mid-2000s in 9 of 15 countries examined, the increase was higher in urban than in rural areas. Table 10 shows that in all but three countries the rate of GDP growth exceeded the rate of growth of per capita household consumption during the period considered. The three exceptions were the Philippines where both grew at the same rate and urban Indonesia and Pakistan where average household consumption grew faster than per capita GDP. On the other hand the rate of growth of household consumption was zero or negative in three countries the Islamic Republic of Iran, Kazakhstan and the Russian Federation.

Table-9.10 : Inequality and household consumption growth between 1990 and the mid-2000s

| Country | Gini Coefficient (%) | | Average Annual Growth Rate (%) | | Counterfactual additional poverty reduction (in million) | |
|----------------------------|----------------------|-------|----------------------------------|----------------|--|---|
| | Initial | Final | Household consumption per capita | GDP per capita | No change in inequality | Household consumption grew at an additional 1% per year |
| Bangladesh | 26.2 | 31.0 | 2.2 | 3.2 | 6.5 | 9.5 |
| Cambodia | 38.3 | 41.9 | 1.9 | 5.2 | 0.4 | 0.7 |
| China (rural) | 30.6 | 35.9 | 5.1 | 9.1 | 36.3 | 54.5 |
| China (urban) | 25.6 | 34.8 | 7.0 | | 9.1 | 9.1 |
| India (rural) | 30.1 | 30.5 | 0.9 | 4.0 | 2.3 | 66.3 |
| India (urban) | 35.6 | 37.6 | 1.2 | | 5.8 | 26.6 |
| Indonesia (rural) | 27.7 | 29.5 | 3.3 | 3.4 | 1.8 | 0.0 |
| Indonesia (urban) | 32.8 | 39.9 | 4.6 | | 6.6 | 0.0 |
| Iran (Islamic Republic of) | 43.6 | 38.3 | -0.2 | 2.9 | -3.3 | 1.0 |

Table-9.10 : Inequality and household consumption growth between 1990 and the mid-2000s

| Country | Gini Coefficient (%) | | Average Annual Growth Rate (%) | | Counterfactual additional poverty reduction (in million) | |
|----------------------------------|----------------------|-------|----------------------------------|----------------|--|---|
| | Initial | Final | Household consumption per capita | GDP per capita | No change in inequality | Household consumption grew at an additional 1% per year |
| Kazakhstan | 35.3 | 33.9 | -0.3 | 6.9 | -0.2 | 0.5 |
| Lao People's Democratic Republic | 30.4 | 32.6 | 1.7 | 3.9 | 0.1 | 0.3 |
| Pakistan | 33.2 | 31.2 | 3.9 | 1.7 | -3.0 | 0.0 |
| Philippines | 40.6 | 44.0 | 1.6 | 1.6 | 2.6 | 0.0 |
| Russian Federation | 48.3 | 37.5 | 0.0 | 2.0 | -13.6 | 0.2 |
| Sri Lanka | 32.5 | 41.1 | 1.9 | 3.2 | 1.4 | 1.6 |
| Thailand | 43.8 | 42.5 | 3.7 | 4.4 | -0.8 | 0.0 |
| Turkey | 43.6 | 43.2 | 0.5 | 2.2 | -0.2 | 1.9 |
| Viet Nam | 35.7 | 37.8 | 5.7 | 6.0 | 1.6 | 0.0 |
| Median | 34.3 | 37.6 | 1.9 | 3.2 | | |
| Weighted average | 32.2 | 34.8 | 3.3 | 6.0 | | |
| Total (15 countries) | | | | | 53.4 | 172.0 |

Source: Economic & Social Survey of Asia & Pacific 2010 ESCAP, UN.

Achievement of MD Goal 1. Eradicate extreme poverty & hunger

Target: Halve between 1990 and 2015, the proportion of people whose income is less than \$ 1 a day ---- Pakistan case.

Pakistan is committed to the achievement of interalia, MD goal 1: As shown in table below; poverty reduction based on national poverty line was on track up to 2005-06 and estimated to be so hence after up to 2007-08. Prospects for further reduction were shadowed by the world economic crisis and as in case of most world economies; the speed of poverty reduction would have been faster in the absence of the world economic crisis.

Table-9.11 : Goa1- Eradicate Extreme Poverty and Hunger – Pakistan Case

| Indicators | Definition | 90-91 | 2000-01 | 2004-05 | 2005-06 | MTDF Target 2009-10 | MDG Target 2015 |
|--|--|-------|---------|---------|---------|---------------------|-----------------|
| Proportion of population below the calorie based food plus non-food poverty line | Head-count index based on the official poverty line of Rs 673.54 per capita per month in 1998-99 prices consistent with attainment of 2350 calories per adult equivalent per day | 26.1 | 34.5 | 23.9 | 23.3 | 21 | 13 |

Source: Planning & Development Division

MD Goal 1 (Poverty & Hunger) in South Asian Perspective

South Asia is the developing sub-region with the largest number of poor people: 43 percent of the developing world's i.e. 1.4 billion poor people live in South Asian countries. The absolute number of people living in extreme poverty increased from 548.3 million to 595.6 million between 1981 and 2005.

Rates of population growth in these countries have remained high and have led to an enlargement of both the total population as well as the numbers living in extreme poverty. In recent years, economic growth has been relatively high in the three largest countries in the region, India, Bangladesh and Pakistan, which recorded annual rates of growth of GDP per capita above 5 percent in 2000-06. As a result, the sub-region saw the proportion of those living in extreme poverty decline in relative terms, from a high of 59 percent in 1981 to 40 percent in 2005. However, such growth has not been sufficiently inclusive and pro-poor to reduce the absolute number of persons living in poverty. Income inequalities have grown steadily in India since the early 1980s, in both urban areas. The same pattern can be observed in Bangladesh. South Asian countries have been unable to generate sufficient decent work opportunities to lift working poor people out of poverty.

The headcount index declined in almost all countries with data on income poverty, with the exception of Bangladesh, where the estimated proportion of people living below the \$1.25 a day poverty line increased from 44 percent in 1981 to 51 percent in 2005. In India alone, the poverty headcount fell by 18 percentage points, from 60 percent in 1981 to 42 percent in 2005. Pakistan also experienced a decline in the headcount index from 73 to 23 percent during the same period. Yet, Table-12 shows that, in terms of progress in meeting the Millennium Development Goal target of halving extreme poverty by 2015, several countries in the region, including Bangladesh, India, Nepal and Sri Lanka and Pakistan will need higher rates of poverty reduction to meet the challenge.

Table-12 : Proportion of the population living on less than \$1.25 a day in countries of South Asia, 1981, 1990 and 2005, and the change needed to reach the 2015 target (percentage)

| Country | Proportion living on less than \$1.25 a day | | | 2015 Target | Annual rate of change (1990-2005) | Change needed to achieve the target (2005-2015) | Annual rate of change needed to achieve the target (2005-2015) |
|--------------------|---|------|------|-------------|-----------------------------------|---|--|
| | 1981 | 1990 | 2005 | | | | |
| Nepal | - | 77 | 54.7 | 38.5 | -2.3 | -16.2 | -3.5 |
| Bangladesh | 44.2 | 49.9 | 50.5 | 24.9 | 0.1 | -25.6 | -7.1 |
| India | 59.8 | 51.3 | 41.6 | 25.7 | -1.4 | -15.9 | -4.8 |
| Bhutan | 47.4 | 51 | 26.8 | 25.5 | -4.3 | -1.3 | -0.5 |
| Pakistan | 72.9 | 58.5 | 22.6 | 29.3 | -6.3 | a | a |
| Sri Lanka | 31 | 15 | 10.3 | 7.5 | -2.5 | -2.8 | -3.2 |
| Total (South Asia) | 59.4 | 51.7 | 40.3 | 25.9 | -1.6 | -14.5 | -4.4 |

Source: World Bank, Development Research Group (2009)

a: By 2005-06, the country had achieved the 2015 target of halving poverty, using 1990 as the baseline.

Remittances, Implications for Poverty

Overseas migration and the resulting remittances have served dual objectives world wide; ie, easing pressure on employment market and providing foreign exchange for balance of payments as well as budgetary support. Remittances supplement the household income, uplift life standard and thus reduce absolute poverty. It is in this context that countries like Philippine have promoted overseas migration as an industry. Remittances help the household to increase their consumption expenditure on food, develop expenditure on housing, skill development and establishment of small businesses thus improving the scope for higher future income.

Remittances from expatriate Pakistanis are believed and empirically proved to have had a major impact on the reduction in the incidence of poverty. The total remittances inflows between 1990-99 and 2009-10 have amounted to \$62.0 billion. Jump in remittances is more likely to have been a result of Government intervention such as the Pakistan Remittance initiative which encouraged transmittal of remittances through formally recorded channels. Also the depreciation of the Pakistan rupee attracted remittance inflows for investment purposes. This massive inflow of foreign remittances, when translated into increased consumption expenditures and greater employment opportunities generated through greater investments in the construction industry, the SME sector, other businesses and consumption demand contributed to the decline in poverty in the country.
