7 Social Sector

7.1 Overview

One of the key objectives of public policies is to improve living conditions of the country's population. It is well recognized that improvement in social welfare requires focused policy measures, in addition to usual growth enhancing and stabilization policies. This is why social sector development remains an integral part of economic programs formulated by both domestic policymakers as well as organizations of international cooperation. Social progress in Pakistan has also made strides over the past decade or so, with improvements in poverty alleviation, infant and maternal mortality rates, immunization coverage, and indicators relating to HIV prevalence and environmental sustainability noted during the Millennium Development Goals (MDGs) timeframe (**Box 7.1**).

Despite this, the country still has to go a long way to go before achieving a satisfactory level of social and living standard for its people; something that is necessary for climbing the development ladder. Social services (education and health in particular) require special focus, as the country is still far from achieving MDG targets. Moreover, Pakistan's progress has lagged behind its regional peers in terms of both scale and pace. For instance, in the year 2000, average life expectancy was nearly the same in both India and Pakistan (62.63 vs. 62.77 years); but by 2014, the indicator for India had improved to 68.01, whereas it could reach 66.18 years for Pakistan.[1]

Table 7.1: Human Development Index Rankings*

	2000		2014		Change (percent)	
	Score	Rank	Score	Rank	Score	Rank **
Pakistan	0.499	138	0.538	147	7.8	-9.0
India	0.577	124	0.609	130	5.5	-6.0
Bangladesh	0.478	145	0.57	142	19.2	3.0
Malaysia	0.782	59	0.779	62	-0.4	-3.0
Indonesia	0.684	110	0.684	110	0.0	0.0
Sri Lanka	0.741	89	0.757	73	2.2	16.0
China	0.726	96	0.727	90	0.1	6.0
Vietnam	0.688	109	0.666	116	-3.2	-7.0

*: Total countries ranked were 173 in 2000, and 188 in 2014.
**: Negative sign means deterioration, and plus sign means improvement.
Source: Human Development Reports 2002, 2015, UNDP

Another common metric to compare the country's standing in social indicators relative to its peers is its ranking on the UNDP's Human Development Index (HDI). This index ranks countries on the basis of primary characteristics associated with a good living standard.[2] In 2014, Pakistan was ranked 147th out of 188 countries; despite an improvement in absolute HDI score over this period, Pakistan's relative performance was not encouraging (**Table 7.1)**.

A number of factors are responsible for this low ranking, including the prolonged war on terror, policy focus on stabilization due to recurring balance of payments crises, and more importantly, inadequate budgetary resources, along with poor capacity of public institutions to formulate and implement internally consistent policies for social service delivery. Moreover, high population

[1] Source: Haver Analytics.
[2] The HDI ranks over 180 countries based on three principal human development characteristics: leading a long and healthy life (measured by life expectancy at birth); the ability to acquire knowledge (measured by mean years of schooling and expected years of schooling); and the ability to achieve a decent standard of living (measured by gross national income per capita).

growth, and social exclusion of a large segment of the female population from education and labour force, also undermined social sector development in the country.

Box 7.1: Millennium Development Goals

In September 2000, leaders of all UN member states (189 at the time, currently 193), in addition to representatives of some of the world's largest development organizations, had gathered and agreed on a time-bound framework to tackle extreme poverty, reflected in all its dimensions (income poverty, hunger, disease, lack of adequate shelter, and exclusion). They also agreed to promote gender equality, education, and environmental sustainability, while ensuring that the cover of universally guaranteed basic human rights related to health, education, shelter and security extended to their entire populations, by the year 2015. In order to measure progress, a set of indicators was selected for each MDG.

With the framework concluding last year, there is no doubt that the world has collectively made significant progress in achieving the targets set 15 years earlier. Notable improvements have been observed in poverty reduction and in primary school enrolment (the number of out-of-school children of primary school age worldwide has fallen by almost half, to an estimated 57 million in 2015). The literacy rate (for youth aged 15 to 24) has increased globally from 83 percent to 91 percent between 1990 and 2015; whereas the proportion of girls to boys in primary schools in South Asia has risen from 74 to 103. Improvements have also been made in health-related MDGs: the global under-five mortality rate declined by more than half between 1990 and 2015; about 84 percent of children worldwide received at least one dose of measles vaccine in 2013 (up from 73 percent in 2000); and maternal mortality ratio in South Asia dropped by 64 percent between 1990 and 2013. Similarly, new HIV infections fell by approximately 40 percent between 2000 and 2013.

While these improvements should be acknowledged, it is also important to differentiate between the progress made during the period, with the current level of social development indicators, particularly in developing countries. For instance, according to the UN's final MDG assessment, the South Asia region has either met or made excellent progress in reducing extreme poverty. Yet, the organization still classifies the region as one suffering from "high poverty". Similarly, despite achieving "fair progress" in halving the proportion of population without sanitation facilities, South Asia still has "very low coverage" in this area. Besides, there has been significant variation in progress achieved by different countries in the same region as well as across different regions.

This basically means that governments need to continue investing their efforts and resources to not only consolidate the gains they have already made in socioeconomic development, but to also expand these efforts for the benefit of the people whose lives have yet to witness visible improvement.

War on terror

Unfortunately, Pakistan has been afflicted with the war on terrorism for the past many years. Both economic growth and social sector development have been severely hampered by terrorism-related incidents. Apart from causing immeasurable human suffering (casualties and displacements), these have also resulted in: (i) foreign investors shying away from the country; (ii) domestic investors adopting a wait-and-see stance; (iii) exporters being unable to fulfill their orders (due to disruptions in supply chains, among other reasons); and (iv) a general slowdown in intra-country trade. According to an estimate, the country has suffered direct and indirect losses from terrorism to the tune of US$ 118.3 billion from FY2002 to FY2016,[3] which are almost double the level of Pakistan's external public debt.

Macro factors also played adversely

The global financial crisis of 2007-09, and multiple devastating natural disasters – most notably the earthquake of 2005 and the floods of 2010 – also affected Pakistan's economy, and have had direct as well as indirect consequences on social spending.[4] Hence, years of subdued economic growth, frequent resort to stabilization programs, and natural calamities have meant that the country has spent more time struggling with these challenges rather than improving public service delivery.

[3] Till March 2016. Source: Annexure IV (Impact of War in Afghanistan and Ensuing Terrorism on Pakistan's Economy), Economic Survey of Pakistan 2015-16.

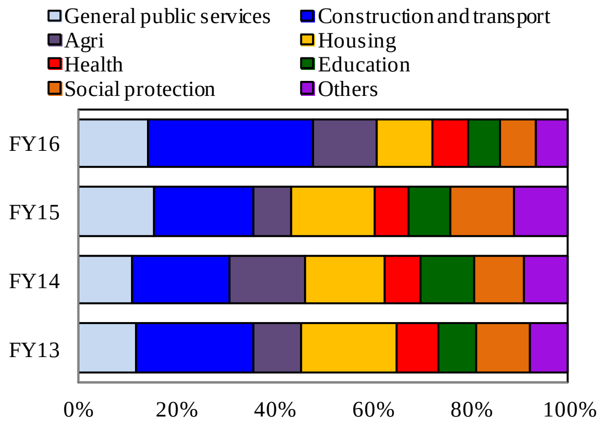
[4] Pakistan suffered from 21 major floods between 1950 and 2011, which led to an estimated (cumulative) loss of US$ 19 billion to the national economy. Of this, US$ 10 billion in losses came from the 2010 floods alone (source: Asian Development Bank, Indus Basin Floods: Mechanisms, Impacts and Management 2013).

Provincial social and development priorities

The responsibilities related to social sector uplift – particularly for education and health – have been shifted to provincial governments as a result of the 18th amendment and the 7th National Finance Commission Award. Conversely, the federal government's share in overall health and education spending has declined. Yet, even after five years of devolution post-18th amendment, provincial governments are still struggling to make any notable progress in service delivery, particularly related to healthcare and education.[5]

Although provinces have enjoyed a significant jump in their resources (being recipients of funds under the divisible pool), they are not able to channelize enough funds towards social sectors. One reason behind this under-spending is a disproportionate focus on infrastructure projects, including those related to transport and construction (**Figure 7.1**).

Figure 7.1: Composition of Provincial Development Spending



Source: Provincial budget documents

A cursory look at provincial development spending shows that infrastructure projects (including construction-related ones) have been prioritized by provincial governments over the past few years; this has led to their relatively higher share in overall development expenditure. While we acknowledge that these projects provide jobs to thousands of people and are necessary to cater to the demands of a rising population, they also provide ample opportunities for unwanted rent-seeking behaviour.

Provincial obligations for fiscal consolidation

Here, it is also important to realize that under the IMF program, the provinces were urged to show fiscal surpluses to keep the consolidated fiscal deficit under check. Therefore, they were underutilizing the resources coming from the divisible pool during the past few years. As a result, at the national level, Pakistan's spending on social sectors (as percentage of GDP) is much less than its regional peers. From FY11 to FY15, public spending on education went up marginally, from 1.8 percent of GDP to 2.2 percent. Similarly, Pakistan spends the second-lowest amount on per capita (purchasing power parity) basis on health among SAARC countries (after Bangladesh).

Lack of capacity to measure social needs; formulate policy; make allocations; and monitor progress

Formulating a comprehensive, equitable and sound social sector policy requires the combined expertise of a wide range of stakeholders, including professionals, practitioners, and researchers. For instance, quantifying the monetary needs for provision of education and healthcare facilities in a province (disaggregated at the district level) is a massive undertaking and requires in-depth technical expertise. In some projects, international donors are active, but in most cases, they have to rely on information provided by local and provincial authorities. Due to these capability issues, provincial governments have been allocating less on social development than what is required to bridge the service delivery gap. Importantly, they have been utilizing even less. In addition to this, there is a

[5] Though the provinces did have some influence over primary and secondary education even before the 18th amendment, after the amendment, these areas became the prime responsibility of the provincial governments. Correspondingly, the federal government's share in overall education as well as health spending declined. In FY10 (i.e. a year before devolution), the federal government's share in overall education spending stood at 25.3 percent; by FY15, it had fallen to 16.9 percent (source: Economic Survey of Pakistan 2009-10, 2015-16).

lack of effective monitoring and audit of utilized funds,[6] which compromises the quality of spending on social sectors to some extent.

Social exclusion of female population

Apart from institutional and macro factors mentioned above, social sector development in Pakistan is also restrained by the exclusion of female population from national economic and social uplift. Despite some improvements lately, a large segment of the female population in Pakistan continues to remain excluded from formal education and the labour force. Female enrolment lags behind that for males across all education levels (primary, secondary and tertiary), while Pakistan's female labour force participation rate, at around 25 percent, is lower than that for regional countries like India and Bangladesh. Moreover, the lack of adequate health facilities also disproportionately affects women: Pakistan's maternal mortality rate is among the highest in the region (at over 170 deaths per 100,000 live births in 2013). Pakistan has performed quite poorly in MDGs related to females.

Private services not affordable for a large segment of the population

As the public sector has been unable to fulfill its obligations to a major part of the citizenry, the private sector has naturally stepped in to fill the gap. Both in education and healthcare, the penetration of private facilities has increased significantly over the past few years. The quality of private service is also considered superior over public ones. However, this has led to two main problems: rural areas have been largely left out, and private services are not affordable for a large segment of the population. This problem is more severely reflected in education and thus in the job market: students graduating from public schools are increasingly finding it difficult to compete in the job market with those coming from high quality private educational institutions, based on anecdotal evidence. Therefore, the poor segment of the population, which was earlier able to catch up with the high income groups by improving their educational level, is now being left behind.

Going forward

Keeping in view the growth rate of Pakistan's population,[7] the country will need to sizably increase its allocations for social development just to maintain the current level of its social indicators, let alone make any meaningful improvement therein. While the country has failed to achieve a number of MDG targets, the clock for achieving the new Sustainable Development Goals (SDGs) has begun ticking. The SDGs comprise a more comprehensive set of indicators, which, in addition to human development and social inclusion, also incorporate targets related to economic development and inclusive growth (**Box 7.2**).

Fortunately, Pakistan is now better placed to progress along the targeted agenda: the security situation has improved; foreign investment is reappearing; the China-Pakistan Economic Corridor is expected to bring economic activities to remote areas; and the age structure of Pakistan's population is such that it can reap the benefits of the demographic dividend.

However, this will not be possible without a rigorous reform process in public service delivery. In addition to allocating more funds for social sectors, provincial governments also need to build capacity, and develop working relations with private practitioners to utilize their services for unbiased and accurate monitoring of state spending. In the meantime, it is important to encourage the private sector to be a partner in economic development; side by side, this sector should also be urged to incorporate checks and balances over the quality of its services. In areas where public service is

[6] One glaring outcome of insufficient monitoring is staff absenteeism. The World Bank (2010) found 58 percent and 45 percent of doctors in basic health units in Balochistan and Sindh respectively to be absent from their posts during multiple surveys (source: Expanding Quality Health, Population and Nutrition Services, Pakistan Policy Note 10, 2013, World Bank).

[7] From 2010 to 2015, Pakistan's population grew at an average 2.11 percent YoY. This was the second-highest growth rate among South Asian countries, behind Afghanistan's 3.02 percent (source: World Population Prospects: The 2015 Revision, UN Population Division).

lacking, the government should continue to focus on making private services affordable for the underprivileged (via targeted programs like the Benazir Income Support Program).

To achieve this, it must put in place a wide-ranging social security strategy, and implement poverty alleviation measures like subsidies in a more targeted fashion. For example, a national public service delivery strategy having quantifiable targets should be developed. To that effect, we believe that the state's existing efforts to deepen financial inclusion in the country, with the National Financial Inclusion Strategy, will play a crucial role in bridging the gap between the haves and the have-nots. All of this will ultimately support the government's target for inclusive growth in the country.

Box 7.2: Sustainable Development Goals

On September 25, 2015, the United Nations General Assembly formally adopted the Sustainable Development Goals (SDGs), a successor to the recently concluded Millennium Development Goals (MDGs). The transformation of the MDGs into the SDGs reflects the continuing dissatisfaction of the global community with the current state and quality of social development.

Table 7.2.1: A Comparison of SDGs and MDGs

	SDGs (17 Goals)	MDGs (8 Goals)
Group-1 (Human Development) SDGs 1 to 6		
1	End poverty in all its forms everywhere;	1 Eradicate extreme hunger and poverty
2	End hunger, achieve food security and improved nutrition, and promote sustainable agriculture;	2 Achieve universal primary education
3	Ensure healthy lives and promote wellbeing for all at all ages;	3 Promote gender equality and empower women
4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;	4 Reduce child mortality
5	Achieve gender equality and empower all women and girls;	5 Improve maternal health
6	Ensure availability and sustainable management of water and sanitation for all;	6 Combat HIV/AIDS, malaria and other diseases
Group-2 (Economic Development) SDGs 7 to 12		
7	Ensure access to affordable, reliable, sustainable and modern energy for all;	
8	Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all;	
9	Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation;	
10	Reduce inequality within and among countries;	
11	Make cities and human settlements inclusive, safe, resilient and sustainable;	
12	Ensure sustainable consumption and production patterns;	
Group-3 (Climate Changes & Global Partnership) SDGs 13 to 17		
13	Take urgent action to combat climate change and its impacts;	7 Ensure environmental sustainability
14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development;	
15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation, and halt biodiversity loss;	
16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels;	
17	Strengthen the means of implementation and revitalize the global partnership for sustainable development	8 Develop a global partnership for development

Broadly speaking, the SDG framework follows a more comprehensive agenda, as it includes a total of 17 goals, compared to 8 MDGs. As evident in **Table 7.2.1**, SDGs can be divided into three major groups, showing a wider and more comprehensive coverage of global priorities for sustainable development. The first group (SDGs 1 to 6) predominantly relates to *human development or social inclusion,* and overlaps almost completely with the first six MDGs. The second group (SDGs 7 to 12) relates to *economic development or inclusive growth,* which is a new set of goals. Finally, the third group (SDGs 13 to 17) pertains to *climate changes and global partnership*, which subsumes the 7th and 8th goals of the MDGs.

The consultation process behind the SDGs was also more open than the procedure pursued in the formulation of the MDGs. Specifically, while the discussion on MDGs occurred behind closed doors by a group of experts, the formulation of SDGs involved discussions with civil society, governments, and other international stakeholders. Furthermore, the SDGs are broader in a sense that they are applicable for all member countries, irrespective of their state of economic development.[8]

The comprehensive nature of this development agenda also entails an ambitious funding plan involving the World Bank, IMF, official development assistance (ODA), governments and private donors.[9] According to estimates, the total global investment needed under SDGs would be around $5 to $7 trillion per year; out of that, developing countries alone would require $3.3-$4.5 trillion per year.[10] As the current level of investment is insufficient, the United Nations Conference on Trade and Development (UNCTAD) estimates an *investment gap* of $2.5 trillion per year for developing countries.[11] Given that the private sector covers only $900 billion, this leaves a huge burden of $1.6 trillion per year for public sector and ODA sources of funding.[12]

Pakistan is one of the signatories to the SDG framework. On October 10, 2015, the Planning Commission and UNDP signed a Memorandum of Understanding (MoU) for implementing SDGs in Pakistan.[13] We expect that support from the international community would also facilitate the social development targets set under the Vision 2025. That said, the challenges for achieving SDGs have become more cumbersome following the devolution of education- and health-related policies to provinces after the 18th amendment. This means that a successful implementation of SDGs would require closer coordination between the provinces and the federal government. In the same way, attracting local private investment in social and development sectors would also be inevitable. As far external funding is concerned, Pakistan will have to compete with other nations to access ODA and inflows from private donors and investors.

Financial inclusion: a way to reduce poverty

An inclusive financial system not only contributes to economic development, but also provides the marginalized segments of the country an alternative to costly financial services available in the informal sector. Pakistan is one of those countries where access to finance is quite low: only 2.4 percent of the entire adult population uses formal channels for borrowing.[14] Therefore, the government and SBP developed a broader National Financial Inclusion Strategy (NFIS), to address the constraints responsible for the low level of financial inclusion in the country. Aiming to enhance access to formal financial services for 50 percent of the adult population by 2020, the NFIS has prioritized areas like branchless banking (BB), digital payment systems, agriculture & MSME finance, housing finance, Islamic finance, consumer protection, financial literacy, insurance, and pensions, etc. The strategy also works exclusively on revising the existing legal framework that impedes the provision of innovative financial services.

Steady progress has been made in achieving the strategy's objectives. For instance, SBP has introduced several measures for the promotion of agriculture finance. These included the implementation of a credit guarantee scheme for small and marginalized farmers; livestock and crop loan insurance schemes; financing for agriculture value-chain; and capacity and awareness-building programs. Similarly, to encourage microfinance, SBP introduced credit guarantee schemes and allowed the extension of digital credit in order to facilitate real-time disbursements with aggregate exposure. The microfinance banking industry was able to increase its microcredit portfolio by 59.9 percent (or Rs 27.3 billion) in FY16 to Rs 72.9 billion. A corresponding growth of 31.2 percent was noted in the number of borrowers, which reached beyond 1.7 million.

[8] In comparison, the MDGs focused mainly on improving the social status of the developing regions around the world.
[9] On the other hand, funding for MDGs relied on official aid flows.
[10] Investment refers to capital expenditure, as defined by UNCTAD.
[11] This estimate is conservative in the sense that it covers investment in power, transport, telecom, water and sanitation, food security and agriculture, climate change, biodiversity, health and education. Investment needed for capacity building and institutional development are not part of this assessment.
[12] Source: World Investment Report, Investing in SDGs: Action for Private Investment, UNCTAD (2014).
[13] Pakistan, in cooperation with UNDP, has been establishing SDG centres in the federal capital and in all provinces.
[14] Source: Access to Finance Survey, SBP. For details, see Special Section 1: Why Credit-to-GDP ratio is falling in Pakistan? A comparison with regional economies, SBP Annual Report on the *State of Pakistan's Economy* 2014-15.

Similarly, to enhance economic empowerment of women, concerted efforts have been made to increase the flow of financial resources to female entrepreneurs.[15] The idea is to target an improvement in female education and healthcare issues by making women financially independent. Similarly, the strategy also caters exclusively to providing financial services to the farmer community in rural areas, by revising the existing legal framework that impedes the provision of innovative financial services.

As for branchless banking, SBP is emphasizing the setting up of a tier of simplified accounts – m-wallets – and extending the BB agent network. Fortunately, Pakistan has a very conducive market environment for the growth of branchless banking, in terms of cellular connectivity (132 million subscribers), digital identity verification (97 percent of adult coverage in NADRA), large agent network, payment connectivity platform (1-Link), mutual collaboration among stakeholders, and transparency and disclosures. The number of BB accounts had increased to 14.6 million by end-June 2016; the average deposit size in these accounts was Rs 769. The number of agents responsible for opening and maintaining these accounts rose to 346,716.

In overall terms, the access points are increasing, and product offerings by formal financial institutions have started showing diversity. More importantly, branchless banking has begun to play an important role in delivering transparent and quick government-to-person (G2P) payments, especially to beneficiaries of the Benazir Income Support Program (BISP), Watan cards, and Employees Old-Age Benefits Institution (EOBI). This implies that the poorest of the poor are now benefiting from the formal financial system: this will go a long way in strengthening their faith in the country's financial infrastructure as well as in the government's support schemes.

The remaining part of this chapter will discuss in detail the current state of social development in Pakistan, encompassing issues in population dynamics, poverty, income inequality, healthcare, and education.

7.2 Population dynamics

With the estimated population exceeding 188.9 million (in 2015) and growing at an average of 2.1 percent per annum (during 2010-2015), Pakistan faces the daunting task of providing for an *additional* 120.7 million people by the year 2050.[16] Of the nine countries expected to account for more than half of the increase in the world's projected population during 2015-2050 (i.e., 2.8 billion people), Pakistan will contribute the third-highest number of people.[17]

With the population growth rate depending on many factors, both internal and external, projections are naturally marred with uncertainties. Yet, there appears to be a universal view that fertility (as measured by the total fertility rate) is the primary driver of population growth, with migration and mortality playing secondary roles.

Although data from both government and non-governmental sources indicates a gradual reduction in Pakistan's total fertility rate (i.e., the average number of children borne by a woman during her entire

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[15] In line with the efforts to channel funds for poverty alleviation, collaborative arrangements have been made with international agencies like the ILO, UNDP and CIDA to identify and evaluate female entrepreneurs for financing feasible income-generating projects.

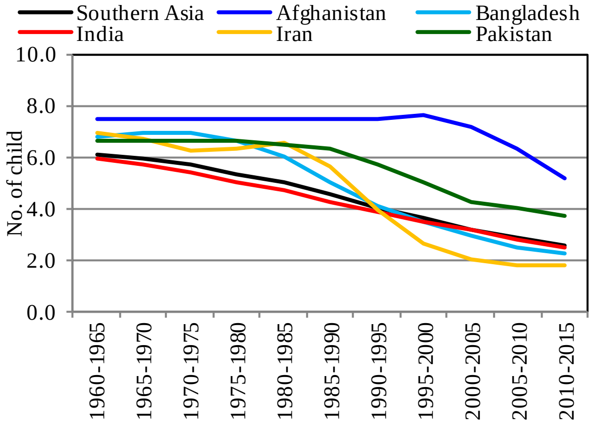
[16] Under the UN's medium variant, Pakistan's population is projected to reach 309.6 million by 2050, at an average annual growth rate of 1.44 percent. Detailed explanation of projection assumptions for different variants is presented in the document titled "Methodology of the UN Population Estimates and Projections," available at https://esa.un.org/unpd/wpp/Publications/. The UN Population Division estimates Pakistan's existing population at 188.9 million in 2015, which is presented in its document titled "World Population Prospects 2015". However, the Economic Survey 2015-16 estimates the population of Pakistan at 195.4 million for the year 2016.

[17] The Planning Commission's Vision 2025 document aptly observes: "Every year Pakistan adds the equivalent of a New Zealand to its population".

reproductive years), these differ markedly in terms of absolute levels. For instance, the latest Economic Survey (2015-16) has projected the country's current total fertility rate (TFR) at 3.1; this is considerably lower than the Population Council's recent estimate of 3.9.[18]

And even though Pakistan's average TFR declined from 6.6 in 1960-65 to 3.7 in 2010-15 (second only to Afghanistan in South Asia), the pace of this decline was quite slow. As can be seen from **Figure 7.2**, Bangladesh, which had a higher average TFR than Pakistan in 1960-65, was able to bring it down three times during the same period.[19]

Figure 7.2: Average Total Fertility Rate



Source: United Nations Population Division

Besides, there seems to be a considerable variation in TFR rates in urban and rural areas. One indicator is the smaller proportion of children under the age of five in urban as opposed to rural areas, which suggests that recent declines in fertility have been more evident in the former than the latter.[20] Moreover, data shows that a woman with no formal education is likely to, on average, bear *two* more children in her life than a woman having completed post-secondary education.[21] These two points have significant policy implications, the most important being that family planning and literacy campaigns need to be reoriented towards rural settings, with renewed vigour.

Onset of demographic dividend

While these population projections should indeed be a cause of worry for all stakeholders, it is equally important to realize the opportunities they present. While a rising population implies a further strain on resources, the changing age structure provides Pakistan with a rare opportunity to drive economic growth going forward. Pakistan is said to be in the third stage of demographic transition, where the birth and death rates are both declining and the rate of population growth has slowed down.[22] An outcome of this transition is the so-called "demographic dividend," which basically refers to the direct and indirect opportunities presented by these changes to increase per capita output, over a period of about 40-50 years. During this period, the proportion of the working age population increases significantly owing to reduced proportions of dependent children.[23] Demographic dividend has been recognized as a major factor that stimulated economic advancement in other countries.[24]

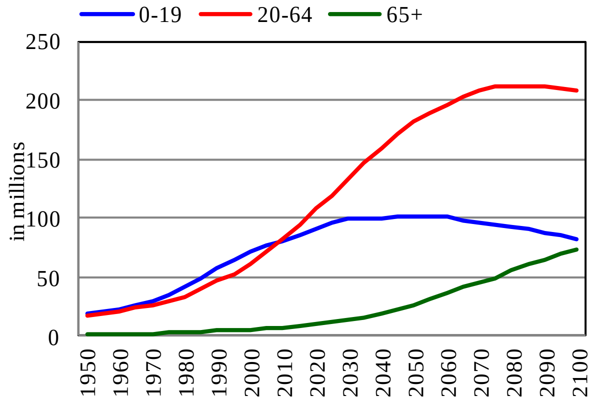
With a mean age of around 22.5 years, Pakistan's population is still relatively young, and has witnessed little variation during 1991-2013; the proportion of the population under the age of 25 has varied between 60-63 percent. During the same time, the percentage of the population under age 15

[18] Source: Prospects for Economic Growth in Sindh under Alternative Demographic Scenarios: The Case for a Rapid Fertility Decline, Policy Brief September 2015, Population Council.
[19] Source: United Nations Population Division.
[20] The last available Pakistan Demographic and Health Survey (2012-13) estimated the TFR for urban areas at 3.2, against 4.2 for rural areas.
[21] Source: Pakistan Demographic and Health Survey 2012-13.
[22] According to the World Bank, from 1960 to 2014, Pakistan's crude birth rate (i.e. the number of live births per 1,000 persons) declined from 44 to 29, while its crude death rate went down from 21 to just 7 per 1,000 persons.
[23] Source: "Capturing the Demographic Dividend in Pakistan," by Zeba A. Sathar, Rabbi Royan, and John Bongaarts et al.
[24] In fact, Bloom and Williamson (1997) attribute between 25 to 40 percent of East Asia's "economic miracle" to the demographic transition experienced by regional countries at the time (source: Bloom E. David and Williamson G. Jeffrey, "Demographic Transitions and Economic Miracles in Emerging Asia", NBER Working Paper Series, No. 6268, November 1997).

has decreased from 45 percent to 39 percent (indicating fertility declines during the period). Consequently, the proportion of people of working age (15-59 years) has increased, whereas the proportion of the elderly (age 60 and above) has not changed substantially.

In other words, the dependency ratio, i.e. ratio of the dependant population (0-14 years and 65 and above) to the working age population (15-64 years), is falling in the country. A persistent decrease in the dependency ratio signifies the onset of a demographic dividend. Not only will the higher number of working age people present an opportunity to generate more income and savings, it should also lead to diverting resources previously spent on children to improving the quality of healthcare and education.

Figure 7.3: Estimates of Size of Pakistan's Population by Age



Source: UN Population Division

That said, the current age structure will change in the future. A reduction in the TFR means that, with fewer births, the growth rate of younger generations will gradually become lower than that of the older generations. As shown in **Figure 7.3**, the under 19 population is on its way to stabilizing (a result of declining fertility), while the population aged 65 and over (which currently forms a small proportion of the total), is projected to grow at a rising rate after 2050, leading to an increase in the dependency ratio. This means that the country has a limited amount of time available to benefit from the demographic dividend (**Box 7.3**).

Box 7.3: When is the Demographic Dividend Ending?

Theoretically, the demographic dividend is said to be in play when the difference between the rate of growth of working age population and the total population, favours the working age population [Mason (2005), and Durr-e-Nayab (2006)]. This concept, when applied to multiple population datasets, paints an interesting picture.

According to Durr-e-Nayab (2006), based on UN projections of 2005, Pakistan was set to experience the demographic dividend from the late 1980s to 2045. In 2013, the Population Council revisited the issue, applied its own population projections and revised estimates of Nayab (2006) on the UN's 2010 population projections. The updated projections showed that the demographic dividend had not started at the end of the 1980s as Nayab (2006) earlier proposed, but had been delayed to the early or mid-1990s.

A re-estimate of the Nayab study, when applied to recent UN projections (2015), proposes that the dividend would end in 2040 (as compared to 2045 earlier). Furthermore, the rates of growth of the working age and total population are predicted to equalize for an instant around 2019. While differences in the pace of fertility decline account for variances, across the years, a similar trend suggests that the "window of opportunity" – or the duration of the demographic dividend in Pakistan – will be from around 1990 to 2045 (on average).

Therefore, in order to maximize the size of the demographic dividend, fertility must decline as much as possible to further reduce the dependency ratio, and as fast as possible so that the benefits of the dividend could be availed for a longer period of time.[25]

7.3 Poverty and income inequality

One of the direct results of high fertility rates and the country's inability to reap the economic benefits of the demographic dividend is poverty and income inequality. Official data shows that the number of

[25] Source: Prospects for Economic Growth in Sindh under Alternative Demographic Scenarios: The Case for a Rapid Fertility Decline, Policy Brief September 2015, Population Council.

people living in absolute poverty has been almost halved in the country during the MDG timeframe.[26] But this needs to be analyzed in the context of income inequality: as the overall number of people considered officially "poor" has been declining, the incomes of the poorest fifth of the population is not rising fast enough to make any meaningful change in their lives.

Moreover, despite the overall reduction in headcount poverty (i.e., the number of people living below the national poverty threshold), there are cities and divisions where the incidence of poverty has actually *increased*.[27] Besides (as discussed later), the absolute reduction in headcount poverty does not give an accurate picture of the deprivations the poor are suffering from, since it generally ignores costs and expenses associated with social spending by individuals, like those on education and health.

Box 7.4: Evolution of the Official Poverty Line

The poverty estimation methodology adopted by Pakistan in the year 2001 was based on the Food Energy Intake (FEI) method. Using consumption data of 1998-99, the Planning Commission had estimated the official poverty line at Rs 637.54 per person per month on the basis of minimum energy consumption of 2,350 kcal a day. Later on, successive poverty lines were adjusted after accounting for inflation, with the official threshold reaching Rs 1,745 per adult equivalent per month by 2010-11 (**Table 7.4.1**). Yet, flaws in this calorie-based methodology started becoming apparent from 2007-08, when poverty was assessed at 17.2 percent despite the global financial crisis and its aftershocks in the local economy.[28] Further skepticism arose after the Pakistan Social and Living Standards Measurement Survey 2010-11 found that the incidence of poverty had declined from 17.2 percent in 2008 to 12.4 percent in 2011; this was judged to be improbable under prevalent socioeconomic conditions in the country at the time.

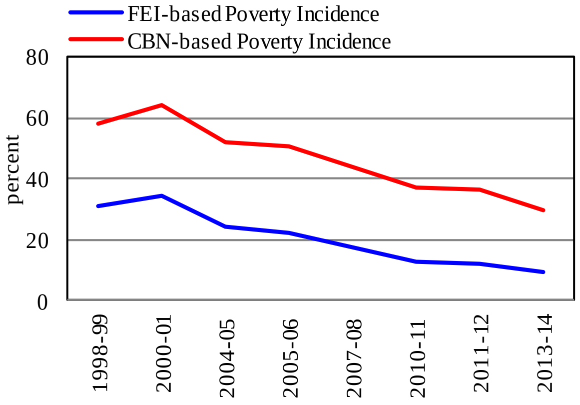
Table 7.4.1: Changes in National Poverty Line

Year	National Poverty Line (per adult equivalent per month)
1998-99	Rs 637.54
2000-01	Rs 723.40
2004-05	Rs 878.64
2005-06	Rs 944.47
2007-08	Rs 1,141.53
2010-11	Rs 1,745.00
2015-16*	Rs 3,030.00

Source: Economic Survey of Pakistan 2013-14.
*: Poverty line based on CBN method (source: Economic Survey of Pakistan 2015-16)

After analyzing the shortcomings of the FEI methodology and studying poverty estimation techniques adopted by other countries, the Planning Commission adopted a Cost of Basic Needs (CBN) approach in 2016. The CBN approach is commonly used in most developing countries today because it focuses on the consumption patterns of households in the reference group. The revised reference group covers households that lie in the 10th to 40th percentile of the distribution of per adult equivalent consumption expenditure; this was done to ensure that the new poverty line was a more representative benchmark. It takes into account households' average spending on food (on the basis of caloric intake), and then estimates major non-food expenditures for households. The poverty incidence using the old (FEI) and new (CBN) methodologies for the period 1998-99 to 2013-14 is presented in **Figure 7.4.1**.

Figure 7.4.1: Comparison of Poverty Incidence under FEI and CBN Methodologies



Source: Planning Commission estimates using PSLM, HIES data

According to the FEI methodology, only 9.3 percent of the population (or 17 million people) were living below the poverty line in 2013-14. On the other hand, the new (CBN-based) approach suggests that 29.5 percent of the population, or 55 million people, were living below the poverty line in that year. Similar differences appear in the preceding years by backdating this new poverty line. Despite the difference in numbers, the trend remains the same: the incidence of poverty has been declining in the country.

[26] Headcount poverty ratio in Pakistan (on cost of basic needs basis) dropped from 57.9 percent in 1998-99 to 29.5 percent in 2013-14 (source: Economic Survey of Pakistan 2015-16).
[27] Despite vastly different landscapes and challenges, Sindh and Balochistan noted almost identical reduction in their absolute multidimensional poverty index (MPI) scores during 2004-15; this was also much lower than the reductions made by Punjab and KP (source: Multidimensional Poverty in Pakistan report, 2016).
[28] Source: Economic Survey of Pakistan 2015-16.

Pakistan has not been alone in observing a declining trend in headcount poverty over the past decade and a half. The World Bank has estimated global poverty to have fallen below 10 percent for the first time in 2015. It has also started using an updated threshold of US$ 1.9 per day to measure the poverty headcount in each country, after incorporating new information on differences in the cost of living across countries (on the basis of 2011 PPP exchange rates). This new threshold preserves the real purchasing power of the previous line (US$ 1.25 a day at 2005 prices) in the world's poorest countries. Based on available World Bank data, India appears to have made the greatest progress in reducing headcount poverty among a sample of regional countries, along with China and Indonesia, over the past decade or so.

Multidimensional poverty

Nonetheless, the fact that Pakistan also saw such a sizable reduction in poverty incidence – despite lacklustre economic growth, high food and energy prices, power shortages, unemployment and terrorism-related disruptions – raises some interesting questions. It also led the government to work on a more inclusive and non-income based measure of poverty. The result was the publication of the country's first Multidimensional Poverty Index (MPI) in 2016, which classified 38.8 percent of the population as multidimensional poor.[29]

Covering education, health and standard of living (measured through a total of 15 indicators), as shown in **Table 7.2**, the MPI has been designed to provide a broader look at the poverty landscape by focusing on non-monetary aspects of poverty. This is a more encompassing way to measure poverty on the ground, but it also requires multidimensional policies to be impacted as such.

Table 7.2 Calculating Multidimensional Poverty

Dimension	Indicator	Weight (percent)
Education	Years of schooling	16.67
	Child school attendance (6-11yrs)	12.5
	School quality	4.17
Health	Access to health facilities	16.67
	Immunization	5.56
	Ante-natal care	5.56
	Assisted delivery	5.56
Standard of living	Water	4.76
	Sanitation	4.76
	Walls	2.38
	Overcrowding (4 or more people per room)	2.38
	Electricity	4.76
	Cooking fuel	4.76
	Assets/physical appliances	4.76
	Livestock (only for rural areas)	4.76

Source: Multidimensional Poverty in Pakistan Report

Applying the MPI methodology to backdated PSLM data shows that multidimensional poverty incidence at the national level dropped from 55.2 percent in 2004-5 to 38.8 percent in 2014-15. In terms of indicators, the highest absolute reduction was recorded in the possession of assets/appliances, and in access to sanitation facilities and cooking fuel.[30] Yet, despite recording progress, cooking fuel is still the indicator in which the highest number of people (60.6 percent of the population; regardless of poor or not) are considered deprived.[31] This was followed by years of schooling (48.5 percent of the population was estimated to be deprived), overcrowding (38.3 percent) and access to health facilities (32.4 percent).

[29] A person is considered to be multidimensional poor if they are found "deprived" in at least 5 (one-third) of the 15 indicators shown in **Table 7.2**. The detailed criteria for deprivation for each indicator is discussed in the Multidimensional Poverty in Pakistan Report.

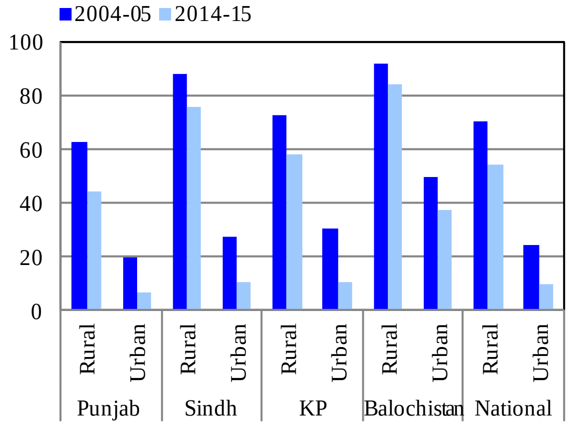
[30] Source: Multidimensional Poverty in Pakistan Report, by Ministry of Planning, Development and Reform in collaboration with Oxford Poverty and Human Development Initiative and UNDP Pakistan.

[31] A person is considered deprived in cooking fuel if their household uses solid fuels for cooking (wood, coal, dung etc) (source: Multidimensional Poverty in Pakistan Report).

But more importantly, the MPI (in addition to providing a headcount poverty number), also makes it possible to measure the "intensity" of deprivation suffered by the poor.[32] As a result, one can make reasonable conclusions using the MPI about the *quality* of improvements noted in poverty reduction in the country. The intensity of deprivation fell by a marginal amount, from 52.9 percent to 50.9 percent (at the national level) between 2004-5 and 2014-15. In other words, each poor person is, on average, deprived in almost half of the weighted indicators, and there has been little improvement in this dynamic over the past 10 years. This implies that as the overall number of people considered multidimensional-poor has gone down during 2004-5 to 2014-15, there is a subset of the underprivileged, who have not been able to exit the poverty trap despite the government's poverty alleviation programs. This also goes to show that it becomes increasingly challenging to lift people out of poverty as we approach the poorest of the poor.

There also exists a widespread variation in absolute multidimensional poverty levels across the rural/urban divide, as well as across provinces. Strikingly enough, over half of the population living in rural areas (54.6 percent) is categorized as multidimensional poor, as opposed to just 9.3 percent in urban areas (**Figure 7.4**). Balochistan fared the worst, as poverty incidence rates for its urban and rural areas were highest relative to their peers in other provinces: a staggering 86.4 percent of people living in Balochistan's rural areas were classified as poor. Here, we would also like to highlight the fact that Balochistan – 71 percent of whose population is considered to be multidimensional poor – has recorded the lowest relative reduction in headcount MPI over time (14.9 percent).

Figure 7.4: Headcount MPI Incidence (percent of population)



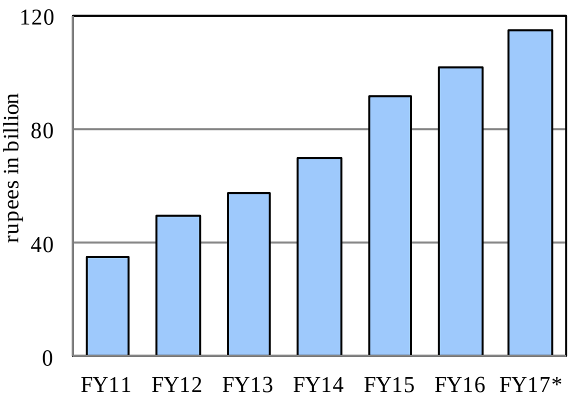
Source: Economic Survey of Pakistan 2015-16

Box 7.5: Explaining the Decline in Poverty

Given that this overall decline in poverty came about as the country's economy sputtered along and fiscal consolidation held sway, it is important to analyze the factors that made this possible.

Social safety nets: We believe that social safety programs played a big role in reducing the incidence of poverty in the country. The primary among these is the Benazir Income Support Program (BISP); the BISP was launched in 2009 in the wake of the global financial crisis and double-digit domestic inflation. Mainly targeted at poor, ever-married women (i.e. married women as well as widows and divorcees), BISP has played a significant role in dealing with the twin challenges of poverty alleviation and women empowerment. Eligible beneficiaries are currently getting monthly stipends of around Rs1,611 (Rs 19,338 per annum). By June 2017, the government targets to increase the BISP's reach to 5.6 million families, from approximately 5.3 million by end-June 2016 (**Figure 7.5.1**).

Figure 7.5.1: BISP Expenditures



Source: Federal budget documents; *Budget FY17 allocation

[32] For a person or household to be considered "deprived" in an indicator means that they fall below a threshold established for that indicator. For details about the deprivation cut-off for each indicator, see the Multidimensional Poverty in Pakistan Report. The term "Intensity" refers to the percentage of indicators (out of 15) in which a multidimensional poor person is considered deprived.

Moreover, BISP also complements SBP's and the government's goal to increase financial inclusion in the country. Monthly stipends to over 90 percent of BISP beneficiaries are directly deposited into "BISP Cards," which function as debit cards; the beneficiaries can withdraw the funds through any ATM machine. The government, in partnership with private sector stakeholders, is currently working on incorporating a biometric verification system into this process, which will make it easier for the beneficiaries to withdraw funds.

Meanwhile, recognizing the role played by lack of education in perpetuating the cycle of poverty, BISP launched a pilot program, Waseela-e-Taleem, in 2012 to encourage BISP beneficiaries to send their children aged 5-12 years to schools. It involves the government paying a cash stipend of Rs 750 per child per quarter to BISP-eligible families; the family is responsible for enrolling their offspring in schools and then ensuring that the children maintain an attendance level of 75 percent during the school year. The program was subsequently extended, and currently around 1.1 million children are enrolled in primary schools under its umbrella. Many BISP beneficiaries have also availed other state-funded initiatives, like microfinance and interest-free loan schemes, technical education courses etc.

***Microfinance*:** As a result of increasing outreach efforts of microfinance providers and an enabling policy framework provided by SBP, the microfinance industry's gross portfolio has been on a rising trajectory, as shown in (**Table 7.5.1**), supplementing other poverty alleviation measures.

Table 7.5.1: Key Microfinance Indicators

	FY15	FY16
Gross loan portfolio (Billion Rs)	45.6	72.9
Deposits (Billion Rs)	52.0	87.0
No. of borrowers (in Million)	1.3	1.7
No. of depositors (in Million)	11.6	12.8
Assets (Billion Rs)	82.8	133.3

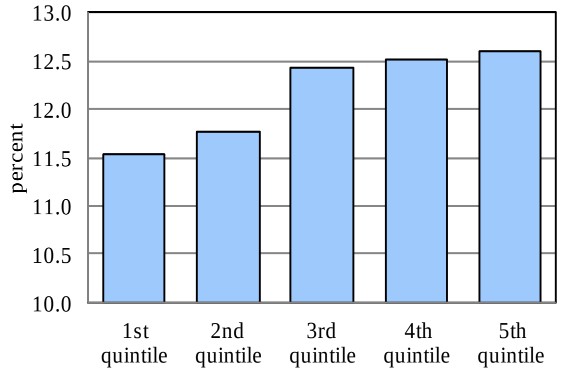
Source: State Bank of Pakistan

***Philanthropy*:** The third reason could be the role played by the private sector's philanthropy efforts. Corporate philanthropy efforts have increased manifold during the past decade or so.[33] Though most of these activities generally tend to be narrowly focused (both in terms of their target population and active duration), they are also a means of sustenance for the poor, instead of being a sustainable route away from poverty. The obvious exceptions to this phenomenon are full-time charity organizations like the Edhi Foundation, Chhipa Welfare Association, Saylani Welfare Trust and others, which operate round the clock and serve millions of people by providing free food, and operating free orphanages, clinics and dispensaries, and rehabilitation programs for drug addicts.

Income inequality

While the positive effects of these poverty alleviation programs are visible in terms of the reduction in headcount poverty, these have yet to reveal their full impact on income inequality in Pakistan. In fact, income inequality has risen in the country in overall terms. In 2004-05, the average monthly income earned by the richest 20 percent of households in the country was 2.9 times that earned by the poorest 20 percent; by 2013-14, this difference had increased to 3.2 times. Moreover, at the national level, the monthly income of the poorest 20 percent of households had risen *the least* (in CAGR terms) during the 10-year period, while the income of the highest 20 percent earners had risen *the most* (**Figure 7.5**).[34]

Figure 7.5: CAGR of Average Monthly Household Income (National) during 2004-05 and 2013-14



Source: Household Integrated Economic Survey 2004-05, 2013-14 and SBP calculations

On the one hand, the absolute improvement in incomes across the bottom two quintiles complements other data that has shown an overall declining trend in poverty in the country. That said, the improvement in the livelihood of the poorest of the poor is occurring at a very slow pace as compared

[33] Donations by public listed companies amounted to Rs 4.8 billion in the year 2013, against Rs 228 million in 2000 (source: Corporate Philanthropy in Pakistan 2013, Pakistan Center for Philanthropy).

[34] The first quintile refers to the poorest 20 percent of earning households, whereas the fifth quintile refers to the highest 20 percent.

to the rest of the population (**Figure 7.5**). If this trend continues, it will further widen the income gap with potentially serious consequences for the social fabric of the country.

Official data also shows inequality to be higher in urban as opposed to rural areas; however, inequality is rising at a faster *pace* in rural areas as opposed to urban areas. In 2003-04, the top 20 percent households earned 3.1 times the average monthly income of the lowest 20 percent of households in urban areas; this ratio had risen to 3.3 times by 2014-15. For rural areas, the imbalance increased from 2.3 to 2.8 times during this period.

Using this income disparity on provincial data also presents some interesting results: income inequality increased in Punjab and Balochistan during 2004-05 and 2013-14, while it actually *declined* in Sindh and KP.[35] In case of Sindh, the decline appeared to come entirely from urban areas, as inequality had risen in the province's rural areas. For KP, the reverse was true, as inequality in its rural areas had decreased by 24.9 percent in relative terms, and increased by 5.1 percent in its urban areas. In Punjab's case, income inequality rose in both urban and rural areas, with the level of inequality in its urban areas being the highest among all provinces as well as at the national level.[36]

More importantly, these differing provincial income-inequality patterns highlight four different growth stories and development levels within the country.

This has important implications for policy design and implementation, and calls for a multi-pronged approach to: increase employment opportunities for youth in rural areas; improve the targeting of poverty reduction initiatives; and develop a national vision, which recognizes the regional differences in poverty patterns to lift masses out of poverty.

7.4 Social services

7.4.1 Healthcare

The trend in basic health indicators for Pakistan has been on a positive trajectory for the past couple of decades. However, the pace of improvement and the health outcomes leaves much to be desired, when compared with the progress made by regional peers. As shown in **Table 7.3**, Pakistan currently has one of the lowest life expectancy ratios, along with a relatively high level of maternal mortality ratio. Pakistan is one of three remaining countries with endemic polio, and is the sixth highest with the burden of tuberculosis. Occurrence of neonatal, infant and under-5 mortality rates is relatively high in the region due to malnutrition, diarrhoea, acute respiratory illness and other communicable and vaccine preventable diseases.

Table 7.3: Comparison of Key Health Indicators across Asian Countries (2014)

	Life Expectancy	Infant Mortality Rate	Maternal Mortality Ratio	Health Expenditure as % of GDP
Bangladesh	72	32	188	0.8
China	76	10	28	3.1
India	68	39	181	1.4
Indonesia	69	24	133	1.1
Malaysia	75	6	41	2.3
Nepal	70	31	275	2.3
Pakistan	66	67	184	0.9
Philippines	68	23	117	1.6
Sri Lanka	75	9	31	2.6
Thailand	74	11	21	5.6

Source: World Development Indicators, World Bank

[35] In relative terms, the ratio of monthly incomes of top 20 percent earners to that of lowest 20 percent earners declined 12.8 percent in Sindh and 20.7 percent in KP during 2004-05 to 2014-15. In the same period, the ratio increased by 22.0 percent for Punjab and 36.2 percent for Balochistan (source: Household Integrated Economic Surveys 2004-05, 2013-14).

[36] The richest 20 percent households in urban areas of Punjab were earning 4.1 times what the lowest 20 percent households were earning in 2013-14.

Table 7.4: Health-related MDGs

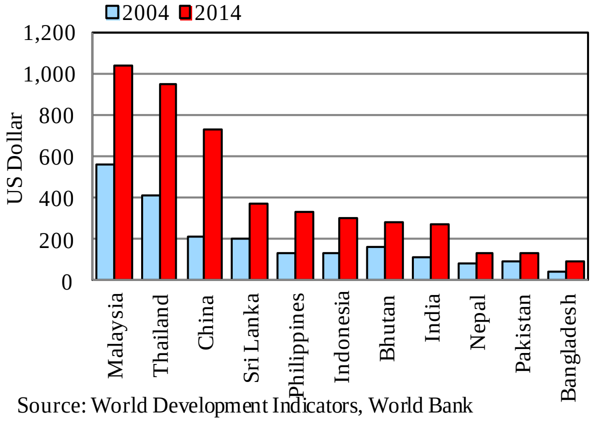
	Actual*	Target
Goal 4: Reduce child mortality		
Under 5 mortality rate (deaths per 1,000 live births)[2]	85.5	52
Infant mortality rate (deaths per 1,000 live births)[3]	66	40
Proportion of fully immunized children 12-23 months[1]	82	>90
Proportion of under 1 year children immunized against measles[1]	83	>90
Proportion of children under 5 who suffered from diarrhoea in the last 30 days (percent)[1]	9	<10
Lady health worker's coverage (percent of target population)[4]	83	100
Goal 5: Improve maternal health		
Maternal mortality ratio[2]	170	140
Proportion of births attended by skilled birth attendants[1]	58	>90
Contraceptive prevalence rate[2]	35.4	55
Total fertility rate[4]	3.8	2.1
Proportion of women 15-49 who had given birth during last 3 years and made at least one antenatal consultation[1]	73	100
Goal 6: Combat HIV/AIDS, malaria and other diseases		
HIV prevalence among 15-49 year old pregnant women[4]	0.041	Baseline reduced by 50%
Proportion of population in malaria risk areas using effective prevention and treatment measures[4]	40	75
Incidence of TB/100,000[2]	275	45
TB cases detected and cured under DOTS[4]	91	85

Source: [1]: PSLM 2014-15; [2]: UN MDG Progress Snapshot 2015 (2013 data); [3]: Economic Survey of Pakistan 2015-16; [4]: Pakistan MDG Progress Report 2013, Ministry of Planning *: latest available data

Importantly, Pakistan has fared quite poorly in terms of most health-related targets that it had set under the MDGs (**Table 7.4**). For instance, the under-5 mortality rate is still much higher than the target of 52 deaths per 1,000 live births set under the MDG. These slippages represent: (i) weaknesses in public health service delivery mechanisms, particularly in (but not limited to) rural areas; (ii) poverty, along with high out-of-pocket expenditure on healthcare; (iii) persistence of high risk factors, like lack of proper sanitation and clean water; (iv) dearth of skilled birth attendants; (v) cultural setbacks that limit women's access to proper healthcare; and (vi) limited private sector participation in rural areas, and in large-scale programs (like polio/malaria eradication campaigns).

That said, it must also be acknowledged that attempts to improve healthcare indicators over the past few years met with lower than expected success because of the direct increase in intensity of terrorist attacks on health teams; floods in many districts; and internal population displacement.[37] This is the major reason why the performance of Khyber Pakhtunkhwa, FATA, Balochistan and rural areas of the country has been worse.

Figure 7.6: Public Health Expenditure per Capita (PPP constant $2011)



Source: World Development Indicators, World Bank

Budgetary constraints

Allocation of public funds for healthcare has remained low over the years. The government is spending only 0.7 percent of GDP on healthcare,[38] which is strikingly low compared

[37] Source: Pakistan Millennium Development Goals 2013, Planning Commission of Pakistan.
[38] In 2014-15 (source: Economic Survey of Pakistan 2015-16).

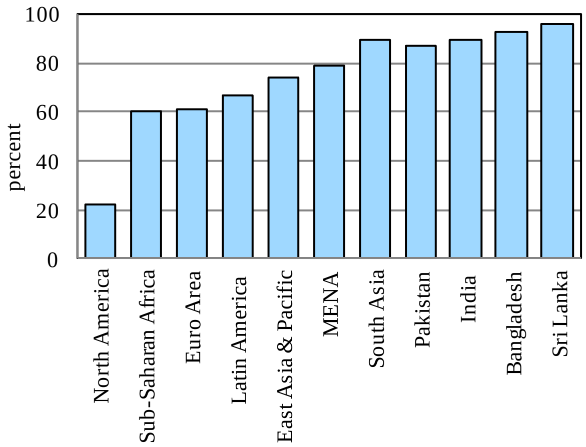
to the World Health Organization's recommendation of 5 percent, and also in view of how much other Asian economies are spending on health (**Figure 7.6**).

In the past, this low level of spending on healthcare represented stretched federal budgets: governments had been bogged down with unavoidable expenses like debt servicing, defence, and running of government, which left little room for social spending. With the promulgation of the 18th constitutional amendment, health has become a provincial subject. Responsibility now falls on provincial governments to formulate policy, mobilize resources, and streamline the delivery mechanism. As it turned out, the provinces have been unable to shore up healthcare spending.

Growing role of private sector and under-spending on healthcare

The poor state of public facilities has contributed to an increase in the private sector's role in the provision of service delivery. Over 70 percent of Pakistan's population now consults private healthcare providers, with only 20 percent relying on public services.[39,40] A low penetration of public healthcare facilities means that the bulk (61 percent) of expenditures on healthcare is being met via private funding. Since contributions from health insurance and social security are abysmally low, households are forced to use their own resources to pay for healthcare. These so-called out-of-pocket expenditures constitute 88 percent of private healthcare expenditures in Pakistan[41] - quite typical for a South Asian country (**Figure 7.7**). Similar to other countries in the region, low income earners in Pakistan either tend to completely avoid proper healthcare services, or under spend. Furthermore, private facilities are available mostly in urban areas, with the rural population being largely been left out.

Figure 7.7: Share of Out-of-Pocket Expenditures in Private Healthcare Expenditures



Source: World Development Indicators, The World Bank

Poor sanitation

Lack of access to safe drinking water and sanitation facilities and poor hygiene are associated with skin diseases, acute respiratory infections, and diarrheal diseases, which remain the leading causes of childhood deaths in Pakistan. The absence of a proper solid waste disposal system in the country and the huge amount of uncollected waste are immensely hazardous to public health because these become the breeding ground for mosquitoes and flies, which transmit malaria and cholera. In Pakistan, 21 percent of households have no toilet facility at all; this problem is more serious in rural areas where 31.5 percent households lack this access.[42] Moreover, 30 percent of households use a non-improved toilet facility.[43,44] The situation for solid waste management is also grim. Only 50 percent of garbage is lifted from the cities and is taken to informal dumping sites.[45] The system for

[39] Source: Pakistan Standard of Living Standards Measurement Survey 2014-15.

[40] Certainly, households in areas where private sector has not set its foot yet, are still relying on public facilities. In Punjab and Sindh, consultation with public hospitals and dispensaries accounted for only 17 and 20 percent respectively, whereas in KP and Balochistan, this ratio stood at 28 percent.

[41] Source: Pakistan National Health Accounts 2011-12, Pakistan Bureau of Statistics.

[42] Source: Pakistan Demographic and Health Survey 2012-13, National Institute of Policy Studies, Islamabad, and USAID.

[43] WHO and UNICEF define improved toilet as the one used only by household members (not shared with another household), and one that separates waste from human contact.

[44] Of these, only 6 percent use a flush toilet that is not drained to a sewer or septic tank/pit latrine, and 2 percent use pit latrines without slabs or have open pits.

[45] Source: National Sanitation Policy, Government of Pakistan.

the disposal of hospital waste exists only partially in Karachi and Lahore. As for clean drinking water, only 20 percent of rural households have access to piped water; most of the households rely on tube-wells, boreholes or hand pumps. [46] Importantly, only 20 percent of the urban and 1.5 percent of the rural households use appropriate measures to clean drinking water.[47]

Inadequate public facilities in populous rural areas

The Eleventh Five Year Plan (2013-18) notes: "*The present healthcare system is inadequate since basic medical facilities are non-existent, especially in the rural areas. All tiers lack a proper referral system. The first level is underutilized, while the secondary and tertiary are over burdened. There are Mother and Child Health Centers (MCHC) and Civil Dispensaries (CDs)… These facilities are under staffed and improperly equipped*." Health conditions are much worse in rural areas, where 61 percent of Pakistan's population resides.[48] Not only are vulnerabilities and risks to health high in these areas (because of poor sanitation and lack of clean water), the delivery mechanism of primary and tertiary healthcare is also in dilapidated shape.[49] The most important problem is geographical accessibility: the average distance of a village from a basic health unit (BHU) in Pakistan is 15 km, which is quite high. Importantly, for 12 percent of the population, a BHU is located at a distance of 26 km and above from the settlement; this ratio is highest for Balochistan, where there is no BHU at a distance of 26 km for 44 percent of the population.[50]

No wonder, this large distance is the most commonly cited reason by rural households for not visiting a public facility.[51] Even where infrastructure exists, the availability of healthcare professionals is not ensured (especially females), and weak monitoring and absenteeism further disrupt service delivery in these areas. Furthermore, medical equipment and medicines are not replenished regularly. On top of this, lack of proper sanitization of medical equipment jeopardizes the patients' well being. Therefore, it is not surprising that only 55 percent of the country's rural population is satisfied with public basic health facilities.[52]

Unskilled personnel

The Punjab Healthcare Commission (PHC) has made startling revelations in the document containing strategy against unregistered practitioners in the province. Most of them are practicing without a formal degree in medicine, under the cover of either a drug store or using a fictitious doctor's name, and charging a nominal fee. Because of the high cost of formal private healthcare, households often consult these unskilled personnel for the treatment of minor ailments (anecdotal evidence suggests that formal private facilities are consulted only when these ailments are mishandled).

[46] Source: Pakistan Demographic and Health Survey 2012-13, National Institute of Policy Studies, Islamabad, and USAID.

[47] Appropriate water treatment methods include boiling, filtering, and solar disinfecting.

[48] For instance, the infant mortality rate in urban areas is 63 per 1,000 live births, whereas the same in rural areas is 88. Similarly, the under-5 mortality rate is 74 deaths per 1,000 live births in urban areas, while the same in rural areas is 106.

[49] Pakistan's public healthcare delivery system has three tiers: (i) First level care facilities include Basic Health Units and Rural health Centres; (ii) Tehsil or *Taluka* Headquarter Hospitals and District Headquarters Hospitals, and (iii) Teaching Hospitals (attached to medical colleges) which are equipped with all kinds of health services.

[50] Source: Pakistan Mouza Statistics, 2008.

[51] When asked for the reason for not visiting a government facility first for diarrhea treatment, 26 percent of rural households responded 'too far away'; 19 percent responded 'no government facility'; 13 percent responded 'not enough medicines'; and 10 percent responded 'doctor never available' (source: Pakistan Social and Living Standards Measurement Survey 2014-15). Similarly, 47 percent women in rural areas, who reported that they had serious problems in accessing health care for themselves when they got sick, cited distance to health facility as a major constraint. Half of these women also mentioned management of transport for not accessing health care facilities (source: Pakistan Demographic and Health Survey, 2012-13).

[52] Source: Pakistan Social and Living Standards Measurement Survey 2014-15. Satisfaction level is the highest in rural areas of Punjab (65 percent) and lowest in rural areas of Balochistan (41 percent).

Cultural constraints for women's healthcare

The state of women's healthcare in Pakistan leaves much to be desired, with rural women at a more disadvantageous position than urban women. Low access of women to healthcare facilities is attributed primarily to their financial dependence on men, as well as cultural factors that restrict women's mobility. Even where the demand exists, the short supply of female healthcare facilities restricts the access. For instance, antenatal care must come from a skilled provider to monitor pregnancy and reduce the risk of morbidity for the mother during pregnancy and delivery. However, due to lack of female gynaecologists or women medical officers in health centres, this care is denied to many women.

Less than half of deliveries that took place between 2009 and 2013 were assisted by skilled providers (including doctor, nurse, midwife, and lady health visitor). The situation in rural areas is much concerning: of the 638 rural health centres surveyed in 2012, 276 (43 percent) were without a woman medical officer, whereas 222 centres had only one.[53] Around 55 percent of deliveries in rural areas were attended by traditional birth attendants and relatives.[54] Statistics for *tehsil* headquarters and civil hospitals are even more surprising: of the total 280 such hospitals surveyed, 206 were without a gynaecologist.

In overall terms, the most pressing concern in Pakistan's healthcare system is the insufficient availability of public services, which low-income earners cannot substitute with costly private facilities. Vulnerabilities to health problems are also high due to poor sanitation and hygiene practices in the country. The situation in rural areas is particularly challenging, and requires build-up of public infrastructure.

7.4.2 Education

At an individual level, education is a fundamental human right enshrined under the UN Declaration of Human Rights as well as Article 25-A of Pakistan's constitution.[55] At the macro level, it is a key ingredient in reducing entrenched poverty, cultivating a skilled labour force, and fostering the trend of innovation and entrepreneurship. The resultant increase in labour productivity will have positive spillover for the country's competitiveness and business environment, and help improve its perception as an attractive destination for long-term investment.

Box 7.6: Education and the Economy's Competitiveness

An educated labour force is paramount for an economy to stay competitive in the current global environment. There are principally three channels through which education impacts labour force productivity.[56] First, it enhances workers' collective ability to carry out tasks more rapidly. Second, workers are more likely to be well-versed with new technology and products (and thus use them efficiently in their jobs), if they have pursued secondary and tertiary education. They are also more likely to keep up with new information and trends emerging in their respective fields. And third, an educated work force is likely to be more creative in dealing with challenges; this will increase chances that the country as a whole will be able to generate new products and technologies.

Table 7.6.1: Global Competitiveness Report 2016-17

Education indicators	Pakistan's rank*
Quality of primary education	115
Net primary school enrolment	133
Gross secondary school enrolment	124
Gross tertiary education enrolment	115
Quality of the education system	71
Quality of math and science education	98
Quality of management schools	84
Internet access in schools	105
Availability of specialized training services	97
Extent of staff training	120

*: Rank is out of 138 countries. Source: World Economic Forum

53 Source: Health Facility Assessment – Pakistan National Report, prepared by Technical Resource Facility, as part of the implementation of the monitoring and evaluation framework of the National Maternal Newborn and Child Health Program (NMCHP).

54 Source: Pakistan Demographic and Health Survey 2012-13, National Institute of Policy Studies, Islamabad and USAID.

55 Article 25-A of the Pakistan constitution states that "the State shall provide free and compulsory education to all children of the age of five to sixteen years in such manner as may be determined by law".

56 Source: World Economic Forum.

The Global Competitiveness Index 2016-17 ranked Pakistan at 122 out of 138 countries, behind regional countries like Thailand (34), Philippines (57), India (39), and Vietnam (60). Its poor health and education indicators played a major role in this dismal performance; out of 138 economies, the country was ranked 134 in terms of ratio of female to male workers, and at 134 in trade protectionism (i.e. tariff duties). Granted that Pakistan's ranking has improved seven places over three years, its GCI score has remained almost static. A country's GCI score is based on 12 characteristics (or "pillars") that are divided across three main categories. Of these 12 pillars, two are directly related to education (primary education, and higher education and training), whereas others (like labour market efficiency, technological readiness and innovation) are indirectly related. Pakistan's rank (out of 138 countries) in key education pillars is shown in **Table 7.6.1**. These indicators basically relate to enrolment, access to educational facilities, and quality of education and school infrastructure.

Despite the obvious importance of education for the country's progress, the sector remains neglected. It was definitely unfortunate – though perhaps not surprising – that Pakistan failed to achieve the education-related MDG targets. These included: (i) achieving universal primary enrolment (67 percent, against the target of 100 percent); (ii) student retention rate; (iii) ensuring gender parity in primary and secondary education (ratio of girls to boys of 0.88, against the targeted 1.0); and (iv) increasing the adult literacy rate (60.7 percent by 2014-15,[57] against the target of 88 percent).

Table 7.5: Regional Comparison of Education Indicators*

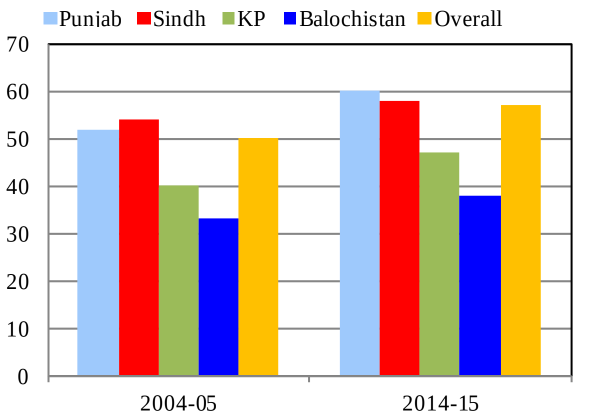
	Adult literacy rate	Primary completion rate		Public spending on education as % of GDP (2014)	Pupil teacher ratio (primary) (2014)
		Male	Female		
Bangladesh	59.7 (2013)	69	79	2.0	n.a
Bhutan	52.8 (2005)	91	103	6.0	27
India	69.3 (2011)	94	99	3.8	32
Maldives	98.4 (2006)	n.a	n.a	5.2	12
Nepal	59.6 (2011)	99	109	4.7	24
Pakistan[1]	57.0 (2015)	80	67	2.2	47
Sri Lanka	91.2 (2010)	99	97	1.7	24

Source: World Development Indicators [1]PSLM 2014-15 for adult literacy rate and Economic Survey of Pakistan (2015-16) for education spending.
n.a: Not available; * Figures for the latest available year (in WDI database) have been taken.

A regional comparison also shows that Pakistan lags far behind other South Asian countries in terms of education indicators (**Table 7.5**). It has the second-lowest literacy rate, and the lowest primary school completion rate for females. Besides, as percentage of GDP, the country has also been devoting significantly less resources to education.

In relative terms, only Bangladesh and Sri Lanka spent lower than Pakistan on education as percentage of GDP in 2014; in Sri Lanka's case, the country has already achieved sufficient progress in the area (as seen by its near-perfect literacy and school completion rates, thus negating the need for it to spend as much on education as its neighbours).

Figure 7.8: Provincial Adult Literacy Rates (percent)



Source: PSLM 2004-05 & 2014-15

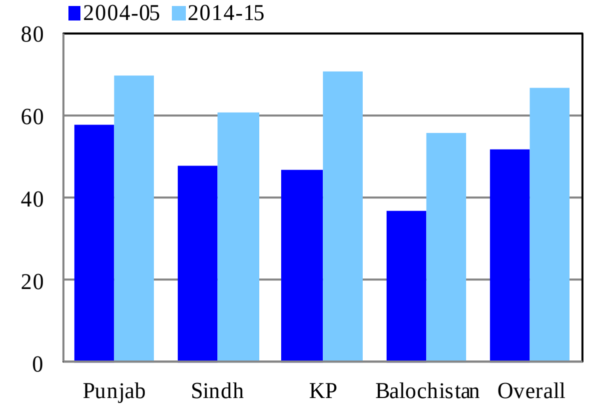
Meanwhile, within Pakistan, a provincial comparison shows that not much has changed from FY10. Punjab leads the rest of the provinces in terms of literacy rate as well as public spending on education, with Balochistan faring the worst in these indicators (**Figure 7.8**).

[57] Source: Pakistan Labor Force Survey 2014-15, National Education Management Information System.

Enrolment

A comparison of provinces' primary school net enrolment ratios[58] (NER) in 2004-05 and in 2014-15 yields some interesting results; the most striking of these is the tremendous amount of progress made by Khyber Pakhtunkhwa during the period. In 2004-05, KP had the third-lowest NER at the primary level (behind Punjab and Sindh); by 2014-15, its NER (at 71 percent) had risen to the highest among all provinces, and also beat the national average (**Figure 7.9**).

Figure 7.9: Net Enrolment Ratio - Primary Level (percent)



Source: PSLM 2004-05, 2014-15

Having said that, it is critical to sustain the progress made in this area, as data also shows that NER scores drop drastically for all provinces when it comes to middle schools. In other words, after completing primary education, not nearly enough children are being enrolled in middle schools (i.e. classes 6-8). One major reason for this decline is the fact that there are simply not enough middle schools to cater to the children graduating from primary schools: for every three primary schools in the country (both public and private), there is barely one middle school.[59]

Moreover, 87 percent of all primary schools in the country are in the public sector, with the remaining 13 percent in the private sector. But this ratio reverses for middle schools, 38 percent of which are under public domain, with the majority (i.e., 62 percent) coming under the private sector.

The above discussion basically shows that not only is there a dearth of middle schools in the country, but also that the gap left by the state in ensuring free and adequate middle school education for children is being filled by the private sector. Naturally, the private sector cannot be expected to deliver any service for free. Yet, the rate at which fees charged by private educational institutions has been rising in the country over the past few years, has been noticeable, and it might have resulted in many families simply being priced out of the system.

Box 7.7: Cost of Schooling

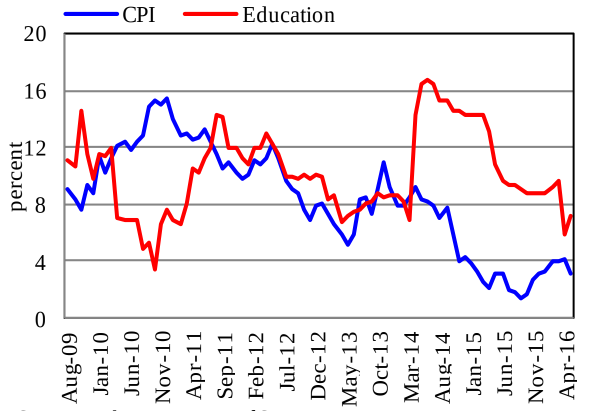
Pakistan has been taking steps to improve the quality of education by encouraging the private sector to come up with quality education, strong curriculum, well-trained and qualified teachers, and improved facilities. However, perhaps because of this, the cost of schooling has almost doubled since 2008. Besides, from FY09 to April FY16, the YoY change in the education component of CPI has been greater than the change in overall CPI for almost the entire period (with the exception of FY10, when oil prices remained above US$ 100 per barrel), as shown in (**Figure 7.7.1**).[60] Though the big divergence in the change in the education index and overall CPI from April 2014 onwards can partly be explained by falling global oil prices,[61] the fact remains that education costs (as measured by the education component of CPI) have been increasing by over 10 percent YoY from April 2014 till June 2015.[62]

[58] UNESCO defines net enrolment ratio as the "enrolment of the official age-group for a given level of education expressed as a percentage of the corresponding population". Basically, it expresses the number of pupils enrolled who are of the official age-group for a given level of education, as a percentage of the population for the same age-group (source: http://unesco.org.pk/education/life/nfer_library/Reports/3-32.pdf).
[59] Source: Pakistan Education Statistics 2014-15, National Education Management System.
[60] The average price of Saudi Arabia Light crude was US$ 111.2 per barrel in FY11 (source: Bloomberg).
[61] Fuel prices (along with those of housing, water, electricity and gas) have the second-highest weightage in the CPI basket (29.41 percent). This is much higher than education's weightage of 3.94 percent.
[62] Representatives of private schools associations have often explained the hefty fee increases (over the past year) by referring to additional security arrangements that schools have had to put in place following the APS Peshawar attack in December 2014.

And while per capita income has also been rising in the country, it has not been increasing at the same pace as private schools' fees. This can be problematic for families who are unable to keep up with rising schooling costs, with parents forced to pull out their children from schools, in the most extreme cases.

Lower income groups also tend to be affected much more by inflation as compared to higher income groups; this is also true for educational expenses. As mentioned before, lack of adequate public educational facilities has led to increasing role of private sector in education. Yet, only a minority of the population of Pakistan can afford private schooling. A majority of students in Pakistan, i.e. 63 percent, are enrolled in public sector education.

Figure 7.7.1: Change in CPI and Education Component of CPI (YoY)



Source: Pakistan Bureau of Statistics

It can also be argued that rising schooling costs can imply that the private sector is hiring additional teachers to cater to the rise in enrolment. However, this appears to be not the case: the student-teacher ratio at the primary level has actually risen from 37.5 in 2005 to 46.5 in 2015. Government college fees, on the other hand, have largely been stable throughout these years, with slight increases.

Other factors contributing to the rise in the education component of CPI are government medical college fees, coaching fees, school uniform prices and textbook prices (between 2008 and 2016, uniform prices have more than doubled). Even though prices have been increasing on a monthly basis, the demand for school uniform is mostly once a year only (before the start of school). Though this can be partially explained by higher demand for uniforms (in line with the increase in school enrolment) and a general rise in the cost of doing business in the country, these factors alone cannot justify the magnitude of the increase in uniform prices.

Another burdensome expense for families is textbook and stationery prices; prices for both of these have also more than doubled from July 2008 to April 2016. Publication houses have explained this increase by citing rising printing cost and paper prices, as well as a shortage of paper.

Female enrolment

An unfortunate but expected result of these dynamics is that Pakistan has one of the largest number of out-of-school children in the world; moreover, this number has been increasing lately.[63] And the problem appears more worrisome when looked through the prism of gender disparity. Female enrolment continues to lag behind that for males across all schooling levels, as shown in (**Table 7.6**). Cultural factors as well as an adverse law and order situation (which discourage parents from sending girls to schools) are both likely in play here. Militants have been known to target girls' schools, adversely affecting the morale of parents and students who desire to pursue education. In relative terms, Punjab and Sindh seem to do well in ensuring that girls, once they are through primary education, continue through to secondary education. This can be seen from the relatively similar enrolment rates for girls across multiple schooling levels. That said, there appears to be big drop in female enrolment in KP after the primary level, mainly owing to unstable law and order situation.

Table 7.6: Female Enrolment (percent of total enrolment), 2014-15

	Primary	Middle	Upper secondary
Punjab	47	46	47
Sindh	42	44	41
KP	40	34	27
Balochistan	39	36	35
Overall	44	43	41

Source: Pakistan Education Statistics 2014-15, National Education Management System

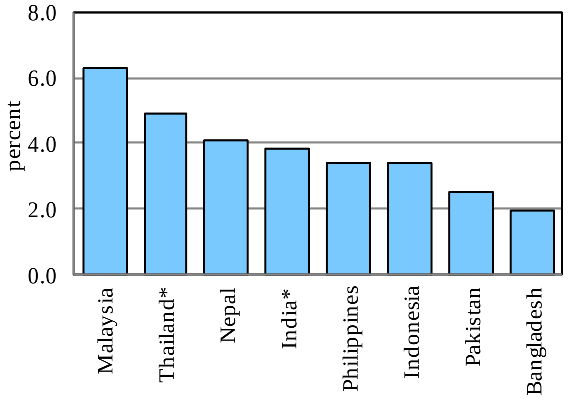
Expenditure

Despite some modest improvement over the past 15 years, Pakistan is among those regional countries that spend the lowest on education as percentage of GDP (**Figure 7.10**). While the government has officially targeted increasing public education spending to 4 percent of GDP by 2018, it looks

[63] From 2009 to 2014, the number of out-of-school children at the primary level actually increased 7.0 percent to over 5.6 million (source: World Development Indicators/Haver Analytics).

unlikely that it will be able to meet this target, as it will involve the country having to virtually double its budgetary allocation for education, from this fiscal year's level of Rs 790 billion.

Figure 7.10: Govt Expenditure on Education as Percentage of GDP (2013)



Source: World Development Indicators *: 2012 (data available)

That said, we think it is also important to discuss if merely allocating more resources to the sector will improve Pakistan's education indicators. To put FY17's budgetary allocation for education of Rs 790 billion (around US$ 7.5 billion) into perspective, the amount is comparable with the entire foreign exchange assistance from official sources expected by the country in the year.[64]

Moreover, there is widespread variation in the amount of resources that are allocated to districts within each province. Even after checking for the size of the student population, tremendous variations can be seen. For instance, in Punjab, districts like Chakwal, Bahawalpur and Rawalpindi each spent over Rs 18,000 per student in 2014-15, against less than Rs13,000 in districts like Chinniot and Bhakkar.[65] Similarly, three of the top performing districts in KP received 23 percent of the total budget, while four of the poorest performing districts together received only 4.0 percent, according to a study.[66] This misallocation of already meagre resources reflects the lack of capacity to conduct a detailed, technical assessment of the situation.

7.5 The way forward

The agenda for social development is large and the discussion here unpacks some deeper transformation channels, as we move forward:

- First, there is a need for a common vision on the existence of weaknesses in, and solutions for social and economic development. Such a national vision exists in the form of Pakistan Vision 2025, which puts developing human and social capital as the first pillar. It seeks a society based on fairness and equity, and inclusive growth by focusing on reducing the incidence of poverty and income distribution gaps. The main hurdle in implementing such a vision is that it has to be a shared one; creating such a shared-vision is a major task for a nation with institutional weaknesses.

- Second, the road from envisioning to implementation is a long one. Indeed, whether it is education and health or the monitoring of large projects, the capability of the state to implement policies for social and economic change is an important challenge. Typically, decision-making involves multiple layers leading into several potential sources of failure within an organization. This means that in order to improve public decision-making, the institutional design where these decisions are made – be it federal, provincial or district levels, or at the state-run enterprise level – needs redesigning and modernization.

[64] Source: FY17 budget documents. Official FX assistance is in the form of loans and grants by individual countries and multilateral agencies like the World Bank and ADB.
[65] Source: Public Financing of Education in Pakistan 2010-11 to 2015-16, Institute of Social and Policy Sciences.
[66] Malik, Rabea (IDEAS Pakistan) & Rose, Pauline (University of Cambridge), "Financing Education in Pakistan: Opportunities for Action" 2015.

- Finally, regional comparisons of various indices show that social development requirements across the provinces are neither equal, nor do the regions have similar income distributions. This means that our shared vision for social change has the difficult task of: (i) recognizing the varied pace of regional development; (ii) coming out with multiple policies required to tackle multi-dimensional poverty; (iii) developing tools to close regional income gaps; and (iv) designing channels for state delivery of public services crafted for regional needs. This level of precision policymaking would be a tall order for any government in the midst of a war on terror.

A major feature of social challenges that Pakistan faces is the disproportionate effect of compromised public services on low-income groups. This segment is at a disadvantaged position because it is bound to depend on public services; private facilities are not affordable for this segment. From this perspective, some measures become predominantly important for human development going forward: continue, and increase, the targeted programs for poverty alleviation (like BISP); build infrastructure for public service delivery all across the country; seriously work on HR planning and career management of healthcare and education practitioners; and improve monitoring of public spending and programs. However, at its core, the prime objective should be to lift incomes of the poorest and reduce the gap between the rich and the poor. Inclusive growth provides a sustainable way of achieving this.

In overall terms, the task of social uplift remains challenging, given the existing gaps in the services and key challenges that the government confronted over the past few years that have adversely affected social indicators (including the burgeoning cost of war on terror, high inflation, infrastructure issues, and slowdown of economic growth). However, now, with the improved security situation and broad-based economic recovery, a strong commitment on the part of the government and renewed focus on development can improve the social indicators of the country.