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PAKISTAN DRIVERS OF CHANGE

SYNTHESIS AND POLICY IMPLICATIONS

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Executive Summary

Introduction

1. The overall purpose of the Drivers of Change exercise is to determine the principal levers of and impediments to pro-poor policy change in Pakistan. Nine background papers were commissioned for the study, consisting of a scoping paper that examines key economic and political trends over time and eight thematic papers containing an in-depth analysis of issues that are fundamental to pro-poor policy change. This was supplemented by a series of interviews with government officials, aid donors and representatives of the media and civil society in Islamabad, Lahore and Karachi. This report has two main purposes: to synthesise the findings of the background papers commissioned for this study, and to consider the implications for policy and practice with particular reference to DFID and other aid donors.

Key findings: drivers and impediments to change

2. The main finding of this study is a pessimistic one in that the potential drivers of change in Pakistan are limited in number and scope. There is little prospect of sustained pro-poor change from structural or institutional factors in the short to medium term, while there are few sources of agency with the commitment and power to stimulate an enduring change process. At the same time, there are opportunities in the present context for promoting a pro-poor developmental agenda in Pakistan. These emerge from a condition of relative macro-economic stability, the presence of a reasonably strong team of policy analysts both within and outside government, encouraging signs of reduced tensions with India, and the high level of support being extended to Pakistan by the donor community, which is closely related to current geo-political alignments. The challenge for the Government of Pakistan is to use these opportunities to advance a pro-poor change process.
3. Pakistan's ability to move forward with this agenda is, however, severely hampered by powerful and deeply rooted structural continuities that serve as impediments to change. These include the underlying structure of land ownership, a highly skewed distribution of wealth, entrenched patterns of inequality, a low rate of capital formation and economic growth, enduring ethnic and religious tensions, and fixed and unequal gender relations. These factors help to explain a form and pattern of poverty that has remained relatively immutable over time.
3. Structural impediments find expression in a set of institutions that are relatively impervious to pro-poor change, serving to entrench established power relations. Three sets of institutions are particularly significant in this regard: the military and its growing corporate interests, the political and economic power of landed elites, and the declining legitimacy and capacity of the government bureaucracy and judiciary. Markets function imperfectly as contracts cannot be enforced by legal means. Problems of legality and predictability undermine investment to the detriment of growth and employment.

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4. Several agencies offer a potential avenue for change, the most significant being political parties, civil society, the media and industrial capital. Political parties in Pakistan are characterised by a set of core organisational limitations, reflected in a singular focus on charismatic leadership, a weak membership base, and the lack of clear policy direction. Political parties have been discredited by poor performance in federal and provincial governments, in the form of systemic corruption, chronic instability, and the failure to pursue virtuous policy agendas that are conducive to economic growth and poverty reduction.
5. Societal agencies capable of promoting economic, social and political change are weak and relatively ineffective. Organisations of the poor are well established in many local communities but have not proved capable of articulating voice or providing a basis for collective action on a large scale. Civil society organisations have registered some success in protecting and upholding human rights, especially women's rights, but have had little influence on larger political and economic issues that have a critical impact on poverty. There are some important exceptions, such as the efforts of some of the non-governmental rural and urban support programmes, but the ability of such initiatives to expand coverage is often limited, their overall impact on poverty levels unclear, and their links with the state delivery mechanisms often inadequate. The independent print and electronic media is also emerging as an important and powerful voice in promoting debate, advancing accountability and enhancing norms of democratic governance. The media is also exposing Pakistani society and culture to a wide range of global values. Nevertheless, the media has yet to become a key actor in promoting and disseminating an agenda on pro-poor developmental goals.
6. Industrial capital is often considered to be a significant driver of change by virtue of its economic power and political influence. But the industrial class in Pakistan has yet to clearly emerge as a collective body with a clear set of political and economic interests. Thus, despite some attempts in recent years, it has not been able to project its collective interests in the political and economic realms through representative business associations or the political parties. Its consequent ability to influence fiscal, industrial and trade policies has been very limited.
7. Six models of pro-poor change have been developed in the Pakistan context that offer competing explanations and avenues for engagement: (1) market-driven growth untrammelled by government interference; (2) increased investment in social development through social sector spending; (3) measures to erode the political and economic dominance of vested elites; (4) political stability as a pre-requisite for private investment and progress towards pro-poor change; (5) the emergence of new classes and interest groups; (6) cultural changes that promote modernisation, openness and equality.

Opportunities and catalysts for change

8. While the underlying structures and institutions are generally not conducive to pro-poor change, some opportunities and potential catalysts for incremental change can be discerned: decentralization, new political forces, the media, the rise of the middle class, and international factors.
9. Decentralisation creates new opportunities for political representation and power sharing, but the implications for enduring processes of change are ambiguous. District governments can provide local arenas for political accountability, democratic representation and more effective delivery of services. In addition, the entry of large numbers of women and peasants into elected positions in local governments through seat reservations provides an opportunity for

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the more marginalised segments of society to exert some degree of influence over priority setting and resource allocations.

10. Elected *nazims* (mayors) in district governments are able to exert a growing degree of influence and authority. This has raised concerns from legislators in the provincial assemblies about the diminution of their role. Thus, devolution of power and authority from federal and provincial governments to district and *tehsil* (sub-district) administrations has met with resistance from political parties at the provincial and federal levels. Increased powers for local governments have been accompanied by centralisation of authority through unelected bodies under the military. In addition, devolution has produced a lukewarm and at worst a highly antagonistic response from the federal and provincial bureaucracy. This problem is compounded by weak administrative capacity of the local government bureaucracy. These factors potentially undermine the long-term sustainability of the devolved government process.
11. The political landscape in Pakistan has been marked by the growing significance of several political forces in recent years that mark a break from the political dominance of discredited parties and the limitations of civil society activism. The most visible manifestation of this trend is the rise of the Muttahida Majjlis-i-Amal (MMA), an alliance of six Islamic political parties formed to contest the 2002 elections, which controls the provincial government of NWFP and is a dominant coalition partner in Balochistan. Smaller parties in Sindh have emerged to challenge the dominance of the traditional parties and the supremacy of the military by actively cultivating a grassroots base and campaigning on issues of concern to poor rural communities. There is also evidence of organised opposition by farming communities to military control over arable land in parts of Punjab, pointing to a potent source of political resentment on land distribution.
12. The media in its various forms stands out as the clearest example of a potential catalyst for change in Pakistan. As an institution it has endured efforts to control and censor its activities under successive military and civilian regimes, and the current government maintains a relative degree of press freedom. The print media retains considerable influence over public opinion and presents a relatively free space for the expression and articulation of dissenting views. Commercial radio and offshore satellite television channels are a very significant development in recent years with their mass reach and appeal. They provide an alternative source of news coverage and offer an expanded range of popular shows, providing an important and diverse range of cultural influences.
13. A latent source of change in Pakistan is from the educated middle classes, many of whom have received education, training and professional work experience in North America, Europe and the Gulf states. The large and growing middle class has increasing material and political aspirations that are thwarted by poor growth and employment trends and a political arena that offer few opportunities for productive engagement. Although the middle class lacks an effective political voice it has the potential to stimulate and provide financial support to change processes, and is a potential purveyor of progressive liberal values that moderate Islamic fundamentalism.
14. Potential drivers and impediments to change are not limited to internal factors. Geo-political factors exert a significant influence over Pakistani affairs, both with regard to the bilateral relationship with India, and the rise of radical Islam in the region. Conflict with India has triggered significant change in the past, most notably after the 1971 war and the creation of Bangladesh, when the military was discredited and there was a return to civilian rule. The simmering conflict over Kashmir serves to bolster the role of the military and soaks up scarce financial resources through high levels of defence expenditure, thereby acting as an

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impediment to change. This is moderated by recent and growing efforts on both sides to improve bilateral relations at the political level, and by demands for enhanced trade and communications on the part of industrial interests in Pakistan.

15. The U.S. war on terrorism after September 2001 has generated significant political and material support for Pakistan in its efforts to reign in militant organisations. This in turn has raised the profile and potential influence of international organisations and aid agencies working in the country. Increased aid flows and generous debt rescheduling have contributed to macro-economic stability but have yet to give rise to constructive dialogue over more far-reaching structural and institutional reforms that would be conducive to growth and poverty reduction.

Implications for policy and practice

16. Aid donors should approach the drivers of pro-poor policy change agenda with some degree of caution and modesty. Structural continuities, institutional inertia, and limitations of agency do not provide a receptive environment for fundamental change in Pakistan. Despite these constraints there exist some opportunities for catalysing pro-poor change through external intervention on the part of aid agencies and foreign governments. These have implications for policy design in the short to medium term as distinct from longer term strategy, where the contribution should be oriented towards more fundamental change processes.
17. Four broad considerations for aid policy and practice arise from this study: (1) the time horizon for enduring pro-poor policy change is far longer than is typically embodied in aid planning cycles; (2) structural continuities serve as critical impediments to change and are relatively impervious to short term institutional and policy intervention; (3) a high level of unpredictability and volatility in politics is shaped to a significant degree by external influences; and (4) historical precedents, centred on previous cycles of military and civilian rule and their institutional legacies, play a significant role in shaping contemporary political processes.
18. Opportunities for change rest with three sets of change agents: political parties, civil society and the media. Direct financial support is limited in scope but there may be opportunities for increased dialogue, policy engagement, and financial support through intermediaries. A second set of opportunities lie in strengthening institutions that can potentially contribute to good governance, namely the judiciary and the bureaucracy. Efforts in the judicial sphere could centre on strengthening the administration of justice and improving to the judicial system for the poor and women, and for more effective contract enforcement and legal redress for business. Administrative effectiveness could be strengthened through focused capacity building efforts in areas such as a policy analysis and implementation, public expenditure management, and social service delivery. This should be combined with measures to curb corruption and improve institutional performance.
19. A third set of opportunities relate to the structural impediments to pro-poor change. Here, the room for manoeuvre is much more limited. This includes addressing the inequitable distribution of land, a skewed industrial structure, entrenched social discrimination, and persistent regional conflict. Efforts to promote change might centre on policy interventions that generate improvements in agricultural productivity, legal and regulatory reforms and measures to improve the investment and employment potential of small and medium enterprises. It also requires institutional efforts to combat gender violence and strengthen statutory and legal protection for marginalised social groups. Improvements in the external environment are especially conducive to more sustained processes of pro-poor change. Better cross-border relations with India, with diplomacy taking the place of military confrontation,

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potentially release resources for development by reducing the need for high military expenditures and opening new avenues for trade.

20. Opportunities for enhanced policy dialogue and resource commitments under a reformist military government that has successfully achieved macro-economic stability should not obviate the need for constructive political and economic policy engagement. The implication is that pro-poor aid should be situated politically through two strategies. One is to build on the fiscal space and institutional opportunities created under the present regime for the pursuit of pro-poor reforms and measures to ensure their continuity under future civilian governments. The second entails the adoption of measures aimed at moderating the economic and political power of the military through policy reforms. This would seek to bring the military's corporate interests onto the same level playing field with private capital, strengthen institutions that provide checks on executive power, and introduce specific measures that promote greater accountability in decision making, especially in relation to the budget process and military expenditures.
21. In addition to policy and strategic opportunities for engagement in the short to medium term there are a set of longer term change processes. These may require indirect forms of support for benign resolution of deep-set conflicts and impediments to change. These include the tensions between civilian and military rule, Islamic traditionalism versus secular modernism, private capital versus military statism, and the landed versus the landless. The challenge is to identify ways that mediate such conflicts by looking for areas of common ground. For example, looking to ways to promote agricultural productivity to address the land question. Or encouraging joint action that helps private capital face common constraints. Such approaches would play a complementary role in addressing the structural impediments that give rise to enduring conflicts in Pakistani society. For bilateral aid donors this may ultimately prove to be a strategy that best contributes to a process of pro-poor change by taking into account different levels of engagement and varied time horizons, and giving explicit recognition to the limits of external engagement.

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1. Introduction

The overall purpose of the Drivers of Change exercise is to determine the principal levers of and impediments to pro-poor policy change in Pakistan. Nine background papers were commissioned for the study, consisting of a scoping paper that examines key economic and political trends over time, and eight thematic papers that contain an in-depth analysis of issues that are fundamental to pro-poor policy change. These were supplemented by a series of interviews with government officials, aid donors and representatives of the media and civil society in Islamabad, Lahore and Karachi. This report has two main purposes: to synthesise the findings of the papers commissioned for this study, and to consider the implications for policy and practice with particular reference to DFID and other aid donors.

In seeking to determine the principal drivers of change in Pakistan, we develop a dynamic and historically contingent analysis that distinguishes between structures, institutions and agencies and emphasises the importance both of continuity and change.¹ By structures we refer to the underlying economic, social and political fabric of the country and its resource endowments. These are reflected in the distribution of assets, the sources of economic dynamism, the factors shaping social relations, and the engrained political legacy of the colonial inheritance and form of government. Institutions are taken to be the frameworks of rules governing the behaviour of agents (i.e. markets, legal and administrative frameworks, marriage and inheritance norms), while agents are both individuals and organisations that pursue particular sets of interests.

The report is organised as follows. The next section considers the structural dimensions of continuity and change in Pakistan, taking in the key structural building blocks of the economy, political structures and institutions, the bureaucracy and civil society. Section 3 turns to emerging opportunities and catalysts for change, focusing on the devolution process, the current and potential role of political parties and political processes, the emergent middle class, the media and the role of international actors. Section 4 considers the policy implications of the study findings that point to the potential pitfalls and opportunities for a sustained development process in Pakistan, and strategies that actively address the needs of the poor.

¹ This draws on a conceptual approach developed by Oxford Policy Management for the Nigeria Drivers of Change study.

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2. Structural continuity and change

2.1. The Economy

Macroeconomic trends

Pakistan's economic development has been marked by brief periods of significant economic growth followed by sustained periods of economic stagnation and macroeconomic crisis. Such periods of crisis have been associated with high inflation, low growth, rising budget deficits and rapidly declining foreign exchange reserves. Consequently, for much of Pakistan's history, its macroeconomic managers have been engaged in crisis management. Much of the failure in achieving a sustained economic growth path lies in poorly defined economic strategies. This factor, in tandem with corruption, lack of accountability, and weak judicial mechanisms has enhanced the economic governance crisis in Pakistan since the late 1960s, undermining economic decision making and foreign and domestic investment. Furthermore, there are a number of key structural impediments to growth. The state's inability to introduce effective land reform has been a significant factor in holding back the potential for agricultural development in Pakistan. Similarly, industrial policies focusing on particular elements of the industrial elite have failed to promote employment generating manufacturing growth, and led to a sharply dualistic manufacturing sector with a capital intensive large scale sector where employment growth is declining and factor productivity is low, and a rapidly growing small scale informal sector that accounts for the bulk of manufacturing employment but remains outside the purview of state policy. These structural impediments and weaknesses underline the macroeconomic challenges facing the Pakistani state today.

The decade of the 1990s was a period of economic crisis for Pakistan with its macroeconomic position remaining in a state of systematic instability. This was in part an outcome of political instability and governance problems, as well as the imposition of a series of structural adjustment agreements that sought to curtail the fiscal deficit and reign in government spending. GDP growth rates fell from an average of over 6% a year in the 1980s to an average of 4.5% in the 1990s. Inflation reached double digits in the early 1990s, and despite the agreements with the IMF, the fiscal deficit remained high. In addition servicing of the growing foreign and domestic debt resulted in a series of foreign exchange crises and further worsened the deficit. Thus, most of the IMF structural adjustment agreements that Pakistan entered into during the 1990s, each of which came with stringent conditionalities, failed to run their full course.

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In marked contrast to the experience of the Nineties, Pakistan's current economic position is relatively good. Since Musharraf's takeover in 1999 the overall macroeconomic picture has begun to stabilise. Pakistan now enjoys record levels of foreign exchange reserves, at nearly US\$ 12 billion as of December 2003, low inflation rates of less than 3 per cent, a fiscal deficit of 4.5 per cent with some improvements in domestic resource mobilisation through reforms of the Central Board of Revenue (CBR). In fact, Pakistan has outperformed on a number of the targets set out in the IMF's PRGF facility. The IMF and the World Bank acknowledge that the economy is reasonably robust and well managed and there is genuine recognition that a number of reform measures, such as improving revenue collection and strengthening the country's leading financial institutions - including the State Bank of Pakistan and the Security and Exchange Commission - have improved transparency and reduced the costs of doing business in Pakistan. This is a remarkable and not insignificant turnaround given the perilous state of the economy in the late 1990s.

Despite these achievements, current GDP growth rates, although improving over the past year (to 5.1 per cent), remain low compared to levels experienced in the 1980s, and more importantly are lower than other regional economies, while unemployment, including graduate unemployment, remains a significant problem. Most critically, the incidence of poverty, that rose since the mid 1990s, shows little sign of declining. Furthermore, while Pakistan's overall financial position may have improved, it is unclear whether the basis for this improvement lie in the reform policies initiated by the Musharraf regime, under the stewardship of Finance Minister Shaukat Aziz, or are an outcome of benefits that have accrued to Pakistan in the wake of September 11 in terms of debt rescheduling and new remittance flows. What can be said is that the current economic team have not done anything to worsen the position, and their short-term macroeconomic policy agenda, especially their reforms within the financial sector, has strengthened international confidence in Pakistan and resulted in an improvement in its international credit rating.

What is clear is that Pakistan's economic management team currently enjoys a relatively rare and important degree of space in which to consider further strategic economic reforms that can help place the country on a more long-term economic growth agenda which can result in significant consequences for poverty reduction.

Poverty trends

While there is some debate in Pakistan on the poverty figures, what is not in dispute is that the trajectory of poverty is rising. Taking the government's figures (Economic Survey 2002-03) on

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headcount levels of poverty, overall poverty incidence in Pakistan in 2000/01 was estimated to have risen to 32.1% compared to 26.1% in 1990-91. According to the same GoP figures rural poverty was 39% in 2000-01 compared to 25% in 1990-91. In terms of regional variations, poverty incidence is especially high in Balochistan, parts of rural Sindh and southern Punjab.

In addition to income poverty, Pakistan's social indicators, despite some improvement, remain a cause for concern within the national and donor policy community. The population growth rate has declined from a high of 3.1% in the 1980s to a current level of 2.2%. Literacy levels have improved from 22% in 1981 to 44% in 1998, albeit with wide regional variations. Thus, current levels of literacy are as 18% in rural Balochistan and peak at 77% for urban Islamabad. Gross primary enrolment rates remain more or less stagnant during the 1990s. Similarly, infant mortality rates have improved, especially for female infants, but are still poor compared to the region as a whole. Consequently, Pakistan's relative rank in the UNDP's human development index fell by twelve places during the 1990s.

The worsening poverty, and the relatively poor social development, picture have emerged at a time when poverty within the region had begun to decline, and when there were concerted efforts by both government and the donor community to address the poorly funded social sectors. These aspects of poverty, especially the rapid increase in rural income poverty point to growing landlessness, increasing asset depletion and heightened vulnerability of the rural poor as their income earning opportunities are constrained. This is further exacerbated by regional, caste, and gender differences which imply particular groups of rural, and urban, households are especially impoverished in terms of incomes, assets, education and livelihoods.

The current situation

The Musharraf regime is widely praised, particularly by the donor community, for its handling of the economy since coming to power in October 1999. Pakistan now enjoys a much stronger level of foreign exchange reserves, pointing to some strengthening in its capital accounts, than at any other period. This degree of financial stability is no mean achievement. However, closer analysis of trends since 1999 provides a more nuanced picture. Much of the gains in Pakistan's reserves have come about either through extensive debt rescheduling that took place post Sept 11 as Pakistan emerged as a frontline state in the US-led war against terror, and through what appears to be a one-off, and potentially transient, remittance flow from expatriate Pakistanis, especially those based in North America, Western Europe and the Middle East. Part of this story of higher remittance flows is a reflection of the curtailment of the informal *hundi* money-markets which

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provided the basis for money transfers for many expatriate Pakistanis. It could also reflect a new, and again one-off, source of money from those foreign based Pakistanis who in the current security climate of heightened inspection of financial flows by US and Western agencies are keen to keep their sources of revenues in safer havens.

The current situation raises three sets of questions regarding the state of Pakistan's economy and its implications for driving a pro-poor change process forward. First, how substantive and how sustained is the current level of macroeconomic stability in the country? Second, to what extent is it an outcome of policy measures undertaken by the government of Pakistan? Third, in what ways is the fiscal space currently available leading to the formulation of a medium to longer term agenda for economic reforms?

The improving economic environment creates a significant degree of fiscal space for the Pakistan government to address poverty reduction concerns. The recently released, and donor supported, Poverty Reduction Strategy Paper (PRSP) provides the Pakistan government's perception of how to address poverty. The PRSP is an ambitious document. It recognises the magnitude and distribution of poverty. The PRSP puts forward an economic growth agenda as the primary basis for reducing poverty by generating urban and rural incomes, and improving programmes that address the vulnerability of the poor. There are, however, a number of weaknesses in the approach. The PRSP is too broad and unfocused to point to a clear and strategic plan for poverty reduction. It, for example, lacks a pro-poor employment strategy and much of its support on vulnerability builds on existing programmes that have not proven to be effective. The most significant limitation within the PRSP is that it does not address the critical structural barriers that limit the ability of the Pakistani economy to grow in ways that advantage the poor. This includes issues of land distribution and land reforms and domestic resource mobilisation.

2.2. Political institutions

Civilian and military rule

Politics in Pakistan is characterised by two central features: chronic instability and repeated military intervention. These are linked by a structural tension between the elected and non-elected arms of the state. Since Independence in 1947 there have been several cycles of civilian rule, growing political and economic instability, followed by military intervention. Military rule has invariably been accompanied by measures (in the form of constitutional amendments and special ordinances) that concentrate powers in the executive at the expense of the legislature, and devolve

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power from provincial to local governments. This reflects a deliberate strategy of weakening legislative government at the federal and provincial levels while seeking to build up some degree of popular legitimacy in local councils. Civilian regimes have generally reversed measures designed to strengthen the discretionary powers of the President and reduce the powers of the elected Prime Minister (Cheema and Mohmand, 2003).

Repeated cycles of military and civilian rule have not significantly changed the underlying constitutional fabric of the country since the introduction of the 1973 Constitution under the Zulfikar Bhutto. There remains a significant measure of agreement across the political divide that three essential features of this Constitution remain immutable: the Islamic character of the state, federalism, and parliamentary democracy. Successive military and civilian regimes have promulgated constitutional amendments and special ordinances but without challenging these basic features. Even under military regimes the institution of parliament has been left intact, even if substantially weakened, perhaps as a means of legitimising military rule, but also in recognition of the constitutional legitimacy of parliamentary sovereignty (Gazdar and Sayeed, 2003).

There is an apparent paradox in the fact that political government under civilian rule was very unstable in the 1990s despite growing policy convergence between the two dominant political parties, the Pakistan Muslim League (N) and the Pakistan People's Party. There was agreement, at least in rhetoric, on macro-economic policy, the Kashmir issue, robust engagement in Afghanistan, and the use of force to suppress urban violence in Karachi. The governments of Benazir Bhutto and Nawaz Sharif both resorted to using state machinery to persecute each other while in office, using the powers conferred on non-elected arms of the government and the army to arbitrate in their political conflict. The army has also played a critical role in shaping foreign and security policy over Kashmir and Afghanistan, and domestic law and order policy. The use of the army in this way also reflects the fact that there was no attempt by any of the civilian regimes in the 1990s to reign in the military's corporate interests. The military retains an aura of institutional stability that serves to mute public opposition to military intervention in the political process.

Structural continuities

Two other features of domestic politics merit particular attention as they reflect deeper structural continuities within Pakistani society, namely ethnicity and religion. Ethnicity has played a central role in shaping the contours of political life and has been a potent source of political mobilisation. This was most strikingly evident in the nationalist upsurge that led to the creation of Bangladesh

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in 1971 in the wake of a bloody civil war, but also in the form of Pashtun, Sindhi and Baloch nationalisms that have strongly influenced provincial and federal politics at various points in the past. The political and economic dominance of the Punjab has long been a source of political resentment among the smaller provinces, and fuels ethnic sentiment. The nationalist project in urban Sindh represented by the MQM has proved capable of unleashing considerable violence and political instability, undermining the capacity of the state to enforce law and order. Despite the diminished salience of the national question in contemporary Pakistani politics, ethnicity retains considerable mobilising potential over matters of resource distribution, both in fiscal affairs and the distribution of water and other natural resources.

Religion plays a critical role in Pakistani society and politics, stemming from the demand for a separate Muslim majority state during the late colonial period. Islam plays an important societal function, providing the foundation for the assertion of a distinct set of cultural practices and a particular form of gender relations. Religious parties seek to have these values validated in the political realm through the enactment of legislation outlawing the consumption of alcohol and dissonant sexual practices, and banning of minority religious practices considered contrary to Islam (notably the Ahmadis). Although they did not command significant electoral support, the war in Afghanistan and active support from General Zia in the 1980s strengthened the political presence of conservative religious forces, and their influence over non-elected branches of the state. Their campaign for more restrictive legislation successfully translated into the adoption of the Hudood Ordinance under the Zia regime, which introduced strict adherence to sharia law. The influence of Islamic political parties in domestic politics was clearly disproportionate to their electoral strength for much of the post-Independence period. Although religious parties had been in coalition governments in earlier periods (notably the JUI in coalition with the National Awami Party in NWFP in 1971), it was not until the elections of 2002 that religious parties emerged as a significant political force, claiming power in the NWFP and becoming the leading partner in the coalition government in Balochistan (Ali 2004).

Current developments

The military government of General Pervez Musharraf came to power in a coup that ousted the elected government of Nawaz Sharif in October 1999. This brought to an end a succession of factious and unstable civilian governments in the 1990s following the demise of the Zia regime. The Musharraf regime differed from its military predecessors in a number of key respects while at the same time exhibiting some similar characteristics. The new government brought in civilian technocrats to advise on policy reforms and legitimised its rule through a Legal Framework Order

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(LFO). In 2002 provincial and federal elections, that were alleged to have been manipulated, brought to power governments that were broadly supportive of the military regime, though a substantial number of opposition legislators managed to secure representation. Constitutional reforms introduced in late 2003 effectively incorporate the provisions of the LFO into law but with the proviso that President Musharraf would need to stand down as army chief of staff by the end of 2004. The power base of the regime continues to reside with the military, supported by a coalition of parties formed in opposition to the traditional party blocs that have dominated Pakistan politics for the past four decades.

2.3. The bureaucracy

It is widely acknowledged that Pakistan inherited a competent and well organised bureaucracy at Independence in 1947. Key features of the post-colonial bureaucracy were strong capacity for policy formulation and execution and a significant measure of independence from the political realm. There is consensus that the capacity and influence of the bureaucracy has diminished over the past four decades, leading to growing incoherence between policy formulation and implementation and poor governance. In part this is attributable to weak and incoherent policy formulation under successive military and civilian governments combined with deliberate efforts to undermine the power and legitimacy of the bureaucracy. This process accelerated in the Bhutto period with the removal of constitutional safeguards in relation to remuneration and conditions of service under the administrative reforms introduced in 1973 (Cheema and Sayeed, 2004).

The reorganisation of the bureaucracy and the abolition of the elite Civil Service of Pakistan (CSP) further reduced the eminence and insulation of the higher levels. Lateral entry and movement between the different cadres further eroded the well-knit hierarchy of the CSP, and was used by Zia-ul-Haq as a means of institutionalising the entry of the armed forces into the civil service. These provisions enhanced political control over the bureaucracy and curtailed its autonomy, especially at higher levels. The proportion of civil service appointments granted to military officers and appointees increased with successive military regimes, with the number of such positions reaching a peak under the Musharraf government. It is estimated that up to 1,200 senior appointments in the civil service and public sector enterprises have been awarded to serving military officers under the present regime.

A tendency to use bureaucratic employment as a patronage mechanism was enhanced following the implementation of these measures with a significant increase in recruitment under the Bhutto government, particularly at lower levels, with a consequent increase in the share of state

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expenditure of GDP. Growing politicisation of the bureaucracy was evident in decisions on transfers and promotions which were increasingly determined by political considerations. There was also a growing shift in the social class composition of the bureaucracy from landed or urban professional groups, to a more pronounced middle class profile on account of new recruitment patterns.

Internal factors have also promoted bureaucratic decline, reflected in growing levels of malfeasance and incompetence. The declining cohesion and fragmentation of the bureaucracy allowed individual bureaucrats to increase their discretionary powers, while outmoded and ineffective performance management measure left such actions unchecked. Low salaries and a modest benefits package exacerbate rent-seeking tendencies, and contribute to low morale and poor performance. Politicians were unable to enforce accountability on the part of bureaucrats while at the same time failing to provide an over-arching policy framework and appropriate set of incentives to guide bureaucratic behaviour. Finally, bureaucratic capacity and behaviour has been affected by successive experiments in decentralisation, which have weakened the federal and provincial bureaucracies but without strengthening the competence of local governments (Cheema and Sayeed, 2004).

Institutional reforms, political interference and changing incentive structures have had adverse consequences for the developmental performance of the bureaucracy and its capacity to deliver services and public goods effectively. There is also a growing disjuncture between policy formulation and execution. These developments have major implications for a forward looking agenda premised on growth and poverty reduction, and undermine the capacity of the bureaucracy to act as a potential driver of change.

2.4. Civil society

Civil society in Pakistan is a highly contested domain in which groups of citizens pursue their collective interests with regard to the state and other social actors. Civil society organisations have only come to prominence over the past two decades as the formal political process has eroded and funding from overseas sources has increased. Their agendas vary widely, ranging from the provision of services to disadvantaged social groups to the pursuit of political and ideological goals that require sustained interaction with the state.

Most organisations are engaged in alleviative work in the form of welfare services to the poor where the state is not able to provide adequate or accessible services, and major philanthropic institutions like the Edhi Foundation are among the largest and most visible of these. Religious

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groups providing education account for the largest share of organisations classed as not-for-profit, a large proportion of these providing education and health services for the poor. A second category are community development oriented organisations that aim to improve livelihoods through credit and income generation and regeneration of natural resources, epitomised by the various rural support programmes initiated by the Aga Khan Foundation (Khan and Khan, 2003).

A smaller number of organisations are engaged in rights and advocacy work guided by a transformative agenda, in which a more equitable distribution of power and resources from a rights perspective constitutes the principle frame of reference. Protection of human rights through focused advocacy work with state institutions is the hallmark of this approach, and is usually associated with urban-based organisations led by middle class professionals. Specific categories of rights taken up by these groups include women's rights, child rights and labour rights. Most of these organisations emerged in opposition to the increasing intolerance towards women and minorities under the Zia regime in the 1980s and depend heavily on financial support from foreign donor organisations.

Social movements, while relatively few in number, are explicitly oriented towards a social change agenda and have the capacity to mobilise large numbers of people around collectively defined goals. The women's movement is among the most significant of these even though it lacks a cohesive ideology or set of actions. Women have mobilised around issues such as domestic violence, legal rights and political representation with varying degrees of success. A particular focus of women's advocacy efforts has centred on repeal of the Hudood Ordinance and the Shariat Act which have been used to falsely implicate women on charges of adultery continue to remain in force. A more radical form of activism is associated with the peasant movement that has strong historical roots in several parts of the country. The recent rise of a farmer's movement in Punjab opposed to land alienation by the military (Anjuman Mozarein) is indicative of the potential of mobilisation by the rural poor and demonstrates that grassroots activism has continuing significance.

Civil society organisations and social movements espousing a transformative agenda have not registered significant success in challenging the fundamental power imbalances inherent to Pakistani society. A number of development NGOs have coalesced into an incipient movement for change through horizontal networks but have as yet exercised limited influence. Expectations that the women's movement would be in a position to exert an effective challenge to discriminatory laws have not been borne out in practice. The repressive Hudood Ordinance has remained in place since its introduction by the Zia regime in 1979. Human rights groups and

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women's organisations have continued to focus public and media attention on cases of individual cases of injustice and prevented capital punishment for cases of adultery under the Shariat Act. More recently calls to remove the Hudood Ordinance have been made in Parliament, leading to an important political debate between religious groupings on the one hand and more secular political forces on the other. This debate, which is unlikely to be resolved by the current parliament, is partly motivated by the powerful report of the National Commission on Women that documents ways in which the Hudood Ordinance has been used to control and oppress women, and their ability to exercise control over assets. These developments point to the potential significance of civil society activism while acknowledging the considerable power exerted by forces resistant to social change in the establishment and the wider society.

2.5. Industrial capital

In Pakistan the growth of industrial capital has been closely linked to the state and to state policies that have provided economic rents to industrialists through selective import and trade policies involving tariff protection, subsidised credit and fiscal subsidies. Despite this explicit support industrial capital has failed to diversify its sectoral profile, being predominantly located in the textiles sector, or to substantially raise productivity. Thus, since the 1980s manufacturing employment as a share of total employment has declined, and despite rising levels of manufactured exports, benchmarking Pakistan's regional competitiveness shows clearly how Pakistan's relative position in terms of industrial development has deteriorated (Lall and Weiss, 2003). Much of the weakness of industrial development is associated with the nature of the ties that large scale private capital has had with the state, where trade policy rents have reduced competitiveness and diminished entrepreneurial growth.

One positive aspect of industrial capital development is the growth of the small firm sector. The small scale industrial sector is estimated to account for over 70% of total manufacturing labour force in the country. While much of this employment takes place in informal settings, there are clear indications of small scale clusters, especially in central Punjab, emerging as important centres of export, often becoming significant global players within particular niche industries (such as sports goods and surgical instruments). Yet, even within these niche sectors Pakistan does not display a sustained path of technological upgrading and sustained competitiveness.

The trade policy reforms that began in the early 1990s weakened the nature of rent creation by the state for industrial elites. It also improved areas of transparency in decision making. Yet, industrial investment remains stagnant. This is paradoxical given the high levels of liquidity in

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Pakistan's banking sector and the currently low interest rates. A number of factors hold back the industrial investment and the growth of industrial capital, especially within the large scale sector. These impediments include the poor provisioning and high costs of physical infrastructure such as road and rail transport (for instance port charges in Karachi are some three times higher than Mumbai in India) and electricity distribution. The induction of private sector power providers to help offset the chronic weaknesses of Pakistan's public sector power generation bodies has failed to reduce power tariffs, with Pakistani industry paying significantly more for electricity than its regional competitors. Political instability – reflected in the current conflicts regarding the LFO, poor law and order – with targeted attacks against Western interests and individuals, weak enforcement of contracts compounded by a slow, ineffective and often corrupt judicial process have all served to undermine the confidence of private capital, to deflect private industrial investment and to discourage foreign investment. These factors, alongside existing bureaucratic procedures, raise the transaction costs of doing business in Pakistan. At the same time the poor standards of education and levels of technical skill within the Pakistani labour force ensure that Pakistan remains in large measure at a technical plateau where industrial manufacturing is restricted to low skilled and low value added processes (Nadvi and Sayeed, 2004).

Industrial capital has not played a significant role in Pakistan's economic and political development. A central weakness lies in the ways in which industrial capital has been linked with the state. Industrial capital can have an important role in promoting pro-poor growth in Pakistan, particularly through generating employment in labour intensive manufacturing. The driver for such a development lies increasingly within the small and medium scale manufacturing sector, especially in Central Punjab. This underlines the need for a more targeted industrial and economic policy that recognises the importance of promoting competitiveness within global trade policies, and focuses on enhancing the strategic competitive advantages of key elements of the industrial economy.

The foregoing analysis demonstrates that poverty in Pakistan results from deprivations in economic assets, political and social rights, and social and municipal services. There is considerable inequality in people's access to these entitlements and poverty has increased over the past decade. Macro-economic stability has not been associated with sustainable growth and poverty reduction. Poverty reduction strategies must therefore build on income and employment generation through institutional changes that create opportunities for participation for the poor, and to improve their social and political rights in a manner that makes the state accountable.

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3. Models of pro-poor change

Various models have been developed to explain processes of pro-poor change from different vantage points and the limitations on their validity and application in the Pakistan context. The extent to which pro-poor change can be anticipated and supported depends to a significant degree on the model of social change that offers the greatest explanatory power. Six models of pro-poor change can be identified in this regard: (1) market-driven growth untrammelled by government interference; (2) increased investment in social development through social sector spending; (3) measures to erode the political and economic dominance of vested elites; (4) political stability as a pre-requisite for private investment and progress towards pro-poor change; (5) the emergence of new classes and interest groups; and (6) cultural changes that promote modernisation, openness and equality (Gazdar and Sayeed, 2003).

One set of potential drivers of change consist in policies and processes that promote market based economic transformation. These require systematic attention to the structural causes of poverty and low rates of capital formation. Neo-liberal advocates of market-based liberalisation argue that markets cannot operate effectively unless government is downsized and its influence over economic activity curtailed. But economic liberalisation in Pakistan in the 1990s did not result in sustained investment or poverty reduction. Attention has focused on political and legal reforms as an essential pre-requisite for an enhanced supply side response. Active engagement by the state in stimulating economic activity is no longer held to be incompatible with market based growth. Measures designed to promote industrial investment, especially small and medium enterprises, have great potential for employment generation, by creating appropriate incentives and opportunities. Excess liquidity in the economy is indicative of the availability of credit for investment purposes. But industrialists will not be persuaded to invest until the legal environment for contract enforcement is rendered more predictable, corruption is curbed and political stability and legitimacy is achieved. The economic influence of the military and its tendency to crowd out investment is a further disincentive to private capital formation (Siddiqa, 2004). Yet increased private investment does not guarantee pro-poor change in the absence of social safety nets to protect the poor during periods of transition to market driven growth (Gazdar and Sayeed, 2003).

A second model of pro-poor change is predicated on the argument that under-investment in the social sectors inhibits social development which in turn lags behind economic growth. While social development goals are acknowledged to be desirable goals in their own right, slow progress in social development is believed by proponents of the social gap thesis to hinder economic growth as a result of inadequate human capital formation. The implication is that social

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development goals require priority in policy reflected in a reallocation of resources towards social sector spending. Increased investment in the social sectors is a strategy that commands considerable support in government and among aid donors in Pakistan. This approach was predicated on improving social indicators through a range of multi-sector, multi-area programmes, and informed the premises of the Social Action Programme (SAP) in the 1990s. In reality, the SAP has failed to deliver due in large measure to poor accountability, co-ordination and the failure of national and local levels of government in taking effective ownership of the programmes. Despite the failure of the SAP, the principle that government spending needs to be reoriented towards development at the expense of other sectors (including the military), and also within the development budget towards the social sectors remains valid. The current philosophy underpinning government and donor policies is that social sector expenditures should be progressively raised and increasingly come under the purview of local governments, with commensurate power and resources to discharge these increased responsibilities.

A third model is premised on the barriers to pro-poor change posed by monopolisation of the electoral process by powerful landed elites, who in turn capture government resources and dominate policy priorities in ways that are detrimental to the poor. The skewed distribution of land and assets in favour of vested rural elites and the forced sequestering of agricultural land for retired military officers and the military's consumption requirements constitute the most visible manifestation of this problem (Gazdar and Sayeed, 2003; Siddiqi, 2004). There is no sign that either of these structural obstacles will be fundamentally changed in the short to medium term, in the absence of a strong mobilised constituency for agrarian reform to counter the economic and political dominance of landed interests, though growing resistance by farmers' movements has begun to check land alienation by the military in Punjab and Sindh. There is also a marked degree of mobility among elites in rural Pakistan in which traditional hierarchies structured around caste, biraderi and ethnicity no longer serve as absolute determinants of elite dominance (Gazdar, 2003). Moreover, elections in Pakistan remain strongly competitive and political parties retain a measure of resilience, which runs counter to the premise of absolute capture of the political process by vested elites that are resistant to change, by implication challenging the assumption that the electoral process is compatible with pro-poor reform.

Political stability is often considered a pre-requisite of pro-poor change, by creating a favourable climate for investment and economic activity. Conversely, frequent changes of government and policy direction and uncertainty in the rule of law deter private investment and its potential to contribute to poverty alleviation. Political instability invariably weakens the legal environment,

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reduces predictability, allows corruption to flourish and undermines pro-poor policies. Fear of political instability under civilian rule explains why military intervention in politics is generally accompanied by minimal popular resistance in Pakistan. This focuses attention on measures that would reduce the scope for instability under elected civilian governments and in the process create a more predictable and congenial environment for economic activity. This does not mean that unstable governments invariably adopt contradictory policies, as revealed in the continuity between the civilian regimes in the 1990s, but it does highlight the considerable gap that exists between policy formulation and implementation, and the continued influence of unelected arms of the state in shaping outcomes (Gazdar and Sayeed, 2003).

The emergence of new classes and interest groups is often posited as a potential driver of change since these have the potential to challenge and undermine existing power relations. According to this thesis existing power brokers in Pakistani society, such as landowning elites, the urban rich, and state functionaries will need to accommodate emergent class interests or face political conflict (Gazdar and Sayeed, 2003). The emergent middle class is often assumed to play this role by virtue of its numerical and economic significance, but its interests may well run counter to those of the poor. A counter-argument to the latent progressive role of the middle classes highlights its engagement in unproductive rent-seeking which diverts resources from the poor (Nadvi and Sayeed, 2004). There is also little evidence to suggest that increased prosperity translates into a more assertive political role for the middle classes in Pakistan but rather one of accommodation and quiescence.

Cultural change associated with modernisation, greater openness and equality, especially in gender relations, is identified by Gazdar and Sayeed (2003) as a potential source of change. New cultural norms emanate from increased economic prosperity and exposure to external influences from countries in the region (such as the Gulf states) and beyond. The media also plays an increasingly important role as a purveyor of new ideas and values, most visibly epitomised by the rapid growth of cable television stations broadcasting from outside the country (Hussain, 2004). But there are also contradictory currents at work, epitomised by social conservatism that is rooted in religious ideology and tradition. These opposed tendencies have the potential to generate conflict but they also contain the seeds of accommodation. In principle, modern secular values associated with a section of the emergent middle classes may well clash with the values of social conservatism associated with the Islamic political parties. But these parties may well moderate their claims and prioritise the material concerns of their constituents with a view to consolidating their political foothold in provincial and federal government. The religious parties may be able to

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retain the support of the emergent middle classes provided they find a balance between social conservatism and moderate and responsible governance (Ali, 2004).

4. Opportunities and catalysts for change

The stylised models outlined in the previous section help to situate a range of possible catalysts of pro-poor change, based on a series of political and institutional opportunities in the contemporary Pakistan context. The internal drivers with the best potential to effect more lasting change inhere in five sets of factors: (a) decentralisation, (b) the emergence of new political forces, (c) the growth and diversification of the media, (d) the rise of the middle class, and (e) international factors. External influences play a critical role in Pakistan and strongly condition domestic politics and change processes, but will not foster pro-poor change if security considerations continue to predominate over development and democracy.

4.1. Decentralisation

Decentralisation creates opportunities for increased local representation and heightened discretion over decision making and resource allocations provided that adequate powers and responsibilities are transferred to elected local authorities. As an institutional innovation, decentralisation has the potential to stimulate local developmental processes, creating opportunities for change and reform. However, experience suggests that decentralisation does not ensure that the prospects for poverty reduction will be significantly enhanced.

There were two previous attempts to devolve power in Pakistan since Independence, but neither has survived the regime that promulgated the reforms. In each case it was a military regime that introduced decentralisation measures (the Basic Democracies Order in 1959 under Ayub Khan, and the 1979 Local Government Ordinance of General Zia ul Haq) that were subsequently dismantled by elected civilian regimes. The dynamic of military political engagement coupled with efforts to devolve power and administration offers important lessons regarding the lack of sustainability of the current reforms under the Musharraf government.

Past decentralisation efforts by the Ayub and Zia regimes failed to bring about a substantive decentralisation of power or to empower local governments or the citizenry at large. Instead these efforts resulted in the institutionalisation of personalised politics, disempowered the provincial elected tier, limited the power of elected local governments, and increased the power of the bureaucracy, while maintaining a centralised state at the federal level (Cheema and Mohmand, 2003).

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The military government of General Musharraf introduced a Local Government Plan in 2000 designed to improve social service provision by decentralising service delivery and planning to elected governments at the district, *tehsil* and union levels. In many ways it represented an advance on earlier decentralisation efforts. In the new dispensation the district bureaucracy is placed under the authority of elected *nazims* (mayors). Direct elections at the union council level and the reservations of seats for women and peasants provide statutory representation for those traditionally excluded from the domain of local politics. District governments now have significantly enhanced responsibilities for service provision. Mechanisms have been put in place (Village Neighbourhood Councils and Citizen Community Boards) to institutionalise citizen participation in service delivery. There is greater equity between less developed and more advanced districts in some provinces. The new arrangements ostensibly provide an opportunity for improved service delivery, equity outcomes and more effective political representation, and thus decentralisation might be construed as a potential driver of pro-poor change.

At the same time, the present reforms suffer from a number of structural weaknesses that could undermine their effectiveness as a vehicle for improved governance and service delivery. The most significant of these are as follows: (1) no decentralisation of federal powers (such as taxation) to the provincial level; (2) no constitutional protection to local governments; and (3) no significant increase in the fiscal powers of local governments.

There is strong political resistance to decentralisation among provincial bureaucrats and politicians. This is explained by several factors: (1) the perception that local government reform is part of a wider constitutional re-engineering strategy designed to centralise political power in the hands of the military; (2) holding local government elections on a no-party basis which legally excluded the political parties from active involvement; and (3) competition from newly-elected mayors over the patronage and resources traditionally available to provincial politicians (Cheema and Mohmand, 2003). The lack of political ownership is compounded by the fact that provincial services were devolved to district and *tehsil* governments before the provincial elections which infers a lack of commitment to strengthening the legitimacy of the new local government system.

The lack of support from the political parties and the disinclination of civilian governments to persevere with decentralisation in the past highlight a fundamental weakness in the present arrangements. Unless measures are taken to build political support for the reforms their status will remain fragile and the opportunities latent in the decentralisation provisions may not be realised in practice. The lack of political support from elected politicians and bureaucrats at higher levels

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of government does not augur well for the sustainability of the current decentralisation experiment, even though the recent constitutional amendment provides firmer legislative grounding for the reforms.

4.2. Political parties

The traditionally dominant political parties – the Pakistan People’s Party and the Pakistan Muslim League – retain considerable political support but their organisational base and legitimacy has been substantially eroded. Their active membership has declined and both lack an established organisational infrastructure, exacerbated by the military’s active engagement in politics. Both parties have been subject to intense factional politics centred on powerful individuals and the lure of political power. Factions of both parties are represented in federal and provincial governments, and the PML-Q is the dominant party in the coalition at the centre, with the open support of General Musharraf. The opposition is unable to perform an effective political role in the federal and provincial assemblies as the scope for effective parliamentary debate is circumscribed by the provisions of the Legal Framework Order imposed by the military.

As the power and influence of the traditional parties has waned other political formations have come to the fore. Elections in October 2002 paved the way for the emergence of a new political formation, the Muttahaida Majjlis-i-Amal, comprising six Islamic political parties, with the Jamaat-e-Islami (JI) and the Jamaat-e-Ulama Islam (JUI) as the major coalition partners. The MMA gained a plurality of votes in NWFP, a major share of seats in Balochistan, and a total of 45 National Assembly seats.

Perhaps the most significant factor is that the 2002 elections were the first time in Pakistan political history that the religious parties had campaigned as a bloc. They were able to capitalise effectively on Pashtun anti-American sentiment soon after the war to oust the Taliban government in Afghanistan. These factors helped to produce a consolidated vote for the MMA, amounting to nearly 10% of the votes cast nationally, as compared to less than 4% in the previous elections of 1993 and 1997. No Islamic party has managed to gain sufficient votes to govern a province in its own right in any previous election and this is clearly significant. The JUI has been represented in previous coalition governments, notably in NWFP with the National Awami Party in the early 1970s based on vote shares comparable to those attained the 2002 elections. In forging alliances with secular parties the JUI supported populist policies (such as the waiver of interest on loans to peasants) as well as measures to enforce a strict Islamic code premised on the

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banning of alcohol and gambling and requiring women to wear the veil in commercial centres (Ali, 2004).

Some observers claim this represents a turning point in Pakistani politics while others dispute the significance of this outcome. The assumption that MMA is capitalising on a strong well-spring of support for radical religious measures in the Pashtun areas is mitigated by several factors. The lure of religious fundamentalism is offset by the exposure of migrant Pashtun labour from the NWFP to more open cultural values in the larger metropolitan cities and the more liberal Gulf states. This is compounded by the influence of off-shore satellite television and the global cultural influences it conveys.

Whether or not the rise of the MMA represents a potential driver of change hinges on how the coalition performs in provincial government, reflected in a qualitatively different mode of governance, or simply the pursuit of a narrow religious agenda and conservative social values. The MMA leadership is keen to demonstrate that it adheres to good governance norms and provides services that are developmentally oriented in office, while at the same time pursuing its religious and cultural agenda.

The long term future of the mainstream political parties may also be more positive than past experience might suggest. The main political parties have remained surprisingly resilient in the face of determined efforts by military regimes to undermine their legitimacy and command significant support among large swathes of the population, playing an important role in political accommodation and aggregating political demands. Ultimately the mainstream political parties provide the principal countervailing force to the military and will have to forge alliances and enter into compromises with the newer political formations in order to achieve a peaceful and orderly transition from military rule.

4.3. The media

The media in Pakistan has gone through a revolutionary change in the last few years. There has been an unprecedented expansion of the electronic and print media fuelled by technological change and a more accommodating regulatory environment. The emergence of new private broadcasters and cable networks has had a dramatic impact on Pakistani television. Many of these are located outside the country and are insulated from government control, though new regulations permit them to broadcast material originating in Pakistan (Hussain, 2004).

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In contrast to earlier periods of military rule when strict controls were placed on the media, the Pakistani media now enjoys a significant amount of freedom under the present government of General Musharraf. The press and television broadcasters often produce incisive political analysis and criticism of the government and its policies without fear of retribution. This provides a basis for more informed public debate and exchange of views, thereby strengthening the foundations of political pluralism.

There has also been an explosion in the print media with the emergence of a large number of newspapers and magazines in English, Urdu and the vernacular languages, especially Sindhi. Greater press freedom has given more emphasis to investigative reporting and analysis and coverage of political and social issues. Journalism is attracting a higher calibre of staff that is better trained in reporting skills.

The impact of these changes is shaped by access to various media outlets. The readership of newspapers remains relatively low, with total circulation standing at 2 million, or one paper for every 60 people, reflecting low literacy rates among other factors. Only seven newspapers have a circulation greater than 100,000. Television and radio have far greater reach and thus have the potential for greater impact. There are some 12 million radio sets in the country and changes in legislation governing radio broadcasting, along with more liberal access to FM broadcasting, has increased the range of programmes and coverage. Television coverage is expanding rapidly with cable connections reaching an expected 38 million households in 2004; 42 per cent of urban households and 16 percent of rural households now have access to satellite television. These figures suggest that access is widening across regions and income groups (Hussain, 2004).

Despite the considerable change that has taken place some constraints remain in place. Religious issues cannot easily be addressed by the media and blasphemy laws act as a deterrent to in-depth critique. Another constraint lies in restrictions on access to official documents and government information. The newspapers are periodically reigned in by the Ministry of Information and Broadcasting for adverse political coverage of the government and head of state in particular and decisions on where to place government advertisements can influence editorial content. While it is no longer possible for the government to exert direct control over the media due to its changing character and public demand for a freer media environment there are periodic attempts to exert indirect control and influence over the press and private broadcasters under the current regime.

The growth and diversification of the Pakistani media creates the potential for promoting far reaching cultural and political change. This is evident from a broader and more incisive coverage

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of political issues and a more critical engagement with social and cultural issues which can in turn shape values and attitudes. A freer and more vocal press has increased the accountability of government and makes people more aware of their rights. The religious establishment has demonstrated disquiet over the influence of modern values through satellite television and supporters of the MMA in NWFP have sought to disrupt cable broadcasting, but this has not prevented continued expansion of connections in the province. The media remains one of the most significant drivers of social and cultural change in the country despite opposition from the religious establishment and periodic incursions on press freedom.

4.4. The middle class

The development of a vibrant urban industrial bourgeoisie and professional middle class can have a significant impact on processes of economic, social and political development. Such groups within civil society can be harbingers of change, eroding traditional norms and values and replacing them with 'modern' concerns regarding the acquisition of knowledge and education, the development of new innovations and acquisition of technologies that raise productivity, to making demands for democratic political processes that enhance transparency in decision making and improve political accountability, providing effective rules and laws to govern the relationships between citizens and between citizens and the state. Similarly, urbanised middle classes can promote and support a more vibrant culture with space for creative thinking and artistic expression (Nadvi and Sayeed, 2004).

There is an important demographic shift emerging in Pakistan through the increasing pace of urbanisation. This pattern is most significant in parts of the central Punjab where there is a clear urban agglomeration that stretches from Faisalabad to Lahore, Gujranwala, Sialkot and Gujrat. Most of the urban settlements and leading metropolises of this area are known for their manufacturing activities with a number of cities and towns emerging as leading centres for the manufacture of specific product ranges. In many of these districts, urban manufacture and service activities now outstrip rural income generation.

The growth of this urbanised belt is also resulting in the rise of a growing Punjabi middle class with strong values focused on education and on enterprise. The demand for education, especially English language education, is particularly marked in this region and the returns to schooling are valued. While this region retains a culturally strong Islamic identity, it is not a region where such identity politics has strengthened into a direct political manifestation as observed in parts of rural and urban NWFP. Instead, it is as best a cultural and social conservatism that is linked to

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religious values within Islam. Within this conservatism there is a desire for improving women's education, for opening up public spaces for greater social and economic interaction, and for demands on local and provincial levels of government to more effectively deliver a range of public services. Thus, urban Lahore, for example, reflects a city where there is now widely acknowledged trajectory of socially conscious urban development with sustained improvements in the transport infrastructure, in water and sewerage delivery, in the construction of parks and public spaces, in improvements to the old city and its architectural heritage, and in urban uplift. At the same time there are large areas of Lahore where the state has failed to improve the urban environment. Nevertheless, there is a sense that a trajectory that began in the early 1980s is now well-entrenched and one that cannot be reversed. This process, it is argued, has come about through a maturing of political demands between local citizens and the state – most readily apparent in Lahore but also beginning to express itself in other urban centres in the region.

The growth of the middle classes is a slow societal and economic process. It creates economic as well as political pressures and opportunities. We do not yet see signs of leading political parties explicitly working with this agenda. The only political parties in Pakistan which retain a strong middle class base, and where members of the middle classes have risen to positions of authority, are the Jamaat-e-Islami and Karachi's MQM. However, it is likely that as economic development, especially within the central Punjab, drives forward this demographic shift, existing and new political forces will increasingly vie to emerge as the bearers of the political interests of this important group of urban voters. This will involve, with time, a weakening of kinship identities in political processes, and an increasingly issues-based politics.

These trends will take time to coalesce and strengthen. What is being seen in central Punjab is also likely to, and is already, to be seen in parts of the NWFP (especially Peshawar and Mardan) and Karachi – the country's leading urban centre with a large but largely politically marginalised middle class. These groups point to medium to longer term drivers of change with which policy has to be more actively engaged. Strengthening these trends is likely to have a significant effect on poverty reduction through employment and income gains driven by economic growth, and through the strengthening of 'liberal' and 'enlightened' values and norms within wider Pakistani society.

But these expectations may well be excessively optimistic in Pakistan where the middle class has not traditionally exhibited these virtuous characteristics. The extent to which the growing middle class in Pakistan acquires such characteristics and sheds its willingness to indulge in rent seeking

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activity and transcend its political conservatism will determine its potential role as a driver of change.

4.5. International actors

International factors play a very influential role in Pakistan in view of its strategic significance in the West Asia region, especially in the aftermath of the war to oust the Taliban in Afghanistan and the September 11th 2001 terrorist attacks in New York. Pakistan is considered by the United States as a bulwark against the spread of Islamic fundamentalism in the region, and General Musharraf as spearheading the struggle against such forces. After terminating its very substantial aid programme in the early 1990s, the US is once again building up a large and visible aid presence.

The consequences of this enhanced international influence are threefold: (a) a very substantial increase in aid flows and generous debt rescheduling terms, contributing to the achievement of macro-economic stability; (b) a more interventionist stance over the Kashmir issue on the part of the US, to prevent war between India and Pakistan; and (c) accommodation to continued military rule and influence in economic and political affairs.

The U.S. government is a highly influential actor but serves as an impediment to more far-reaching political change in its present support for the Musharraf government. Most other foreign governments, including the U.K., have assumed a similar stance, and consider the present government to be sufficiently reformist and committed to pro-poor development to warrant strong support. Development goals are viewed as compatible with broader political objectives of maintaining stability in the region. Aid donors and foreign governments thus exercise considerable influence over domestic politics and policy making, but this form of engagement has contradictory implications for pro-poor change.

Large-scale support in the form of substantially enhanced aid commitments has been integral to the attainment of macro-economic stability from which the government has gained some measure of legitimacy. The production of a Poverty Reduction Strategy Paper is held to be indicative of policy commitment to tackling the persistent and growing problem of poverty despite the absence of specific measures to address the structural causes of poverty. The government's commitment to decentralisation has resonated with aid donors who channel an increasing proportion of their disbursements through local governments in the expectation that this will improve the effectiveness of social sector expenditures.

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Aid donor involvement can help to widen opportunities for pro-poor change and the adoption of policies that potentially benefit the poor. But narrow and uncritical support for the military regime can undermine the longer-term goal of sustainable poverty reduction for a number of reasons. Short-term entry points for policy and institutional engagement do not provide firm foundations for pro-poor change when they are not grounded in political and historical realities. Political commitment to decentralisation and structural reforms is weak, and experience proves that civilian regimes tend to opt for a sharp break with military governments. Moreover, donors are reluctant to tackle structural impediments to poverty reduction in the form of a highly iniquitous system of land ownership and military's corporate interests on account of the strategic significance of their support for the Musharraf regime. Hence, there is an inherent tension between the factors that have contributed to sound short-term economic management and the goals of pro-poor policy change. The very factors that contribute to the creation of fiscal space through an inflow of aid resources – the war against terror and the conflict in Afghanistan – also strengthen the power of the military and undermine democratic politics.

5. Implications for Policy and Practice

5.1. Overall findings

The key finding of this study is a pessimistic one in that the potential drivers of change in Pakistan are limited in number and scope. There is little expectation of sustained pro-poor change from structural or institutional reforms in the short to medium term, while there are few sources of agency with both the commitment and power to stimulate an enduring change process. The current level of macroeconomic stability points to a rare and critical window for driving a pro-poor change process forward, but raises provisos about its sustainability and consequences for a strategy of long term poverty reduction.

While the intention of this study is not to provide prescriptions for pro-poor policy change in Pakistan, there are a number of broader lessons for aid policy and practice:

- (1) The time horizon for enduring pro-poor policy change is far longer than is typically embodied in aid planning cycles, which confirms one of the key tenets of the drivers of change endeavour. Many changes of a more fundamental nature occur over decades rather than years and aid agencies need to adjust their time horizons accordingly.
- (2) Structural continuities serve as critical impediments to change (such as the pattern of land distribution and gender relations) and these are relatively impervious to short term

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institutional and policy innovation, but might evolve more gradually over a longer time frame.

- (3) A high level of unpredictability and volatility in politics and the economy, fuelled in significant measure by external factors and geo-political developments, have exercised considerable influence over domestic developments at key junctures.
- (4) It is important to acknowledge the significance of historical precedents, centred on previous cycles of military and civilian rule and their institutional legacies.

For these reasons it is suggested that aid donors approach the drivers of pro-poor policy change agenda with some degree of caution and modesty. Structural continuities, institutional inertia, and limitations of agency do not provide a receptive environment for fundamental change in Pakistan. Despite these constraints there exist some opportunities for catalysing pro-poor change through external intervention on the part of aid agencies and foreign governments. These have implications for policy design in the short to medium term as distinct from longer term strategy, where the contribution is directed towards indirect support for more fundamental change processes and are summarised in the matrix in Annex 4.

5.2. Opportunities for change

Agencies

The first set of opportunities for engagement by aid donors lies with a limited number of actors that have the potential to act as change agents. These are civil society, the media and the political parties.

- (1) Civil society organisations have only achieved modest success in pursuing a transformative agenda in Pakistan. Most non-governmental organisations work on welfare and development issues. There has been some progress in the defence of human rights and tackling violence and discrimination against women through social activism and recourse to legal provisions through the courts, but organisations that engage in such issues are relatively few in number. The legal, political and security environment is now relatively conducive to civil society activism. Efforts to build awareness, capacity and skills among a larger group of civil society organisations, especially in small towns and rural areas, could help to widen the pool of organisations that are willing to engage in a pro-poor change agenda that addresses structural and institutional constraints as an extension to welfare and service delivery activity.

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- (2) There is also scope for working more closely with the *media*, by giving explicit recognition to its role as a potential driver of change. This would require work at the policy level to encourage a role for government that is less geared to control and more oriented towards encouraging a liberal environment for responsible reporting and programming, for example by allowing FM radio stations to broadcast independent news coverage, and by permitting satellite television stations to broadcast live in Pakistan. While there is limited scope for direct financial support, the print media (especially the vernacular press) could be assisted indirectly through support for the training of journalists in investigative reporting and on specialist areas like budget and economic policy analysis. Such initiatives would help the media contribute more effectively to promoting accountability through improved scrutiny of public policy and tracking of expenditure commitments and outcomes.
- (3) There is also a case for establishing more direct contact with the *political parties* as legitimate organs of interest aggregation and representation, and policy formation. In general aid donors have little direct contact with representatives of the political parties other than ministers in provincial and federal governments. Increased contact could help to build interest in a development policy agenda centred on growth and poverty reduction and the structural and institutional reforms that would be required to promote such an agenda. There is limited scope for financial support, though intermediaries like the Westminster Foundation and the National Democratic Institute can offer resources to help parties strengthen their organisational base and policy development capacity on a non-partisan basis.

Institutions

A second set of opportunities for catalysing change processes lies in strengthening institutions that potentially have a key role in fostering good governance but that suffer from serious limitations or have fallen into disrepute, namely the judiciary and the bureaucracy.

- (1) The *judiciary* is a key institution in the promotion of adherence to the rule of law but over the years has seen its independence eroded on account of direct political interference by successive governments. The general public has lost faith in the impartiality of the judiciary and the effectiveness of the legal process. There is considerable scope for reinvigorating the administration of justice with a view to strengthening access to legal redress for the poor and to prevent the use of courts as a means of prosecuting women under the Hudood Ordinance on the basis of false evidence. Another aspect of the judicial system in need of reform is

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corporate law, to ensure effective contract enforcement and legal redress, as a means of reinvigorating the investment climate.

- (2) The *bureaucracy* was the cornerstone of the Pakistan state apparatus in the two decades following Independence but has experienced marked erosion in its autonomy and effectiveness as an agent of development and change. There are numerous measures that could be taken to improve administrative effectiveness through focused capacity building interventions in areas such as policy analysis and implementation, public expenditure management, and social service delivery. These could be complemented by measures designed to curb corruption and to improve performance, by improving incentive systems through pay and promotion reforms. With decentralisation there is a particular need to focus attention on senior bureaucrats in district and *tehsil* governments where financial management and programme implementation capacity is weak, as they are assuming increasing responsibility for social service provision but without the requisite skills do so effectively.

Structures

The third set of opportunities relates to the structural impediments to pro-poor policy change. The room for manoeuvre is much more limited in view of the deep-set character of these constraints but some opportunities may be identified in this regard.

- (1) Entrenched patterns of *social discrimination* on the basis of gender, caste, kinship, religion, and language are key impediments to pro-poor change in Pakistan. These are relatively impervious to efforts to promote greater equality, fairness and social justice and change very gradually over time. Institutional efforts to combat gender violence can have some impact on relations between men and women, while strengthening statutory and legal protection for marginalised social groups under human rights provisions can help to mitigate problems of discrimination and injustice. Values and behaviour change much more slowly, through exposure to new ideas and practices, in which the media and external influences play a role, but are further entrenched through forces promoting social conservatism.
- (2) The pattern of *land ownership* is a fundamental impediment to pro-poor change in Pakistan. Many analysts argue that land reform through state-led redistribution is critical to poverty reduction in rural areas but the present political context is not conducive to such radical measures. Moreover, land redistribution under the Bhutto regime did not fundamentally alter highly skewed patterns of ownership even though hundreds of thousands of former tenant

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cultivators benefited from the reforms. Part of the challenge lies in raising agricultural productivity in order to stimulate investment and growth, since stagnant agricultural growth is a key explanatory factor in the persistence and deepening of poverty over the past decade and agriculture has the greatest potential for employment generation and rural poverty reduction. This would require renewed policy attention to the agricultural sector as a means of stimulating growth in the rural economy.

- (3) The *industrial structure* has not been conducive to either growth or pro-poor change through increased investment and employment generation. Industrial capital has indulged in rent seeking opportunities and has benefited from state patronage, while military capital and public investment have crowded out opportunities for private capital. Private entrepreneurs potentially play a key economic role in Pakistan by virtue of their contribution to growth and employment creation, both of which are poverty reducing in their impact. They also contribute to economic competitiveness and help to promote a vibrant investment climate. But existing incentive structures are not conducive to productive investment, but rather capital flows are directed to speculation in land and the stock market. This highlights the need for more systematic attention to industrial policy, legal and regulatory reforms, and strengthened incentives for investment, especially in the small and medium enterprise sectors that are more labour intensive.
- (3) Improvements in the *external environment* are potentially conducive to more sustained processes of change. Concessions by India and Pakistan on cross-border co-operation with a view to improving trade and communications build trust and confidence. They create an atmosphere in which military confrontation may be gradually supplemented by diplomatic solutions as a means of resolving the Kashmir issue, in the process reducing the continued justification for high military expenditures and military dominance of the foreign policy agenda. Reduced military spending in turn would release resources for developmental ends through re-prioritisation of budget commitments.

A pessimistic conclusion on fundamental potential drivers of change should not detract from the reforms ushered in by the present regime. The Musharraf government has successfully achieved a level of macro-economic stability in a manner that was absent in previous civilian governments, albeit with considerable external assistance. This provides solid ground for a second wave of structural reforms that would seek to stimulate growth and investment, raise productivity and competitiveness, and contribute to sustained poverty reduction. There is recognition in the government and the donor community that such reforms are necessary, but there is uncertainty as

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to whether the political commitment and technical capacity is sufficiently developed to make this approach possible. Moreover, there is also a tension between the continued emphasis on maintaining macro-economic stability without addressing the more fundamental and longer term challenge of growth and investment.

5.3. Strategic options

Opportunities for enhanced policy dialogue and resource commitments under a reformist military government with visible short-term results, principally in the form of macro-economic stability and debt management, should not obviate the need for constructive political and economic policy engagement. The military has further entrenched its political base and its economic influence under the present regime through a variety of constitutional and extra-legal measures which may run counter to the prerogatives of pro-poor development. It is therefore argued that pro-poor aid is situated politically, through two principal strategies.

- (1) The first strategy would be to build on the fiscal space and institutional opportunities created under the present regime for the pursuit of pro-poor policy reforms while at the same time promoting measures that ensure their sustainability under a future civilian government. This would consist in the institutionalisation of measures to ensure continued macro-economic stability and the promotion of a longer-term growth and poverty reduction agenda. It would require the building of a broader constituency for a pro-poor development agenda in the political parties and in civil society using the opportunities embodied in specific institutional reforms such as decentralisation to prevent a wholesale rollback of measures associated with the Musharraf government.
- (2) The second strategy is predicated on the explicit adoption of a series of measures aimed at moderating the economic and political power of the military. These fall into three categories: policy reforms to limit discretion in favour of the military's corporate interests, strengthening institutions that provide checks on executive power, and specific measures to promote greater accountability.
 - (i) The creation of a more balanced playing field for industrial capital by gradually eliminating special treatment of military corporations, including preferential access to credit, tax concessions and export opportunities, and economic reforms to reduce discretion and rent-seeking. This would diminish the problem of crowding out private capital and expose the military foundations to more direct competitive pressure.

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- (ii) Measures to reduce political interference in the legislative process and increase adherence to constitutional provisions in decisions that affect the balance of power between different branches and levels of government. Two prominent examples are the respective roles of the President and the Prime Minister, and the legal and constitutional status of decentralisation, which have been respectively addressed through a constitutional amendment introduced in December 2003.
- (iii) Increased accountability in decision making, especially in relation to the budget process. One approach could be to strengthen budget literacy on the part of elected legislators in provincial and federal assemblies, and reforms in the presentation of the government's budget priorities that render transparent the composition of military expenditures. Conditionality could be built into donor budget support programmes that open up the entire budget to greater public scrutiny, and to guard against fungibility in the use of untied aid resources. The media can potentially play a key role in this regard, by investigating and reporting on budgetary priorities and the allocation of resources for developmental and non-developmental purposes.

5.4. Longer term considerations

In addition to identifying policy opportunities and types of engagement for aid donors in the short to medium term there is a case for developing a longer term perspective in line with the observation that many change processes are gradual and evolve over protracted periods of time.² Such processes are less amenable to interventions that directly focus on opportunities for engagement with specific institutions and policy agents, but may require indirect forms of support for benign resolution of deep-set conflicts and impediments to change. These include the tensions between civilian and military rule, Islamic traditionalism versus secular modernism, private capital versus military statism, and the landed versus the landless (Gazdar and Sayeed, 2003).

From this vantage point, the implication would not be to support political parties in their struggle against the military, but to make efforts to mainstream their involvement across a range of policy matters in which donors are involved, and to ensure that these are subject to proper parliamentary scrutiny and debate. Similarly, the conflict between modernism and traditionalism cannot be resolved through support for a liberal secular media, but rather activities that would result in peaceful debate between these two tendencies, and constructive engagement with representatives of religious parties that are assuming positions of political authority in provincial and federal

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governments. In this vein, direct support for the private sector might prove less productive than positive engagement with forms of collective action on the part of private capital, and measures to bring their representatives into policy deliberation and the political mainstream. Struggles of the landless for redistribution of assets might be less effective than focusing on methods for raising agricultural productivity and improving rural livelihoods (for example, through investment in irrigation and credit) which could strengthen horizontal alignments between the landless and marginal farmers and their capacity to exercise voice and influence in policy matters.

Such an approach would not constitute an alternative to interventions predicated on opportunities for change in the short to medium term, but would play a complementary role in addressing the structural impediments that give rise to enduring conflicts in Pakistani society. For bilateral aid donors this may ultimately prove to be a strategy that best contributes to a process of pro-poor change by taking into account different levels of engagement and varied time horizons, and explicit recognition of the limits of external engagement.

² We are grateful to our colleague Haris Gazdar for highlighting the significance of these issues.

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Commissioned papers

Ali, Kamran (2004), 'Islam, Politics and Change', Thematic Paper commissioned for the Pakistan Drivers of Change Study.

Cheema, Ali and Mohmand, Shandana (2003), 'Local Government Reforms in Pakistan: Legitimising Centralisation or a Driver for Pro-Poor Change?', Thematic Paper commissioned for the Pakistan Drivers of Change Study.

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Khan, Ayesha and Khan, Rubia (2003), 'Civil Society and Social Change in Pakistan', Thematic Paper commissioned for the Pakistan Drivers of Change Study.

Nadvi, Khalid and Sayeed, Asad (2004), 'Industrial Capital and Pro-Poor Change', Thematic Paper commissioned for the Pakistan Drivers of Change Study.

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Annex 1: Terms Of Reference

PAKISTAN: SUPPORTING PRO-POOR POLITICAL AND ECONOMIC CHANGE

Background

1. Since Pakistan's foundation in 1947, political instability has been a continuing constraint to poverty eradication. There have been consistent cycles of civilian and military government, high levels of corruption, and entrenched patron client relationships protecting the interests of those in power. The military, bureaucracy and political classes are all often argued to have close relationships with a traditional feudal elite unwilling to implement radical reforms that will benefit poor people. There has also been an international dimension to this instability, with outside powers eager to develop links with Pakistan in order to protect their interests. The situation has latterly become further complicated through Pakistan's development of a nuclear capability, the war in Afghanistan, the growing influence of religious extremists and international terrorist groups, and the unstable situation in Kashmir.
2. DFID have supported a number of initiatives to identify factors constraining change in recent years. These have included independent assessments of institutions such as federal and provincial government, the military, electoral system, and political parties. These have all helped inform our engagement with key interlocutors and shape country strategy.
3. There are however enormous challenges associated with promoting significant pro-poor change in pursuit of the Millenium Development Goals (MDGs). Technical assistance or budget support for the bureaucracy, political institutions, civil society and the private sector may at best only generate transient benefits in a context where political behaviour is shaped by deep-seated structural factors (eg ethnicity, ownership of land or geo-political shifts), and there is no coherent constituency for change. Significant change is also often long term and it is important DFID's forthcoming Country Assistance Plan (CAP) is realistic and located in a broader understanding of who exercises power and the factors and incentives underpinning the behaviour of these interest groups. Our approach in the past has also been rather focused on the Executive, notwithstanding wider opportunities that might have existed for strengthening civil society and other bodies to hold the Executive accountable and demand change. It is therefore proposed that further work is completed to help enhance our understanding of configurations of power and to identify further opportunities for supporting pro-poor change.

Purpose

4. The purpose of this study is to identify entry-points to support the process of change over the short, medium and longer term. This will be through enhancing our understanding of who are the most powerful interest groups and individuals in Pakistan and their incentives. Its conclusions will feed into the completion of DFID's Country Assistance Plan in May 2004, and other planning processes beyond this. It will also help inform wider HMG policy.

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Scope of Work

5. The work will cover both the Federal and Provincial levels (NWFP and Punjab) and be organised around themes consistently present in the literature on Pakistan. It will assess longer term drivers/ impediments to change (eg the military, feudals) as well as shorter term factors enabling or undermining country strategy (eg key interest groups who influence policy at the provincial level). The themes to be covered will be finalised as part of the process, but could include the following:

Longer term change:

- Background and historical context: this might cover the historical nature of the relationship between Pakistan's society and institutions, the international factors that have enabled and constrained change, and how these are likely to inform the prospects for change in the future.
- Key stakeholders: the bureaucracy, military, and feudals: this might assess the interests underpinning each of these elite groupings, their interconnectivity, internal cohesion and change agents.
- Constitutional arrangements and the process of change: this would build on earlier research and experience of what constitutional and legal changes would provide an appropriate framework of incentives for change, and the options for the future.
- Political behaviour and public opinion: this might examine the values underpinning Pakistan's political culture, and its relationship with political parties and other fora of political expression. It might assess how political culture can be developed over the longer term in order to create more cohesive demand for change. Empirical research to assess generational and other characteristics of existing political culture might be integral to this component.
- Long term economic determinants of change: this would assess Pakistan's natural resource endowments, industrial potential and other factors informing the country's economic prospects –eg environmental considerations, literacy, population growth and urbanisation etc.
- The role of civil society in the process of change. This would have a close relationship with the component on political behaviour and public opinion, but focus on the extent to which civil society has been an effective vehicle for reflecting and developing political opinion, and future entry points.

Short term drivers of change

Practical suggestions for engagement and support to

- Politicians and political parties (national and provincial level)
- Civil society groups (national and provincial level)
- Federal and Provincial assemblies
- The media (including satellite channels)

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- The military
 - Provincial and sectoral levers of change.
 - The private sector
 - District Monitoring Groups
6. All of analysis will seek to develop an understanding of the role of, and the inter-linkages between:
- (i) structural features of Pakistani society and economy (including natural resource endowments; demography; ethnicity; level of economic development, population growth, urbanisation and increasing prevalence of TV and other media etc);
 - (ii) institutions (defined in this instance as 'frameworks of rules that constrain or enable the activities of individuals or organisations', including land and property rights; the constitution, and economic policies, and
 - (iii) agents (political parties; the military; commercial enterprises; the diaspora; trade unions; the media; faith based groups, the civil service; civil society organisations etc, donors and international political actors (including HMG's comparative advantage)).
7. The conclusions of the exercise will feed directly into the CAP, and complement other ongoing work in support of this process – for example reports on social change and exclusion. The client for the study will therefore be DFID, though it is anticipated the outputs will be disseminated among key interlocutors in Pakistan, other HMG departments and the academic community, all of whom will be consulted as part of the process.

Timing and Process

8. The research exercise will be broken down into the following phases:
- (i) Agreement of draft ToRs and identification of Team Leader (by end May)
 - (ii) Refinement of methodology and ToRs (Team Leader, by mid June)
 - (iii) Literature review (local consultant by end July)
 - (iv) DFID presentation of objectives to senior Pakistani government representatives, other key interlocutors in Pakistan, and HMG departments as appropriate (DFID team/ SoS, end July/ early August).
 - (v) Initial thematic position papers, to be followed by Workshop (full consultancy team, by end September).
 - (vi) Completion of draft report (full team, by mid October)
 - (vii) Discussions of draft and peer review (end October) with key Pakistanis in politics, the public sector, private sector and CSOs and think-tanks. Workshop with DFID
 - (viii) Finalisation of report (full team, by mid November 2003).
9. DFID will contract a research/ consultancy organisation to complete the work. This organisation will be responsible for sub-contracting local consultants and organisation of the consultation process. The Team Leader should maintain regular contact with DFID and the FCO, and organise briefing/ feedback sessions as appropriate. The DFID Project Officer will be the

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WaSD Governance Adviser, London, working closely with other members of the DFID Pakistan team in both London and Islamabad.

Outputs

10. The outputs of the work will include the following:
 - i. A literature review report (by end July 2003)
 - ii. Completion of initial position papers (by end September)
 - iii. Completion final report (end November)

11. The outputs should be short, widely accessible and not overly academic in style. The literature review and initial position papers should not be above 5000 words each and the final report not more than 7,500 words. Each output should include an Executive Summary.

Skills Required

12. The team will be led by an individual with a sound understanding of political, economic and social development issues and significant international experience. Other team members will be recruited on the basis of more specialist skills (eg knowledge of the role of the military in Pakistan).

Department For International Development
Western Asia Department
May 2003

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Annex 2. List of Persons Interviewed

1. Mr Mueen Afzal, Rtd Federal Secretary, GoP
2. Dr Nuzhat Ahmad, Director, Applied Economics Research Centre, Karachi
3. Mr Gareth Aicken, Head of Development Section, DFID, Islamabad
4. Mr Fakir Syed Aijazuddin, UK Honorary Consul, Lahore
5. Dr Asiya Akhlaque, World Bank, Islamabad
6. Mr Mahmood Akhtar, Joint Secretary, Ministry of Finance, GoP, Islamabad
7. Mr Rafiq Akhund, Rtd Federal Secretary, GoP
8. Syed Babar Ali, Chairman, Packages Ltd, Lahore
9. Dr Anjum Altaf, World Bank, Washington
10. Ms Nasreen Azhar, ActionAid, Islamabad
11. Mr Danyal Aziz, Chairman, National Reconstruction Bureau, Islamabad
12. Dr Rolando Bahamondes, Counsellor Development, Canadian High Commission, Islamabad
13. Dr Rashid Bajwa, CEO, NRSP, Islamabad
14. Dr Faisal Bari, Lahore University of Management Sciences, Lahore
15. Mr Sarwar Bari, National Coordinator, Pattan, Islamabad
16. Dr Kaiser Bengali, Managing Director, Social Policy Development Centre, Karachi
17. Ms Jutta, Burghart, Head, Economic Cooperation & Development, German Embassy, Islamabad
18. Dr Jackie Charlton, Governance Advisor, DFID, Islamabad
19. Ms Mary Cummins, Country Director, NDI, Islamabad
20. Mr Gerry Duffy, Pakistan Country Programme Manager, DFID, London
21. Justice (rtd) Fakhruddin Ebrahim, former Justice, Supreme Court of Pakistan, Karachi
22. Mr Haris Gazdar, Collective for Social Science Research, Karachi
23. Dr Naved Hamid, Deputy Country Director, Asian Development Bank, Islamabad
24. Mr Irshad Haqqani, Daily Jang, Lahore
25. Mr Abid Hasan, Deputy Country Head, World Bank Resident Mission, Islamabad
26. Mr Arif Hasan, Chairman, Urban Resource Centre, Karachi
27. Mr. Rafiq Jaffar, Institute of Social Studies, Lahore
28. Mr Sajid Kazmi, Sustainable Development Policy Institute, Islamabad
29. Mr Ahmad Khan, Consultant to DFID, Islamabad
30. Professor Mahmood Hasan Khan, Simon Fraser University, Vancouver, Canada
31. Mr Waqar Masood Khan, Secretary, Economic Affairs Division, GoP, Islamabad
32. Ms Susan Matheson, Western Asian Department, DFID, London
33. Dr Saba Khattak, Executive Director, Sustainable Development Policy Institute, Islamabad
34. Mr Khushnood Lashari, Secretary, Education Department, GoPunjab, Lahore
35. Dr Jennifer Leith, Social Development Advisor, WAD, DFID, London
36. Mr Omar Masud, Deputy Secretary, Ministry of Finance, GoPunjab, Lahore
37. Mr James Medhurst, WAD, DFID, London
38. Mr Ahmad Bilal Mehboob, Executive Director, PILDAT, Lahore
39. Dr Zafar Mirza, Executive Director, The Network, Islamabad
40. Dr Hanid Mukhtar, Senior Economist, World Bank, Islamabad
41. Dr Zareen Naqvi, World Bank, Islamabad
42. Mr Arif Nizami, Editor, The Nation, Lahore
43. Mr David Pearey, Deputy High Commissioner, British High Commission, Karachi
44. Mr Mustafa Piracha, Rural Support Programme–Network, Islamabad
45. Mr Doug Porter, Asian Development Bank
46. Dr. Mark Poston, Education Adviser DFID, Islamabad
47. Mr Mohd. Ismail Qureshi, Additional Secretary, Ministry of Finance, GoP, Islamabad

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48. Dr Ejaz Rahim, Secretary, Ministry of Health, GoP, Islamabad
49. Mr I.A.Rahman, Chairman, Human Rights Commission of Pakistan, Lahore
50. Mr Khalid Rehman, Executive Director, Institute of Policy Studies, Islamabad
51. Dr Zeba Sathar, Managing Director, The Population Council, Islamabad
52. Mr Shafqat Ezdi Shah, Secretary, Ministry of Education, GoP, Islamabad
53. Dr Marshuk Ali Shah, Country Director, Asian Development Bank, Islamabad
54. Dr Asad Sayeed, Collective for Social Science Research, Karachi
55. Mr Mike Semple, Human Rights Officer, British High Commission, Islamabad
56. Dr Hafeez Shaikh, Federal Minister, GoP, Islamabad
57. Mr Haroon Sharif, Associate Economic Advisor, DFID, Islamabad
58. Ms Farhana Faruqi Stocker, Country Representative, OXFAM, Islamabad
59. Dr Pervez Tahir, Chief Economist, Planning Commission, GoP, Islamabad
60. Mr Eamonn Taylor, Regional Adviser, WAD, DFID, London
61. Mr Ilkka Uusitalo, Head of Delegation, EU Delegation, Islamabad
62. Mr Mark Ward, Director, USAID, Islamabad
63. Professor S.M. Waseem, Quaid-e-Azam University, Islamabad
64. Mr Arshad Waheed, Director, Institute of Social Policy, Islamabad
65. Mr Peter Waterworth, Political Section, British High Commission, Islamabad
66. Mr Nobuyuki Yamaura, Resident Representative, JICA, Islamabad
67. Mr Ishii Yojiro, Sr. Deputy Resident Representative, JICA, Islamabad
68. Mr Önder Yücer, UN Resident Coordinator, UN, Islamabad
69. Mr Zahid Zaheer, Executive Secretary, Overseas Chamber of Commerce and Industry, Karachi

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Annex 3: Executive Summaries

Scoping Paper: Drivers Of Pro-Poor Change In Pakistan

Haris Gazdar and Asad Sayeed

Executive Summary

This paper aims to provide a review of issues relevant to pro-poor change in Pakistan's economy, politics and society. As a component of a larger study on the 'Drivers of Pro-Poor Change', this paper is about arriving at a better understanding of the context in which policies and programmes are made and implemented.

'The poor' are not a well-defined social or politically articulated category as there are multiple facets of poverty, and multiple sources of deprivation. Moreover, there are many competing policies, programmes and processes, which at different moments in time are regarded as being 'pro-poor' by different players. It is not useful to think of a 'Pro-Poor Agenda' as being any agenda that helps some pre-existing and well-defined group.

This paper approaches Pro-Poor Change using a three-step approach. Step One involves empirical reporting of relatively uncontroversial poverty outcomes in the recent years. Step Two is a description of and commentary on key issues and trends in the economy, politics, governance and society. Finally in Step Three identifies a number of 'models of change' that have been influential in the development discourse on Pakistan.

Section 1. Empirical Review of Poverty Outcomes

The issues and controversies in measuring poverty have become connected with the debate about the relative performance of different administrations. There is, however, wide consensus that poverty ratios decline significantly through the 1980s. It is also widely agreed that the decline in poverty ratios was halted or reversed since around 1990. Recent studies show that poverty trends fluctuated but continued to decline in the early 1990s, and that 1996-97 was the main turning point after which poverty ratios increased at a rapid rate.

The poverty profile in Pakistan has remained largely unchanged. The poverty ratio in rural areas is consistently around one-third higher than in urban areas. Households with illiterate heads are twice as likely to be poor than those households whose heads are literate. Landlessness is another important correlate of poverty, and formal sector employment appears to be a route out of poverty.

Recent trends in poverty outcomes have not been encouraging. Income poverty remains close to the levels attained in the late 1980s, and the most recent period appears to have been the most adverse. Trends in education and schooling too have been disappointing. While overall literacy rates have improved, the rate of progress has been slow. Significant inequalities along the lines of gender, region, rural-urban residence, and social grouping still persist. Moreover, there is evidence of actual decline in some indicators of basic schooling since the mid-1990s. Demographic and health aspects of poverty have shown steady improvement, and some indices of historical shifts – such as the sex ratio, population growth rates, fertility rates – have changed significantly in the positive direction.

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Section 2. Economy

Macroeconomic trends and issues in economic management (regimes)

Macroeconomic trends and issues in economic management can be examined by using a chronological classification that corresponding with successive political administrations and regimes. Five periods are identified for review: the Ayub years (1960s), the Bhutto period (1971-77), the Zia regime (1977-88), the democratic regimes (1988-99), and the Musharaf regime (1999 onwards).

The Ayub Years (1960s): In the decade of the 1960s economic growth took off and the economy achieved a more diversified structure in terms of output, employment and investment. The state oversaw the resource re-allocation from agriculture to industry through a number of policies which included creating large rents for the manufacturing sector, turning the terms of trade against agriculture for a period, and investment in urban and industrial infrastructure. Macroeconomic trends demonstrated stability during the period. Because of Pakistan's geo-strategic importance to the US at the time, the country was the recipient of large doses of US and international aid.

Ayub's growth policies created significant regional imbalances and social dislocations in its wake also. Uneven development between the Eastern and Western wings of the country was the precursor to the dismemberment of East Pakistan. Industrial growth was predicated over high profit shares and stagnant real wages in the manufacturing sector. Policies of mechanization and introduction of HYV varieties in the agricultural sector resulted in the eviction of the landless peasantry, particularly in the Punjab. The denouement of the Ayub regime had as much to do with perceptions of poverty and inequality as it had to do with political factors.

The Bhutto Years (1971-77): The beginning of the 1970s brought about tumultuous changes in Pakistan's political economy. Bhutto's PPP had been elected in the western wing of the country on a populist agenda. For better or for worse, the Bhutto government did attempt to fulfill most of its manifesto pledges. Important intermediate goods and some consumer goods industries were nationalized, the entire financial sector was taken over by the state, as were all – barring a handful – private educational institutions. The regime also initiated land reforms twice, once in 1972 and then in 1977. The macro economy during this period demonstrated a mixed trend. The composition of investment between private and public sectors changed significantly in favour of the public sector.

While the macroeconomic environment did deteriorate during the period, there is evidence to suggest that the Bhutto regime did succeed in its professed intention of reducing inequality. Similar to the 1960s, there is sketchy evidence about poverty trends during the period, however, the evidence tends towards some reduction in absolute poverty indicators during the period.

The Zia Years (1977-88): During this period economic growth revived to the trend level of the 1960s. Growth revived in both the manufacturing and agricultural sectors, backed by strong growth in the construction sector also. There were three reasons for growth revival during the period. First, because of its opposition to the erstwhile PPP government, confidence amongst private sector investors improved. Second, many of the large scale industrial and manufacturing investments undertaken during the Bhutto regime gestated in the 1980s and thus had a favourable impact on output growth. Last but not the least, the Zia regime faced an exceptionally favourable exogenous environment on two fronts: (a) because of the Soviet invasion in Afghanistan Pakistan once again became a recipient of large doses of US and international aid. (b) Remittances from overseas Pakistanis helped finance roughly half of the trade gap during the period.

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While the regime had all the ideological predilections towards a pro-market growth strategy, its political compulsions necessitated that it kept the banks and financial institutions under its tutelage so that pay-offs can be made to important political constituencies. Deficits were partly financed by both external and internal borrowing. The increase in debt stock created serious balance of payments problems in the 1990s. Both poverty and inequality during the period reduced. Favourable developments in the Zia years proved not to be sustainable. Exogenous windfalls that sustained the regime dried up at around the same time as General Zia disappeared from the political scene because of an air crash.

The Democratic Governments (1988-99): Democratic ruled returned to Pakistan in December 1988. This has been the most unstable period so far as Pakistan's macro-economy is concerned. There have been a spate of explanations for this occurrence. Most common is that due to bad governance and corruption during the two tenures each of Prime Ministers Benazir Bhutto and Nawaz Sharif, the macro-economy went on a tail spin. Alternative explanations emphasize on adverse exogenous shocks during the decade as well as the sequencing and nature of Structural Adjustment Programmes with the IMF as important determinants towards the destabilization of the macro economy.

Growth reduced from its trend rate, inflation was high and on the whole there was little improvement in the fiscal deficit. Most important, however was that investment in the latter half of the decade dipped significantly. The most serious macroeconomic problem faced by the economy during the decade was on the external front. The exogenous environment turned adverse in the 1990s. The end of the cold war as well as the first Afghan war at the turn of the decade resulted in Pakistan's geo-strategic importance waning. After the First Gulf War in 1991, remittances from overseas Pakistanis also reduced substantially. Further, a number of loans taken in the past decades matured in the 1990s. As such the debt amortization payments almost doubled during the 1990s compared to the previous decade. These exogenous events are important determinants of the perennial BOP crisis during the 1990s.

Income poverty was declining up until 1996 and started increasing after that. With positive GDP growth increase in poverty was associated with worsening income distribution.

The Musharraf Regime (1999-the present): General Pervez Musharraf came to the helm of affairs through a military coup and retains effective executive power to date. To gauge macroeconomic performance of the government, it is important to use September 11 as a divider. A comparison of Pre-1999 and the 1999-01 periods (Tables 4 and 5) shows that in the pre-September 11 period, apart from some improvement in the budget deficit, there was little improvement in any other macroeconomic indicator. September 11 changed Pakistan's macroeconomic fortunes significantly. Since the external constraint was the biggest problem for the macro-economy for the past decade or so, several direct and some indirect benefits came in the offing. The most important of which was a significant re-profiling of Pakistan's external debt. Indirectly, reverse capital flight from Pakistanis resident abroad, in order to avoid scrutiny of their funds – resulted in foreign remittances having trebled in the last two years.

In 2002-03 economic growth revived. In the absence of new investment much of this growth has been driven by improvements in capacity utilization. Unless, investment revives in the economy, there are serious question about sustainability of the recent growth. There has been no reversal in the trend towards increase in the poverty head count ratio. The burden of stringent stabilization policies pursued by the regime till the September 11 reprieve has been borne disproportionately by the poor.

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Issues in Agriculture

The share of agriculture in national income has declined steadily over the decades till the 1990s, and has not changed since then. Currently, agriculture accounts for around 24 per cent of national income, still ahead of manufacturing (18 per cent) and services (50 per cent). The sector grew at an average annual rate of 5.4 per cent in the 1980s and 4.4 per cent in the 1990s. Agriculture remained the mainstay of the labour force, accounting for around 47 per cent of employment. The longer term declining trend in agricultural employment was reversed in the mid-1990s, largely at the expense of construction and trade.

Three features of the agrarian economy in the 1990s are worth special mention. Despite relatively high average growth in agriculture value added, incomes in rural areas and rural poverty stagnated or worsened. There are several explanations for this paradox. First, in line with past trends, the agrarian structure continued to move towards owner self-cultivation with the marginalization of the landless poor in the agrarian economy. Second, agricultural output was particularly volatile in this period due to the effects of a drought and water shortages. Third, it is argued that terms of trade have moved against farmers in the recent years in Pakistan, with low and volatile output prices, and rising costs of inputs.

Issues in Industry

The share of manufacturing in GDP has not altered since 1969-70. The share of employment in the manufacturing sector has in fact declined between from 13% of total employment in the economy in 1982 to 11% in 2000. This basic information points to stagnation in the manufacturing sector.

Productivity (labour productivity as well as total factor productivity) growth in the manufacturing sector has either been low or negative for the most part in the 1970-1990 period. Wage growth in large scale manufacturing has also been stagnant in the 1970-90 period. The situation is unlikely to have changed since then.

Casualization of employment has become the adopted method on the part of employers. The most dominant form of casual employment is known as “contract work”. These “contract workers” are neither eligible for the employment benefits that permanent workers enjoy nor do they have the legal right to form or join unions.

Section 3. Politics, Governance and Social Change

Political system

Constitutional Crisis

In the last fifteen years, four governments were ‘constitutionally’ dismissed using Article 58 2 (b), which was inserted by General Zia as part of the Eighth constitutional amendment. This amendment to the constitution had taken away many important powers of the Prime Minister, which resulted in making the non-elected arms of the state more powerful vis-à-vis the elected arm. This clause was repealed in 1997, as an attempt by the elected legislature to regain its supremacy. While the 1973 Constitution has been amended by both politicians and the military, there is no demand for a new constitution. The reason is that there is consensus across the political spectrum on some basic issues, like the Islamic character of the state, the Federal and parliamentary systems. The present crisis regarding the Legal Framework Order is a manifestation of the tussle between the elected and non-elected arms of the state.

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Conflict and Convergence of Mainstream Populism

By the mid 1990s, formal politics in Pakistan was converging towards a stable two party system: the Pakistan Muslim League (right of centre) and Pakistan Peoples Party (left of centre). It is interesting to note that both populist parties followed policies of economic liberalization, and both subscribed to the same foreign policy.

The observation that third world democracies do not stabilize because of internal bickering seems relevant in the case of Pakistan. Both the PML (N) and PPP governments used the state machinery to victimize the other during their respective tenures in government. This made the army as the main arbiter between such conflicts, shifting the balance of power from the non-elected to the elected arms of the state.

The Military in Politics

The running tension in the political system is identified as that between the elected and non-elected arms of the state. In the last two decades, the non-elected arm of the state has been almost completely dominated by the military. The military has formally intervened in the political process four times in the 56-year history of the country. It is therefore as important a political entity as others if one is to understand the reasons for political instability in Pakistani politics. The civil-military tension in Pakistani politics lies at the heart of political instability experienced in the last decade. To the extent that political stability and adherence to constitutional norms is important for pro-poor change, resolution of this tension takes priority.

Institutions of governance

Decentralization

The military government established a National Reconstruction Bureau (NRB) within a week of taking over. It introduced the Local Government Plan, and proposed police reforms, and changes in the system of electoral representation. The Local Government Plan of the NRB, however, goes beyond previous attempts at constituting local government in a number of ways including devolution of power, the restructuring of district management.

Elected local governments have taken charge across the country, and these include, for the first time, women, religious minorities and enhanced representation of labour. On the other hand, the local government system is also viewed as having been created by the military regime for diffusing civil political opposition to highly centralized military power.

Bureaucracy

Although 'governance reform' and 'good governance' became prominent issues in public discourse from the early 1990s onwards, there were few sustained attempts at the organizational reform or rejuvenation of government. The work of the NRB since late 1999 promises, of course, to be a new point of departure in this regard. A more historical view of organizations change in government is instructive. The most significant bureaucratic reforms to date were those carried out by Pakistan's first elected government led by Zulfikar Ali Bhutto in the 1970s. These reforms led to the fragmentation of a formerly integrated structure inherited from colonial times. These reforms came in the wake of popular resentment of the bureaucracy's perceived position as a wielder of non-representative executive power, standing aloof from ordinary people.

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Judiciary

At moments of constitutional crisis the judiciary would be called to pronounce upon the legality of particular actions – such as the dismissal of a government. The expectation in certain quarters that the judiciary could be counted upon as a guardian of the constitution, however, proved to be unrealistic. The judiciary was generally reduced to the role of attempting to preserve constitutional norms while acquiescing, *post facto*, with extra-constitutional actions. Three other sets of issues that have been affected the role of the judiciary as an institution of governance. First, there has been confusion in Pakistan concerning the precise role of Islam and the Sharia (Islamic law) in the development of the legal-judicial system. Second, the day-to-day functioning of the lower judiciary is seriously complicated by resource constraints and the widespread recourse to informal and traditional forms of dispute settlement and arbitration. Third, the judiciary was seen increasingly as another vested interest group within the state that pursued its own corporate agenda in rivalry and cooperation with others such as the bureaucracy and the military.

Conflict, Security and the Rule of Law

The establishment of the rule of law came under serious challenge in Pakistan throughout the 1990s amidst ethnic and sectarian conflicts. The persistent tendency of the military to topple civilian governments is itself the major violation of the rule of law in Pakistan. The state's inability to establish the rule of law at a more micro level is a more serious challenge to its authority and legitimacy. The relations between Pakistani national security agencies and armed militant groups operating outside Pakistani borders became the focus of attention worldwide. A number of somewhat threatening labels were used to describe the condition of the state and its prognosis. These ranged from labeling Pakistan a 'weak' state to calling it a 'rogue' state.

Social Change

In the rapidly changing Pakistani society, social, political and economic processes and outcomes are heavily gendered. The last twenty years have witnessed remarkable trends and counter-trends in dichotomy between Islamic conservatism versus cosmopolitan modernism. Since the 1980s, with state-sponsored campaigns of 'Islamization', social change and gender relations have become highly politicized and contested areas. Popular mass media also provided mixed and contradictory images. The print media became more open to serious engagement with social issues. The new electronic media, initially Indian entertainment channels, forced more openness in the Pakistan electronic media. During the 1990s, a number of non-governmental organizations acquired popular acceptance and prestige in service delivery and advocacy.

Section 4. Models of Change and Stagnation

Some of the main debates and discussions on economic, political and institutional reform, and their link with poverty outcomes are summarized with the help of following six 'models of change'.

Market Driven Growth: The basic ingredients of pro-poor change already exist if only private agents were allowed to transact without undue interference. The government is an obstacle, and it needs to be right-sized, and the quality of governance improved. The main engine of change is diffused demand and supply impulses, and these should be facilitated rather than hindered. Change takes place as long as government interference is reduced. The failure of development in Pakistan in the last two decades is ascribed to large government and government interference. Weakening of the bureaucracy, political instability, the unfavourable exogenous environment and

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governance failures have all contributed towards increasing poverty in the past decade. In the medium run market driven reform will remain unfavourable for concerted pro-poor change.

Social Gap: There has been under-investment in the social sectors and this has led to a ‘social’ gap: social development has lagged behind economic growth. The Social Gap is important in its own right as an index of under-achievement in poverty reduction, education, health, gender equality, and other social goals. There is also, subsequently, a feedback loop between the Social Gap and low rates of economic growth. Social development goals must receive priority in policy as well as politics. This implies reallocation of fiscal resources towards development spending, and more development spending on the social sectors. If the Social Gap is even partly due to cultural resistance and insufficient demand, decentralization might subvert rather than promote a Pro-Poor Agenda.

Elite Capture: The electoral process is rendered uncompetitive due to the existence of local political monopolists – actors who are able to command vote blocks on the basis of feudal or tribal affiliation. Electoral politics, therefore, are rife with rent-seeking and patronage. They help to reproduce rather than challenge existing power relations, and are unable to promote the interests of the poor and the powerless.

The Elite Capture story implies two opposing responses: that electoral politics are inherently inconsistent with pro-poor reform, and that the electoral system does have the potential for delivering pro-poor change. The appropriate response in this case would be the strengthening of modern political institutions such as parties, and thus, by default, weakening existing patron-client relations.

Political Instability and Uncertainty: Frequent dissolution of elected governments, frequent changes in policies, uncertain rule of law – these phenomena create an unstable politico-economic environment and thus deter private investment and inhibit progress towards pro-poor change.

The impact of political instability and the lack of rule of law for the poor goes much beyond the issue of private investment. Lack of access to justice, corruption and inefficiency in the delivery of social services and political victimization have a negative impact on the poor.

Emergence of New Classes and Interest Groups: There are undirected and largely unsung changes in economy and society, notably the emergence of new classes and interest groups, which have the potential for challenging existing power relations. Existing power brokers such as landowning elites, the urban rich, and state functionaries will need to accommodate the emergent classes and interest groups or face political conflict. The outcome is likely to be more egalitarian, more market-friendly and more democratic.

The Social Mobility thesis in its pure form implies that undirected societal and economic processes have created a basis for pro-middle class changes in the power structure. The interests of the emergent middle classes, however, are also likely to conflict with some of the interests of the poor. The qualified Social Mobility thesis implies that there has been an ongoing process of class and group accommodation in Pakistan through political mobilization and, sometimes, violent challenges to authority. The mode of accommodation, however, has often eroded the state’s ability to carry out its minimal ‘rule of law’ functions.

Cultural Change and Conflict: There are incremental cultural changes – particularly with respect to gender relations and the position of women – towards modernization, greater openness, and more equality. These changes are both indigenous and also supported by cultural interaction with other societies in the region and beyond. At the same time there are tendencies towards social conservatism, often rooted in religious ideologies and tradition, which counter cultural

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change. The interaction between these two broadly opposing tendencies produces both synthesis and conflict.

Cultural change in the direction of modernization is likely to be pro-poor since it will lead to less unequal gender relations in Pakistan. Cultural change, moreover, might result in conflict as well as synthesis. Factors which might lead to a separation of different strands within social conservatism will promote a Pro-Poor Agenda.

Section 5. Conclusion

This paper has highlighted four broad areas of concern for a Pro-Poor Agenda. These are: economy, political system, institutions of governance, and social change. This paper has also identified several dominant ways in which Pro-Poor Change (or models of change) has been understood and debated. To conclude, several emerging themes are identified for a more detailed understanding of the Drivers of Pro-Poor Change in Pakistan. Some of these themes are subjects for more detailed 'thematic papers' as part of the Drivers of Change project.

Economy

Macroeconomy and economic management: The chronological review of the macroeconomy and of economic management has attempted to interpret policy positions taken by various regimes within a context of the political imperatives of the times. Current and future policy choices are also conditioned by political factors, and these will determine the prospects for pro-poor change.

Land: Agriculture remains the largest sector both in terms of output and employment. Economic institutions in agriculture such as 'feudalism', moreover, are thought to block pro-poor change. A more detailed analysis of the political economy of landed power, therefore, is likely to develop a better understanding of both the agricultural sector, as well as of issues in governance.

Private industrial capital: While the performance of the manufacturing sector has remained disappointing in the recent period, this sector, nevertheless, remains an important potential contributor to pro-poor change. The idea that newly emerging classes and economic interest groups that might challenge the hegemony of established power might also apply in a prominent way to the manufacturing sector.

Political system

Political parties and electoral politics: This paper has identified both sources of political conflict and instability as well as the potential for political development around a consensus political architecture as envisaged by the 1973 constitution. There has been a tendency for the incorporation of diverse political and ideological interests into the framework of the constitution. Political parties have played no small part in this process. Party-based politics also provide a possible counter to problems of elite capture and for the incorporation of emerging interest groups.

Civil military relations: Relations between elected and non-elected organs of state power have been identified in this paper as the key source of political instability. The role of the military, in particular, is a highly problematic one in the economic history of Pakistan. The imbalance between military and civil power is also a persistent source of political instability and economic uncertainty. An examination of civil-military relations, particularly the economic underpinnings of these relations, is therefore, critical for an understanding of constraints to change.

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Institutions of governance

Decentralization: The local government reforms initiated by the military government through the NRB were identified in this paper as marking a significant point of departure for the institutions of governance. An explicit aim of these reforms is to restructure existing power relations in favour of the poor. The paradox of centralized military governments supporting the decentralization of power, moreover, requires closer examination. A more nuanced understanding of the political economy of decentralization is particularly important in order to assess the sustainability and the pro-poor potential of the current reforms.

Bureaucracy: The effectiveness and quality of the organization of government emerges as a key issue for pro-poor change in a number of ways. First, if one accepts a market-oriented model of change the improvement of bureaucratic structures becomes a conspicuous residual issue in public sector reform. Second, there appears to have been an inverse relationship in Pakistan between representative government and the effectiveness of government machinery. A historical political economy analysis of the bureaucracy as a transmission mechanism for policy making and policy implementation will allow a clearer view of the political feasibility and context of future bureaucratic reform.

Conflict, security and the rule of law: The broader question of state effectiveness – or the overall effectiveness of the institutions of the modern state including the judicial systems, law and order and security – remains a critical marker of long-term development. Any discussion of policies and programmes must be logically subsequent to questions pertaining to the basic functioning of modern state institutions. The idea of a functioning state remains a project rather than a reality in Pakistan, and the most recent period has not witnessed any significant attempt at expanding the scope of the rule of law – a minimal requirement of a functioning state.

Social change

Cultural conflict or synthesis: This paper finds multiple trends within Pakistani society towards diverse cultural models. There are tendencies towards modernization, including evidence of some improvement in demographic indices of gender bias. There changes also of a qualitative nature which signal the existence of a dynamic civil society. Mass media appear to play an important part in both promoting cultural change as well as responding to it. At the same time there is also resurgence – conspicuously in the political sphere – of forces advocating social conservatism. Attitudes towards gender relations and the position of women are key markers of positions taken vis-à-vis cultural and social change in Pakistan. The extent to which the different positions are resolved through conflict or synthesis will have a impact on the possibilities of pro-poor change in Pakistan.

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Islam, Politics and Change

Kamran Asdar Ali

Executive Summary

To the surprise of many in Pakistan and abroad the October 2002 election results indicated that a newly formed coalition of Islamic political parties, Muttahida Majlis-I-Amal (MMA), had won a plurality of votes in NWFP and Baluchistan. It won a total of 45 National Assembly seats out of which 28 were in NWFP (which has 35 seats in the national Parliament) and 6 seats from Baluchistan (13 seats in the NA). It also won 49 seats in the NWFP provincial assembly in a house of 99 members and 13 seats in the Baluchistan assembly that has a membership of 51.

Its electoral showing was by far the most respectable result that a religious party had attained in Pakistan. In 2002 the combined religious parties (MMA) gained almost 11 percent of the total vote cast (2.9 million out of 29.5 million). It remains a watershed moment in Pakistan's political history. Never before had an Islamic party independently acquired enough votes to govern a province in Pakistan, as the MMA does today in NWFP. It is also a coalition partner in the Baluchistan government and has a sizable minority in the national parliament.

Based on oral interviews, newspaper reports and published material this paper argues that Islamic parties have emerged as national players whenever there is a proliferation of undemocratic practices by the ruling elite, including an absence of representative institution and national parties with cohesive programs. Hence the emergence of the MMA is also a result of suppression and manipulation of political process in Pakistan.

The paper also details how despite the MMA's leadership's rhetoric of democratic values its constituent parties have been, in the recent past, aligned with the Pakistani military establishment. Further, MMA's profile is evidently religious and constituent parties have a varied, contradictory and complicated history on social and political issues affecting contemporary Pakistan, including issues pertaining to women's and minority rights. Yet, for reasons of political expediency or otherwise, the MMA has decided to shed its ultra-conservative coat and has moderated its stand on a range of issues including the desire to enter into a dialogue with the international development sector. The MMA is prepared to accept technocratic help, developmental aid and long term credit from any international institution that could help it address its development goals.

The international development agencies, whether bi-lateral or multi-lateral, have a long history in Pakistan of working with democratically elected representatives and also with military dictators. Hence currently the World Bank is under discussion with the NWFP government on delivering its second out of the three installments of \$90 million credit. Similarly the Asian Development Bank has fifteen operations in the province with a total expenditure of \$400 million, a sum of money that the provincial government is eager to retain. In its relationship with the development agencies the MMA may seek to refocus the language of development aid to fit with its own cultural agenda. In this process the international agencies can themselves negotiate certain issues like women's rights with the NWFP government. However, this give and take makes it clear that the MMA leaders do understand the urgency of being able to provide benefits to their constituents in an atmosphere where they lack federal support (for the time being), available funds/revenues and technocratic expertise.

Recently the Pakistani military and the MMA have agreed upon the Legal Framework Order (LFO). The LFO guarantees the continuation of General Musharraf's rule for another five years.

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The military establishment evolving sense of Pakistan's international isolation may have shaped its recent response to domestic politics. The Pakistani state is under tremendous external pressure (primarily US) on the issues of nuclear proliferation and Islamist radicalism. On the one hand, Musharraf's conciliatory remarks on Kashmir, the détente with India and the acceptance of MMA's demands to leave the COAS office at this juncture clearly point to definite shifts in the regime's policies. On the other hand, through the LFO mandate the military has made sure that it will not risk civilian scrutiny until it can guarantee the continuation of its own entrenched power in Pakistani society.

For the MMA this compromise also opens up many political possibilities. In exchange for its agitation on the LFO issue, it has received an assurance that the parliament will complete its term and that Musharraf will retire from the Army. There is a possibility of a more conciliatory relationship with the federal government that could lead to more beneficial situation of transfer of funds to the NWFP government. The MMA is also counting on legislating laws/passing bills that would enhance its national profile on economic, cultural and social issues.

As the secular opposition parties are left out of the process of distribution of resources or passing legislation, the MMA will take advantage of its recent position and further augment its strength for the next election cycle. The goal is to consolidate enough electoral strength so that eventually their political and social agenda can be implemented through acts of parliament (a strategy akin to JI's historical thinking on social change). In the absence of contravening political forces, if the Islamists manage to remain focused, together, uncorrupt and provide social and economic relief to the populace, their gamble of supporting the General may pay off as they will continue to expand and consolidate their strength in the political arena

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**Local Government Reforms in Pakistan:
Legitimising Centralisation or a
Driver for Pro-Poor Change?**

Ali Cheema and Shandana Khan Mohmand

Executive Summary

There is a growing consensus that poverty in Pakistan is a result of deprivations in three major entitlements; (a) economic assets, (b) political and social rights, and (c) social and municipal services (Gazdar and Sayeed 2003, World Bank 2002). It is now well established that there is considerable inequality in people's access to these entitlements (World Bank 2002). This evidence has led to an increasing recognition that poverty reduction strategies must go beyond income generating activities to bring about governance and institutional changes that open up participatory spaces for the poor, increase their access to social and political rights and enable them to hold the state directly accountable. An important component of this institutional approach to poverty reduction is decentralization, a reform that has become increasingly popular with governments and donors around the developing world. In line with this, General Musharaf's government has introduced the Local Government Plan 2000, which was been operationalised through the promulgation of Local Government Ordinances (LGOs 2001) in all four provinces in 2001.

However, decentralization to the local level is not new to Pakistan and two major attempts at reforming local bodies have already been tried by Ayub and Zia prior to the present one. In each case military regimes have decentralized political and administrative power to the local level and have created some form of representative government at this level. These previous efforts have had certain common elements: (a) each local government reform has been part of a wider constitutional reengineering strategy devised to centralize political power in the hands of the military at the expense of the elected provincial and federal tiers; (b) local governments were empowered to legitimize the centralization of political control by the non-representative centre; (c) the functional necessity of local governments did not translate into their substantive empowerment; (d) bureaucratic control was used to limit both local government autonomy and political competition at even the local level; (e) the dual objectives of decentralization and centralization, coupled with bureaucratic control, created 'tensions' and 'contradictions' between different structures and tiers of the state; between different political actors; and between them and the bureaucracy; and (f) the nature of the decentralization efforts have been heavily influenced by rural-urban dynamics and have reflected the transformation of rural and urban societies in Pakistan.

This structure led to a number of adverse consequences for the empowerment of local governments and for pro-poor change. Centralisation of political power resulted in circumscribed functions and limited fiscal capacity at the local level, which restricted the autonomy and delivery capacity of local governments, while at the same time fiscal and expenditure functions came to be increasingly concentrated in the hands of the centre at the expense of the provincial tier. This weakened the purview of the provinces and created an incentive for the elected provincial governments to encroach upon the already limited functions of the local tier. The centralization of functions and finances has adversely affected the efficiency and equity of public service delivery with adverse pro-poor impacts (Keefer et. al. 2003, World Bank 2002). In addition, the process of political centralisation in the hands of the non-representative centre also significantly weakened and distorted electoral competition at the local tier by holding elections on a non-party basis. The

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adoption of the non-party principle during the Zia period was particularly damaging for representative politics as it led to the deliberate reversal of a more universalistic basis of political organisation that had emerged with the consolidation of political parties in the 1970 federal and provincial elections. The neutralization of political party activity at the local level allowed these bodies to be captured by politically mobilized local clientelist elements, which entrenched personalized politics at this tier at the expense of organized political collectivities. Zia's 1985 non-party elections transplanted the structure of personalised clientelism to the higher tiers of the state. As a result of these consequences the previous local government experiments failed to make decentralization an empowering reform for the poor because they were not designed to change accountability structures or to allow a substantive devolution of power through the restructuring of existing power structures and clientelist politics.

In addition, the maintenance of a legislative urban-rural divide in local government, which was instituted by the British, became increasingly dysfunctional with the growth in urbanization and the rise of 'peri urban' settlements. This dysfunctionality resulted from the inability of rural and growing 'peri urban' settlements, where a majority of the poor reside, to gain from the increase in urban local council Octroi revenues, which were a result of increased urbanization, heightened urban-rural trade and the growth of urban markets during the seventies. The absence of buoyant sources of revenue coupled with a lack of fiscal transfers from the higher tiers meant that the capacity of rural and 'peri urban' local councils' to deliver on even their meagre compulsory functions became even more limited, which made them increasingly dependent on the provincial tier for service delivery.

Musharaf's LGO (2001) claims to have reversed the structure of governance in the country and to have implemented participatory, pro-poor change (NRB 2000). LGO (2001) claims to have done this by decentralising service delivery and planning functions to the district, tehsil and union governments; instituting representative democracies at the local level; defining new mechanisms of citizen participation; and placing the bureaucracy under the 'authority' of elected nazims (mayors). However, for a new institutional agenda based on the principles of pro-poor change and participatory politics to take root, Musharaf would have had to directly address some of the consequences of the earlier decentralisation efforts. In particular, he would have had to: (a) bring about substantive decentralisation in order to increase the previously limited powers of local government, and to address the lack of political autonomy of these bodies; (b) reverse the continuing control of local government by the bureaucracy; (c) decentralise some federal functions to the provincial level; (d) reduce the impact of patron-client politics on the working of local government; (e) diffuse tensions between the elected provincial and local tiers of government through the balancing of power between the two competing tiers; and (f) integrate rural and urban areas for a more equitable flow of resources to rural areas and in order to deal with the dilemma of 'peri-urban' areas.

LGO (2001) has been able to meet some of these requirements through reforms that are characterized by: (a) substantive provincial to local decentralization; (b) functional separation of service delivery functions; (c) empowerment of elected local governments vis-à-vis the bureaucracy; (d) creation of new electoral accountabilities; (e) enhanced user role in service delivery; (f) increased electoral empowerment of women, minorities and peasants; (g) reforming access to justice; and (h) integration of rural and urban areas at the tehsil level. However, there has yet again not been any substantive decentralization from the federal to the provincial or local level, there is limited constitutional support for local governments, a high level of provincial-local government tensions still exist, and non-discretionary fiscal devolution is still limited.

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This paper employs a historical political economy approach to determine the extent to which decentralization has affected pro-poor change in Pakistan under the current decentralization effort. The historical analysis of decentralisation in Pakistan has revealed that local government reforms have been used as a complementary institutional change in a non-representative institution's bid for centralization of political power. In many ways the recent local government reform is a break from this tradition in that it is far more wide-ranging than the previous plans and that it has created significantly greater autonomy for the elected local tier. However, the paper shows that the current plan has not been able to break completely with past tradition in that it remains a complementary institutional change to the military's bid for political centralization.

This 'continuity' in many ways has compromised the potential of the current reform as a 'driver for pro-poor change'. The most detrimental effects of this 'continuity' are reflected in the choice of political rules, such as non-party and indirect elections, and the continued practice of political interventions at the local level. While LGO (2001) has created a competing tier of patronage at the local level, the non-party basis for local elections has not allowed the space for *political organizational linkages* to develop between local government leadership and political parties. This has resulted in heightening the conflict between different tiers of government, weakening political linkages between local citizens and the state, reproduction of local clientelist politics, and lack of ownership of the current reform by political parties. The paper also shows that in terms of social and political empowerment of the poor the current reform has to date failed to affect change at least at the district level because electoral space has been distorted through central government interventions and because old social hierarchies and clientelist networks continue to be reproduced at the local level. These factors suggest that the likelihood of the poor to hold local governments accountable is limited. The muted accountability of the local governments to the poor will be further exacerbated by the indirect election rule, which ensures that a nazim need not be supported by a majority constituency and can be elected on the basis of support from a few hundred union councilors. Therefore, there is a higher probability of exclusion of the poor under the *indirect election rule* compared to a *direct election rule*, which requires the nazim to obtain a simple majority.

The paper also shows that province-local government 'tensions', which are in part a consequence of the current political design and in part a result of the structural nature of competition between provincial level political parties and the local tier, have had serious consequences for the current reform. These 'tensions' are making the system unstable in many districts and in most provinces. They have also reduced the provinces' incentive to substantially empower the local tier by strengthening the provincial bureaucracy's accountability to it. This is because control over the bureaucracy largely remains in the hands of the provinces and has become the main political instrument through which the provinces can control local governments. As a result the existing system places limitations on the capacity of a nazim to respond to his/her local constituency, which will constrain a pro-poor nazim's ability to affect change.

These tendencies have been exacerbated by the lack of any decentralization of fiscal and expenditure assignments to the provincial tier. The lack of financial devolution from the federal tier will weaken the provinces' incentive to abide by a 'rule-based' fiscal transfer system. This paper has shown that there is a concern that this may lead to a decline in local government transfers in real per capita terms. This may be crippling for district governments in the long run because they have not been assigned any buoyant and potent taxes despite a substantive increase in their expenditure functions.

However, a number of positive spaces have been opened by this plan, which include the empowerment of the local level elected tier and the reduction in the size of electoral

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constituencies. This will allow new socio-political forces to consolidate themselves in areas undergoing socio-demographic reform. Specifically, it will create more political space for peri-urban dwellers to negotiate with the old administrative urban areas to transfer resources and service delivery. It appears that greater political space has already been opened up for participation by previously unrepresented and marginalized groups. Citizens have been allowed spaces for participation in service delivery functions. The plan has also introduced the concept of spatial budgeting that will make inter-district expenditure allocations more 'transparent'. Furthermore, the PFC system appears to be creating greater equity between less developed and more developed districts in some provinces and this is likely to have a positive impact on poverty. An opportunity for enhancing the poor's access to justice has been created through the empowerment of the local, formal judicial system and the separation of powers between the executive and the judiciary. However, the importance of this reform remains circumscribed by the lack of trust that the poor have in what they perceive to be a corrupt, expensive and inefficient dispute resolution system. The fear is that unless the efficiency of this system can be enhanced, generalised rule of law will be undermined as the poor will become increasingly inclined towards using informal dispute resolution bodies.

There are a number of immediate interventions that can be made to strengthen these spaces, which at the margin will result in a positive impact for the poor. However, in the absence of complementary socio-economic changes that empower the poor and political changes that place limitations on the non-representative centre the structural constraints identified above will continue to limit the pro-poor potential of these reforms by distorting electoral competition, muting accountabilities and heightening destabilising tensions.

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Bureaucracy and Pro-Poor Change

Ali Cheema and Asad Sayeed

Executive Summary

Introduction

The bureaucracy is a key catalyst in a functioning state's pro-poor policies. State success or failure in many cases can be gauged by the degree to which the tension between the rules based bureaucratic form of administration and populist politics is resolved. The disconnect between policy formulation and execution in Pakistan has widened considerably in the last three decades. The blame can be ascribed to bureaucratic malfeasance, incompetence and corruption, along with the political leadership – both civil and military. This paper takes a political economy perspective in analyzing the nature and causes on the decline in bureaucratic conduct.

1. A Framework for Analyzing Bureaucratic Structures and Development

The framework that we use is based on the argument that the relationship between politicians, bureaucrats and the public is interlocked. The electorate or the citizenry is the consumer of government services; the politicians or political power-holders translate the electorate's demands into policy and the bureaucrats are the agents responsible for service delivery and regulation. The efficient functioning of this system or effective bureaucratic governance depends upon a number of conditions. These include clarity about the pursuit of objectives, the efficacy of the political process, efficient bureaucratic monitoring and accountability, the degree of insulation of the bureaucracy, and the degree of bureaucratic centralization and fragmentation.

2. A Historical Overview of Bureaucratic Conduct in Pakistan

Pakistan's bureaucratic structure was inherited from what was known as the All India Civil Service, which comprised of the Indian Civil Service (ICS), provincial level services, and the subordinate civil service. Because of the Imperial control over politics, the bureaucracy operated in a context of virtually complete domestic insularity, and did not face any political compulsions for accommodation of the public interest.

The Immediate Post-Independence Period (1947-58): Regardless of its imperial character, by the time the British departed in 1947, India and Pakistan inherited one of the most developed civil service systems in the world. The transition from personalized rule to a state and thence to a public and protected service was complete, at least in form if not in substance. In the case of Pakistan, political power in the initial years was fragile. This meant that by default the bureaucracy – both civil and military - became more powerful vis-à-vis the elected arms of the state. Using the framework developed in section 1, we see that the bureaucratic structure was centralized, it was insulated, there was some level of internal accountability but political and/or judicial accountability was minimal. Lack of clear objectives about running of the state from the political leadership enabled the bureaucracy to determine its own agenda. During this period, the provincial cadre was abolished and the Civil Service of Pakistan (CSP) emerged as a centralized bureaucratic structure, which was less accountable to politicians and thereby to the electorate.

The Ayub and Yahya Periods (1958-71): The 'bureaucratic-military oligarchy' remained at the helm of the affairs for the entire decade of the 1960s. With the military takeover of 1958, the bureaucracy played an important role in crafting a restrictive political environment. Bureaucratic control was strengthened during this period by acquisition of constitutional protection in the 1962 constitution, and by explicitly taking over the policy formulation process. The issue of ethnic

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domination and inter-locking ties amongst and between bureaucrats themselves and between the bureaucracy and the leading business groups came to the fore during this period.

Individual bureaucrats were also in a position to enrich themselves through the large rents created as a result of the developmental policies adopted during the period. By the late 1960s the bureaucracy was seen as having acquired tremendous social and economic power through inter-locking relationships with other elite groups in society.

Bhutto and Post-Bhutto Period: Zulfikar Ali Bhutto's 1973 Administrative reforms mark a major structural break in the institutional development of Pakistan's civil bureaucracy. Key changes brought about by these reforms include the removal of constitutional protections, the CSP cadre were regrouped, and creation of the All Pakistan Unified Grade System. These provisions enhanced political control over the bureaucracy, curtailed the influence of the CSP cadre within the central bureaucracy, and also institutionalized the induction of armed forces personnel into the civil service. As a result of these changes the bureaucracy no longer remained a tight-knit, insulated and exclusive body. The opportunities to use bureaucratic employment as a patronage mechanism also increased during the Bhutto period because of the expansion in the size and purview of the state. However, once General Zia assumed power he dismissed 40% of Bhutto's lateral recruits on grounds of irregular appointments.

Imperatives of political control over the bureaucracy during the seventies also fragmented the state structure in key functional areas. The fragmentation of the state structure was heightened with the proliferation of the number of ministers and ministries, which proliferated after the return of elected governments in 1985. This resulted in conflicting interests and perverse incentives associated with a fragmented state structure.

3. Consequences of the Bhutto Reforms

Dysfunctionality and Inertia in Rules: The reforms of 1973 interestingly did not alter the processes and procedures of bureaucratic conduct as they remained overly elaborate, non 'transparent' and discretionary. This is on account of two reasons. First, the declining internal cohesion and fragmentation of the bureaucracy allowed individual agents greater 'autonomy' to use discretionary powers even if they came at the expense of stated policy. Second, archaic performance measurement procedures, which employed little use of modern technology and lacked objective criteria of 'outcome monitoring' made it harder for principals to obtain 'verifiable' information on bureaucratic performance.

Changes in the Political Structure: There were two important breaks with regard to the development of the political structure that had an important impact on the 'developmental efficacy' of the bureaucracy. First, is the electoral success of mass based 'populist' parties in Pakistan in the 1970 elections. This development affected the structure of the bureaucracy, as it became an employment agency through which patronage was dispensed on clientelist criteria. The second development was the fragmentation of the political structure as a result of Zia's interventions in the political and electoral spheres that aimed to neutralize the presence of organized political parties within the political structure.

The Effect of Broader Socio-Economic Changes on Bureaucratic Conduct: Another important factor that has eroded the internal cohesion of the bureaucracy is the changing social profile of the bureaucrats. This is a result of urbanization, the spread of education and the growth of political populism during the late sixties and seventies. The 'developmental efficacy' of the Pakistani bureaucracy has also been adversely affected by the erosion of the economic and financial incentives of bureaucrats.

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4. Critical Appraisal of Recent Efforts at Bureaucratic Reform: The Musharraf Regime and After

Since the military coup of 1999, bureaucratic reform has come on the agenda more explicitly. Conceptually, these reforms can be categorized in three broad categories:

Reforms to Enhance Bureaucratic Monitoring and Accountability: The Musharraf regime's Devolution of Power Plan has the explicit objective of enhancing bureaucratic accountability at the district level. Devolution is expected to increase politicians' accountability, and also the ability of politicians to hold the provincial bureaucracy accountable. However, a number of social, political and systemic impediments continue to mute the politicians' ability to hold the bureaucracy accountable. First, it appears that the military's choice of holding non-party and indirect elections at the local level appears to have reproduced old clientelist hierarchies within the district polity. Second, it appears that the local level politicians' ability to hold the provincial bureaucrat accountable is muted by the provincial secretariats retention of important powers that constrain the autonomous functioning of the district government vis-à-vis the provincial line bureaucracy. Lastly, in spite of devolution most of the rules, procedures and mechanisms of bureaucratic accountability continue from the past.

Reforms to Enhance Incentive Compatibility: In order to enhance incentive compatibility *The Pay Award Committee* and the TAFTA (2001) have both recommended a pay and pension increase, with fully monetized salary packages for bureaucrats. Such pay reforms offer positive effort incentives in so far as: (a) politicians have an interest in aligning bureaucrats' incentives to coherent goals; (b) politicians have the ability to monitor bureaucrats efficiently; and (c) politicians have the ability to sanction ill-performing bureaucrats. It was shown earlier that there is no *a priori* expectation in the current system that these conditions will be met given both the structure of politics and the design of administrative rules. Furthermore, no reforms have been undertaken that aim to deliver measurable improvements in the probability of detecting bureaucratic free riding.

'Right-Sizing': Reforms to Improve Bureaucratic Structure: Another area of reform that has been floated is that of right sizing of the bureaucracy so that problems of over-staffing and the lopsided structure of the bureaucracy is corrected. There are, however, a number of issues with respect to recommendations on this matter. First, reforms recommendations so far have only focused on the Federal Government. Rightsizing of the Provincial Governments, where around seventy per cent of all government employees work, has not been addressed. Second, these recommendations emphasize on down-sizing of lower level staff to correct the lop-sidedness in the structure of the bureaucracy. This may be a necessary condition to improve the balance of the civil service, but not a sufficient one. For improvements in governance and service delivery, it is equally important that capacity constraints in the upper echelons of the bureaucracy, in terms of requisite skills and training, are also addressed. Third, Another there is significant political resistance to right-sizing. The constraints in downsizing for political governments is understandable, but the military government also did not touch the issue of downsizing sufficiently.

Conclusion

An over-powering bureaucracy with no accountability is incompatible with the existent level of political mobilization that prevails in the country. A rules based bureaucracy with a certain degree of security of tenure is thus required, but one which is appropriately accountable for its conduct to a sovereign parliament and an impartial judiciary. It is important to reiterate that for pro-poor change the bureaucracy is only a transmission chain. Even if efforts in creating a competent and rules-based efficient bureaucracy are successful, if the objectives and goals of the state remain

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anti-poor, it can actually create an inferior outcome so far as pro-poor change is concerned as an efficient anti-poor bureaucracy will execute such policies more efficiently

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The Land Question

Haris Gazdar

Executive Summary

The distribution of land ownership is very unequal in Pakistan. Half of all rural households do not own any land, and the top 2.5 per cent of the households own over 40 per cent of the total cultivated area. The issue of land inequality, however, is virtually absent from the policy and political agendas.

The absence of land inequality from the policy agenda is particularly conspicuous given the context of the goal of poverty reduction. (a) Empirical work on rural poverty indicates a high correlation of landlessness with poverty. (b) There is thought to be an inverse correlation of agricultural productivity with farm size. (c) Land concentration or the existence of large landlords is thought to have adverse effects on the quality of public service delivery and on pro-poor governance in general.

From the political economy viewpoint, it is paradoxical that land inequality remains off the political agenda in a country where the potential beneficiaries of land redistribution are many, and potential losers are few. This paradox of a consensus of silence on land – in a situation of large potential political pay-offs – is framed here as “the land question”. This paper attempts to answer the land question with reference to existing quantitative and qualitative data on land and rural poverty.

The dominant explanation of the land question is the existence of “landed power”. It is thought that landowners exercise a great deal of political power through their ownership of land. Large landowners are able to act as local political monopolists and to dominate political and administrative processes to their advantage. They use their control over land in order to maintain political power, and in turn, use their political power to protect their vested interests in land. While the landed power thesis provides a viable explanation of resistance to land reform, it does not adequately explain the absence of political entrepreneurship on the issue of land inequality.

A review of the statistical data on land ownership confirms that land ownership is indeed highly unequal. It is the most unequal in Sindh where landlessness and land concentration are both very high. In NWFP, by contrast, landlessness is less severe, while in Punjab land concentration is lower. Even in the more “land-equal” regions, however, land ownership is far from egalitarian. Secondary data confirm, also, the potentially destabilizing political arithmetic of land ownership distribution – i.e. the coexistence of many potential gainers and few potential losers of land reform.

Early land reforms (in the first decade after independence) were focused on the creation of standard private property rights in land, and the removal of intermediary interests. They included the reform of tenancy laws in order to encourage the establishment of unencumbered property rights in land. Since 1959 the main policy instruments for access to land have been two-fold: (a) land ceiling laws, (b) allotment of state-owned land. The first ceiling laws were imposed in 1959, and these were updated and made more stringent in 1972 and 1977 respectively.

On first appearances both ceiling laws and allotment of state-owned land have been significant. Around 8 per cent of total cultivated area was resumed from private landowners. The government had another 17 per cent of the cultivated area at its disposal through its prior ownership of newly irrigated land. Virtually all of the state-owned land in the post-independence period happens to be located in one province (Sindh). The relatively large areas of land resumed

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by the government through ceiling laws and available to it from irrigation development, however, have not resulted in pro-poor and pro-equity outcomes. This is partly due to the inappropriate design of land allotments: favouring fewer large allotments instead of more numerous small allotments; targeting of non-poor interest groups such as existing landowners, military personnel and state functionaries; virtual exclusion of the poorest in Punjab. Part of the problem lies in influenced wielded by existing non-poor interest groups in the implementation of policy.

A micro-level view based on village and community surveys provides additional insights. Village surveys confirm the high incidence of rural landlessness and the correlation of landlessness with poverty. They also, additionally, indicate the existence of significant inter-village variations in patterns of land ownership.

Caste or *biraderi* is an important correlate of land ownership across villages and regions. There are important differences between regions and villages.

In upper and central Punjab, there is a sharp division of the village society into traditional “cultivator” and “non-cultivator” castes. Most of the “non-cultivators” are “low caste” menial *kammi* groups or other historically marginalized groups such as the Mussalis and Christians. These are also the core of the poor. Landowners in these villages are relatively homogenous in their holdings as well as their social position, and form cohesive corporate groups who jointly “own” the village.

In Sindh and lower Punjab the caste hierarchy is not strong, and there is a weaker correlation between caste and class. Land ownership is concentrated locally in the hands of leading families of particular castes or *biraderis*. These leading families and individuals maintain strong patriarchal patron-client relations with their wider kinship groups as well as with other local landowners and tenants. Caste solidarity and vertical factional alignments weaken the economic basis for horizontal class-based alignments that might cut across kinship boundaries.

The irrigation system – with its prevalence of riparian conflict which is mediated through political transactions – is another factor in the strength of local landlords and vertical alignments. There vertical alignments necessary for effective access to canal irrigation water also makes horizontal class-based alignments of the landless non-viable.

Qualitative survey data indicate that there are active transactions in land, and there is evidence of mobility in land ownership. There are some conspicuous instances of the absence of mobility: low non-cultivating castes in upper/central Punjab remain excluded. There have been, however, significant changes in land ownership in the favour of some formerly marginalized economic and social groups. Most of the changes in land ownership in the survey areas have not only involved the market, but conflict, political mobilization, and collective action. Formal property rights mean very little if they cannot be defended with the use of political and social networks and alignments.

The “landed power” thesis, therefore, needs to be substituted with an alternative “social power” thesis. Under conditions of a weak state and uncertain contract enforcement, it is prior social and political power that lead to landed power and not the other way round. In some regions – such as rural upper/central Punjab – social power is vested in the corporate interests in joint village “ownership” of traditional “cultivator” castes. These groups are able to maintain their hold over land in opposition to traditionally marginalized “low caste” groups. In Sindh and lower Punjab, social power is premised on political entrepreneurship and leadership within families and extended kinship groups and *biraderis*.

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Existing policies on land and agriculture need to be reexamined. (i) The policy of the allotment of state-owned land is the only significant reference to access to land issues in the current Poverty Reduction Strategy Paper. The pro-poor impact of this policy might be enhanced if it were redesigned to maximize the number of potential beneficiaries while reducing the area of land allotted per beneficiary. The political impact of such a change is likely to mobilize a constituency for land redistribution. (ii) Policies such as land titling acknowledge the weakness of private property rights in land, but pay insufficient attention to the need for social change. (iii) The reference to corporate farming in the PRSP is not warranted from a poverty-reduction viewpoint.

It is possible to identify four factors that will – in the short to medium term -- inhibit or promote pro-poor political change on the land question.

First, deepening of party-political identities in the place of parochial caste and kinship-based identities will strengthen the basis for modern state institutions. Factors that weaken political parties – such long periods of military government, or interference with electoral processes – tend to enhance the premium on social power.

Second, politicization and enfranchisement of marginalized groups such as the *kammis* and other “low castes” will allow their concerns – such as landlessness – to be reflected in public discourse. Competitive electoral politics can create incentives for parties and politicians to pay attention to new potential constituencies. There is also much scope for social and political activism on the behalf of marginalized groups.

Third, the depoliticization of the irrigation system can create conditions for the politicization of the land ownership issue. Factors that appear to further politicize the irrigation system – such as seemingly arbitrary decisions concerning irrigation projects, and water-sharing – will tend to sustain a high level of mobilization on irrigation issue at the expense of other (pro-poor) issues. Correspondingly, factors that lead to improvements in the technology and local management of the irrigation system – for example through the lining of channels and water courses – might lead to some depoliticization of irrigation and the greater visibility of land issues.

Fourth, there is evidence that the political system will respond to grassroots political demand on the land issue. The history of electoral politics in Pakistan suggests a high degree of responsiveness to populist demands even at the expense of rules-based governance. While creating demand on the land issue might require acts of political leadership – something that is not manifest at the present time – there is evidence that professional politicians and parties in Pakistan respond to political demands from “below” if such demand exists on a significant scale. There is scope, therefore, for social and political activism on the land issue, not for immediate pro-poor change, but with the view of influencing the political agenda over a longer time horizon.

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The Role of the Media in Social and Cultural Change in Pakistan

Zahid Hussain

Executive Summary

Media in Pakistan has experienced a remarkable transformation in its role. After many decades of explicit and indirect state control and suppression of the press, Pakistan today enjoys an extremely vibrant, independent and free media. This is resulting in a far-reaching impact on Pakistani society. This development is both the consequence of a technological revolution in broadcasting that limits the state's ability to control the media, and the regulatory reforms undertaken by the government. The advent of private TV channels has revolutionised Pakistani electronic media environment. More than one dozen private channels, many broadcasting from offshore, have hit the airwaves, reaching much wider section of the society. The growth of cable TV distribution has provided millions of people across the country access to dozens of overseas TV channels. The number of households with cable connections is expected to be 3.8 million by the end of 2004. Satellite channels are rapidly making inroads through cable networks especially in urban areas. Nearly 42 percent of the urban and 16 percent of the rural TV viewers have access to satellite channels.

Private channels enjoy unprecedented freedom. Pluralism of opinion in electronic media has generated a dynamic for change. These channels have opened a new discourse in the society which for many years was monopolistic and one sided. Open and candid discussions on issues ranging from domestic politics to religion and social and cultural matters have helped strengthen civil society and liberal democratic process in the country. Some TV programmes are instrumental in breaking social taboos several music and entertainment channels have come up encouraged by the government's more liberal policies. The greater number of channels and the greater their freedom means better access to information. More access to information has increased transparency and improved accountability of holders of public offices and other segments of the society.

There has also been an explosion in the print media with the emergence of new newspapers and magazines. Press freedom has also led to radical change in newspaper content. There is now more emphasis on investigative reporting. Social and human rights issues get much more coverage. The press in Pakistan has emerged as an important part of civil society and plays a significant role in emerging change in the country's political culture. A free and vocal press has made the government more accountable and created awareness among people about their rights. There are, however, certain areas where the media finds its freedom heavily curtailed, particularly on issues of religion. Nevertheless, with rapid globalization and revolution in information technology it will not be easy for the state to reverse the process of liberalization and curtail the freedom of the press.

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Civil Society And Social Change In Pakistan

Ayesha Khan and Rabia Khan

Executive Summary

Introduction:

Civil society is an emerging arena for social and political change in Pakistan. It includes a vast array of organizations and associations that represent the interests of the country's population of 145 million to various degrees. Some of them have a long history in Pakistan, such as trade unions, bar associations, teacher's associations, peasant organizations, student groups, and charity organizations. In this discussion we focus on the organizations and coalitions working in civil society today that are explicitly addressing issues of poverty and human development.

Organizations that share certain characteristics, such as private, not profit distributing, self-governing and voluntary (to some extent) have been grouped by this study as Non-Profit Organizations (NPOs). Based on a nation-wide survey, the study found about 45,000 such organizations active in Pakistan. They have been classified according to the area that each organization termed as its most important service or activity. Religious education is the leading activity of the NPO sector as a whole.

Civil Society and Social Change

This paper sets itself certain specific tasks: a) we attempt to define pro-poor and social change; b) the activities of non-profit organizations (NPOs) are classified and discussed in terms of these definitions, with a view to understanding how their work has a vertical impact, both to the state and policy level and at the grassroots community level as well; c) the lateral linkages of NPOs are discussed in terms of how they both represent and signify further social change in the country.

We will define social change as a process that causes a transformation in the social, political and economic relations of power in a society. It is not necessarily pro-poor, or positive, depending upon one's political perspective. In our view those processes that lead to a more equitable distribution of power and resources among all members of society, that protect the fundamental rights of citizens of the state, and that empower state and other institutions to protect those rights, could be viewed as pro-poor processes of social change.

Having established this framework, we can then ask whether a given civil society organization (NPO) or association is doing *transformative* work or not, and if that work is pro-poor. If not, it is likely to be conducting *alleviative* projects or activities that mitigate the detrimental effects of existing relations of power but do not seek to alter these relations such that they can no longer continue to cause damage.

Civil Society and Development

The three categories of NPOs (here the term is used interchangeably with NGO) described in detail below are: a) welfare and charity-oriented, b) community development -oriented c) sustainable development and advocacy-focussed. The first category includes NGOs that are mostly alleviative, the third is mostly transformative, while the second is a bit of both.

Although the first generation or category of NGOs have immense credibility in the community and receive large donations, most of these organizations, as a conscious policy, remain distant from the state with minimum interaction. They do not engage the government in any policy

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advocacy work. They also do not directly work for transformative socio-political change. However, the leadership of these organizations in their private capacity may be engaged in political or other issues and the government may invite them on different forums for advice or to enhance the credibility of the forum. There is a conscious effort by the leadership of these organizations to keep their organizations separate from their public or political roles.

NGOs that fall in the second generation/category are community development-oriented. This category of NGOs emerged in the 1980s to fill a vacuum left by the government's inability to provide basic services, which in turn was a result of the failure of the over centralized planning and top down approach. They may also provide alleviative services and in that way overlap with the first category of NGOs. However they differ from the first category because they are also providing a range of development services to communities that were traditionally the domain of the government.

The third category and youngest generation includes the sustainable development and advocacy NGOs (Smillie 1992) that are actively and overtly engaged in equitable development, community empowerment and transformation as well as leading advocacy campaigns and lobbying for social and economic change. A few of these groups originally emerged between 1985-95 as a fall-out of the policies of General Zia ul Haq's military government, which curtailed progressive trends especially in the media, art and culture. Comparatively less NGOs are found in the third category as it is more risky to function while taking adversarial stands against the government and local power elites and vested interests. (NGORC 2003) They require strong and enlightened leadership with a professional institutionalised approach.

Increasing horizontal linkages among organizations and groups in civil society are building upon the vertical linkages established by NPOs. This is changing the nature of NPOs' work, causing them to form coalitions between large NPOs and community groups based on issues, and causing them to support one another in resistance to hostility from the state. This process is being led, in large part, by those NPOs involved in transformative work.

Social Movements and Change in Pakistan

Our view of social change is informed by the observation of increasing horizontal linkages among civil society organizations in Pakistan, particularly those with a pro-poor agenda. Whereas traditional social movements in this country have been built upon local issues and remained at that level, despite evidence of public support, they have been unable to broaden their base and challenge the powers that be to great effect. We suggest that movements for social change are now nascent but nonetheless built upon a newer model of coalition building that may have potential in future to grow in size.

The NGO Movement

One such example is the NGO movement, a combination of loose alliances of a significant number of NGOs across the country sharing a common goal to support the existence and plurality of independent civil society organizations, especially development and advocacy NGOs. Those NGOs that are active in these alliances have managed to establish some common shared values and norms especially with respect to ensuring broad participation and consensus in decision-making. The primary focus of the NGO movement has been to create an enabling environment to develop into institutions and work in a broad spectrum of social, economic, and political issues facing the country.

NGOs have built loose alliances and networks on various issues such as child rights, women's rights, the environment, and more. The development of horizontal linkages among various

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categories of NGOs and with other civil society organizations has been fostered by a hostile political environment. Meanwhile there has been a deepening of vertical linkages especially with the smaller rural based CBOs.

The Women's Movement

Another nascent but tenacious movement that has taken root is the women's movement, led in its current form by activists from the Women's Action forum, an informal coalition of individuals and organizations. The organizations led by WAF members in their individual capacity have a *transformative* agenda, ie to raise awareness about the oppression of women under patriarchy and to change attitudes that support it, while they also provide legal, counseling, or other services as part of their *alleviative* work. As a result there has been a significant and sustained organization of women and human rights groups in Pakistan since 1981 around specific issues that affect women, particularly constitutional and legal rights, violence, and political representation.

Environment and Sustainable Development

Unlike the NGO movement, the environment and sustainable development movement has been more geographically and thematically scattered as it is rooted to specific issues either in the ecology e.g. forestry and rangeland issues in the north, water issues in the south, government's international trade policies and agreements (WTO) etc. The people and NGOs involved in it are from across the country and work in a close but loose alliance. The National Conservation Strategy process played a significant role in consolidating and bringing together a number of scattered environmental and sustainable development issues under one umbrella consultative process and played a catalyst role in triggering an environmental movement in Pakistan. (Runnalls 1995)

Conclusion

The relationship between civil society organizations and the demands of the communities and people whose needs they seek to meet is deeper than common misconceptions would suggest. First, an organic linkage is evolving between the issues being addressed by larger NGOs and their partner CBOs, and also NGOs working at the community level are changing their agendas in response to the needs asserted by the communities themselves. Beyond these deepening vertical linkages, horizontal networking is underway for the first time, with NGO coalitions, national and provincial federations all firmly in place. This is in turn an outgrowth of the joint action committee format that loosely brought NGOs together, and still do, on the basis of activist issues.

The question of social movements in Pakistan is a serious one that merits further debate and research. Definitional issues aside, we assert that there are irreversible trends underway that have altered the development agenda and expressed the needs of the people in innovative ways. Their growth is supported by two factors: first, alliances and coalitions being built by civil society organizations, particularly those engaged in transformative work; second, changing human development indicators on the ground that suggest in the future women in particular will become more assertive and active members of civil society. Meanwhile it is clear that civil society organizations especially NGOs engaged in advocacy and sustainable development require strengthening and institution-building support. It is the transformative nature of their work that will continue to challenge the state and the social status quo and potentially trigger long-term social change in the country.

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Industrial Capital and Pro-Poor Change

Khalid Nadvi and Asad Sayeed

Executive Summary

Industrial development can have pro-poor impacts, generating employment and incomes for the low waged, especially in a labour abundant economy such as Pakistan. The growth of a vibrant urban industrial bourgeoisie and a professional middle class can also have significant political, social and cultural impacts. This can create social tensions by undermining traditional norms. It can also generate space for more enlightened views to emerge within civil society. This paper, in focusing on the role of private capital in Pakistan's developmental process, reviews the changing relationship between private capital and the Pakistani state. The paper uses a political economy framework to historically assess the process of rent seeking and accumulation by industrial capital in Pakistan. The paper also considers current bottlenecks facing industrial development and emerging issues around military capital, labour contracts and corporate social responsibility.

Despite a reasonably strong macroeconomic position, Pakistan's industrial sector continues to remain relatively weak. Manufacturing employment has declined over the past two decades, and, despite high levels of liquidity in the banking sector, private industrial investment remains stubbornly low. A recent review of Pakistan's industrial competitiveness points to Pakistan's poor performance in manufactured exports with respect to its leading competitors.

At the time of independence Pakistan had little industry to speak of. During the 1950s the state pursued an agenda to rapidly promote industrial growth - especially in the processing of jute and cotton, the main primary commodity exports, and in the development of a local consumer goods sector. This was done by maintaining an overvalued exchange rate - which made imports of capital goods relatively cheaper, through specific import license strategies that created particular forms of rents to license holders, through quantitative and tariff protection against imports of consumer goods, and through fiscal subsidies and the channeling of credit. The state thus intervened directly in industrial investment. This strategy of import substituting industrialization led to rapid manufacturing growth in the 1950s and 1960s.

This high growth strategy came with significant distribution costs. The industrial policy rents during this period accrued largely to the industrial elite of Karachi and Punjab based entrepreneurs. An explicit strategy of 'functional inequality' meant sharply widening imbalances between the country's then two wings, and stagnant wage growth. The inter-regional and class based conflicts that ensued from this policy agenda fuelled much of the discontent that resulted in Bangladesh's independence and the demise of the Ayub era of rapid industrialization.

The Bhutto period continued to see explicit state intervention in industrial development, with the public sector seen as the key engine of economic growth. New investment took place in large scale capital intensive projects - such as the steel mills, while the banking sector and much of private industry was taken into public control. Thus, the share of the public sector in total capital investment rose from under 10 per cent in 1971/2 to nearly 80 per cent by 1976/7. The strengthening of organized labour and the nationalization strategy led to an 'effective strike' by the private sector in industrial investment. In the Zia-ul-Haq period private sector investment improved as a slow process of privatization of public enterprises began and trade and industrial policies were liberalized. Manufacturing GDP rose at almost 10 per cent a year during this period, with significant improvements in real wages. Some of the gains were an outcome of public

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investment undertaken during the Bhutto era, and good performance in the country's agricultural sector. Yet, despite the gains in the 1980s, factor productivity within manufacturing failed to significantly improve. So while Pakistan's manufacturing output went up, it was not producing more efficiently nor resulting in substantial increases in real wages.

Liberalisation has been more aggressively pursued in the last decade, yet private industrial capital has failed to respond positively to this. Apart from a deceleration in growth rates, levels of investment and factor efficiency fell during the 1990s. While some argue that liberalization needed to be pursued more rapidly and more aggressively to offset this poor performance, others suggest that the fault lies in more persistent structural constraints within the institutional and policy framework facing the private industrial sector in Pakistan.

One area where growth has been consistent - especially in terms of employment - is the small scale sector. According to estimates over 70 per cent of the manufacturing labour force works in the small scale informal sector. Marked by entrepreneurial dynamism, various clusters of small scale industry - especially in the central Punjab - have shown rapid growth in both local and export markets. Much of these gains have come about with little or no explicit state support. The basis for this dynamism appears to lie in the economic benefits that small firms obtain through clustering, from social networks that provide trust and improve the institutional framework for small firms, and from what is suggested as the 'benign neglect' of the state.

The shifting fortunes of private industrial capital is closely tied to its changing relationship with the state. Rent-seeking has been a critical element of industrial development in Pakistan, especially for the large scale manufacturing sector. Although many of the industrial policy rents have been eliminated during the 1990s period of economic and trade liberalization, the rent-creation agenda effectively determined private sector behaviour. During the 1950s and 1960s the state bureaucracy remained the critical player in determining a patron-client arrangement with the country's leading industrial houses. This nexus broke down in the 1970s, partly as an outcome of the political and economic changes that brought Bhutto to power, and also through Bhutto's reforms of the centralized and hierarchical post-colonial bureaucracy and the active role of the public sector in industry and finance.

With liberalization during the past decade, opportunities for rent-seeking have diminished. Private capital, especially large scale industry, is thus having to 'learn' to function in a more open and competitive environment, and yet finding that through sustained pressure around sectional and sectoral interests it can continue to influence the state to shift 'prices' and 'terms' in its favour. While much of small scale industry continues to operate outside the purview of state policy, through the informal sector, there are significant elements of small and medium sized firms that have graduated into competitive exports.

A number of critical bottlenecks hold back industrial development and private sector investment. These include continuing political instability and the poor state of law and order - especially pronounced during the 1990s but still a concern today. These factors have diminished confidence in the part of the private sector to invest, and have promoted short term as opposed to medium and long term perspectives on the part of private capital. Costs also rise due to the poor provisioning of physical infrastructure, especially transport, energy and communications. Road, rail and port costs are some of the highest in the region, and despite the growth of independent power providers, the costs of electricity in Pakistan is higher than many of its leading regional competitors, while supply remains unpredictable and inefficient. The costs of doing business in Pakistan also remain high as an outcome of a poorly structured, and often over-bearing, regulatory environment. This serves to enhance corruption and to put off foreign direct investment. Finally, there is poor enforcement of private property rights due to a weak judicial

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structure plagued by corruption and excessive time delays. The weak and ineffective judicial mechanisms affect contract enforcement, placing a premium on local trust ties - often significant for small enterprises, but a further factor that prohibit large scale industrial investment.

In addition to these constraints, over the past decade military capital has emerged as a key segment of Pakistan's industrial environment. It often enjoys preferential access to capital, land and other scarce resources, and operates under a preferred fiscal regime. Military capital has tended to locate itself in sectors geared to the local market, thus less exposed to global competition, and where there are few significant private sector competitors. While military capital has not generated significant employment and income gains, it has distorted the playing field against private sector interests, and in some sectors begun to squeeze private sector investment. The growth of military capital, and the regulatory framework under which it operates, is thus an area of emerging policy concern in Pakistan. Another area of emerging concern is the impact of industrial development on labour. The poor improvements in factor productivity have limited real wage growth, while the continuing casualisation of labour since the 1970s have eroded much of the labour rights that technically accrue to workers, and has fueled the growth of the informal sector. Finally, there are some signs of emergent corporate responsibility as both large and small firms take on broader concerns for working practices and labour rights in response to external pressures. This has been most clearly seen in the small scale export clusters of Sialkot, but is also becoming more obvious among large foreign invested enterprises.

It is not coincidental that the rise in urban and rural poverty seen in the past decade is also a period where there has been a rapid deceleration in industrial growth and employment. Pakistan remains confined to resource intensive and low value added industries, with little sign of upgrading or improvement in levels of factor productivity. The development of the industrial sector is closely related to the rent-creation strategy pursued by the state. Yet this strategy has to date lacked strategic focus. Thus, despite the abundance of cheap labour, industrial investment has tended to concentrate itself in the relatively more capital intensive textiles sector leaving the informal small sector to be the main employment provider. The state has also failed to deliver critical services, or significantly reduce the constraints that confront industrial capital - from poor infrastructure provisioning to weak judicial enforcement of contracts. These strategies have resulted in a highly differentiated and fractious industrial economy, weak three distinct groups - large scale private capital, military capital, and a substantial small scale capital sector.

In terms of a medium to long term driver of change, the small scale sector is emerging as a key player. This is especially pronounced in the central Punjab and parts of the NWFP. A more concerted strategy of strategic support to this segment of private capital is more likely to generate substantial pro-poor employment and income growth. Similarly, a strategic sector-specific competitiveness strategy is critical to help position both large and small scale capital to more effectively compete in globalised and liberalised markets at home and abroad. This requires a role for the state in helping shape a strategic industrial strategy for Pakistan.

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The Politics of Military's Economic Interests

Ayesha Siddiq

Executive Summary

This paper explores the fundamental relationship between the Pakistani military's economic interest and its political influence. One can observe the emergence of a cycle where the Army's political influence was used to create an economic empire that then needs greater and sustained political influence for the survival of these economic interests. The primary conclusion is that it is the military's economic interests that make the correction of civil-military relations balance highly problematic in Pakistan. How can one expect a military that has deep economic interests to withdraw from politics or to surrender political control without undermining its economic objectives?

The paper describes the military's economic empire identifying three distinct levels at which economic activities are carried out. The first level identified are the unit-based small and medium enterprises. These are the most problematic in terms of quantification of resources and their impact on the economy. Such operations vary from small to large and from insignificant to significant. Moreover, there is no method for a statistical analysis of economic activities at this level. The situation is different from that of operations at the other two levels where activities vary from the military run public sector organizations to private sector operations that are part of the military's charitable welfare foundations. These, public and private, segments of the military's economic empire are larger, relatively more transparent and thus easier to evaluate than the first.

It is important to note that all economic activities were basically instituted to cater for the welfare of retired and serving military personnel. However, the linkage between economic activities and welfare is less obvious in the first case. Even if there are better results in the other two cases, the problem is of the opportunity cost. The homogenic structure of the military results in investment of welfare in the largest province, Punjab, which, in turn, causes political and social tension between the bigger and smaller provinces.

This, unfortunately, is not the only opportunity cost. The economic venture, as pointed out earlier, gives greater incentive to the military to remain in control of governance and politics of the state. What is peculiar, however, is that the development of the economic empire was met with limited resistance from the political leadership. The political leadership chose to ignore the military's economic interests for the fear of a backlash from the Army. The perception was that it was only safe to fight a single-front battle namely getting rid of the military in politics. This led political governments to provide concessions to the military, resulting in further expansion of the military's business empire. Interestingly, one observes an expansion of military's business interests during the 1990s.

This is a situation that can only be altered through institutionalizing greater accountability at a macro or a more strategic level. This means better training of two significant actors: the parliamentarians and the media that can raise pressures on making the military more accountable. One of the conclusions of this paper is that aid donors in Pakistan need to train such key stakeholders to reverse the situation of the military's dominance in economic and political matters.

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Annex 4

DRIVERS OF CHANGE: RISKS AND OPPORTUNITIES MATRIX

	Risks	Opportunities	Potential Impact	Time frame
<i>Structures</i>				
Land distribution	H	L	H	Long
Industrial structure	L	H	H	Medium/long
Social relations	M	M	L	Medium/long
<i>Institutions</i>				
Military	H	M	L	Medium
Judiciary	M	M	H	Short/medium
Bureaucracy	L	M	M	Medium/long
<i>Agencies</i>				
Political parties	H	H	H	Medium
Civil society	M	M	M	Short/medium
Media	L	L	H	Short/medium

Key: H – High; M- Medium; L - Low