IGC International Growth Centre

Reclaiming Prosperity in Khyber-Pakhtunkhwa: A Medium Term Strategy for Inclusive Growth

Khalid Ikram, Turab Hussain, Bilal Siddiqi, Usman Khan, Sarah Saeed, Yasir Khan, Munir Ahmed, Osama Siddique, Anjum Nasim, Arif Nadeem, Ahsan Rana, Hina Shaik, Rashid Amjad, G.M. Arif, Naj-ul-Sahr Ata-ullahand Ibrahim Murtaza

Please direct all questions to pakistan@theigc.org

Working Paper

June 2014

Directed and Organised by

LSE

UNIVERSITY OF OXFORD

www.theigc.org

International Growth Centre
London School of Economics and Political Science
4th Floor,
32 Lincoln's Inn Fields
Houghton Street
London WC2A 2AE
United Kingdom

For media or communications enquiries, please contact mail@theigc.org

Reclaiming Prosperity in Khyber-Pakhtunkhwa

A Medium Term Strategy for Inclusive Growth

June 3, 2014

International Growth Centre, Pakistan Program

The International Growth Centre (IGC) aims to promote sustainable growth in developing countries by providing demand-led policy advice informed by frontier research. Based at the London School of Economics and in partnership with Oxford University, the IGC is initiated and funded by DFID. The IGC has 15 country programs.

This report has been prepared under the overall supervision of the management team of the IGC Pakistan program: IjazNabi (Country Director), Naved Hamid (Resident Director) and Ali Cheema (Lead Academic). The coordinators for the report wereYasir Khan (IGC Country Economist) and Bilal Siddiqi (Stanford).Shaheen Malik estimated the provincial accounts, Sarah Khan (Columbia) edited the report and Khalid Ikram peer reviewed it. The authors include Anjum Nasim (IDEAS, Revenue Mobilization), Osama Siddique (LUMS, Rule of Law), TurabHussain and Usman Khan (LUMS, Transport, Industry, Construction and Regional Trade), Sarah Saeed (PSDF, Skills Development), Munir Ahmed (Energy and Mining), ArifNadeem (PAC, Agriculture and Livestock), AhsanRana (LUMS, Agriculture and Livestock), Yasir Khan and HinaShaikh (IGC, Education and Health), Rashid Amjad (Lahore School of Economics, Remittances), GM Arif (PIDE, Remittances), Najm-ul-Sahr Ata-ullahand Ibrahim Murtaza (R. Ali Development Consultants, Urbanization).

For further information please contact Yasir.Khan@theigc.org , Sohaib.Athar@theigc.org , Hina.Shaikh@theigc.org .

Table of Contents

List of Tables

List of Figures

Executive Summary

The citizens of Khyber Pakhtunkhwa have suffered a series of external shocks over an extended period of time that has eroded living standards. These include the fall-out from over three decades of the Afghan conflict, spill-over of the militancy in FATA, devastation caused by the 2005 earthquake, internal displacement of 3 million people following the conflict in Swat in 2009, and the damage inflicted by unprecedented floods in 2010. The fact that KP's political governance structure has consolidated, financial flows led by remittances have strengthened and the economy has grown at 4.5% per annum in this period, underscores the resilience of KP citizens and the social and economic structures that shape their lives.

Recent developments in domestic and regional politics suggest that KP is on the cusp of reclaiming prosperity and a promising future. The withdrawal of NATO troops and the political transition in Afghanistan present an opportunity for a fresh start for stabilizing Afghanistan. Dialogue with FATA militants has opened the door to a potentially constructive engagement in the border regions. These developments could open substantial regional trade and investment opportunities. Importantly, the elections of May 2013 have put in place a government with a strong mandate to build on the province's economic and social foundation.

KP's economic growth strategy, summarized here, is a key instrument for fulfilling the elected government's mandate to improve citizens' living standards and creating opportunities for a promising future.

Growth Challenges

In the ten years up to 2011-12, KP's economy grew at an annual rate of 4.2%, slightly lower than the national growth rate of 4.6% in the same period. Growth, moreover, was highly volatile given the external shocks. Even though KP's growth in the more recent period of 2008-2012 was slightly higher than the national average, at just above 4% per annum, it is too slow to absorb the increase in KP labor force.

Currently, at 37%, labor force participation in KP is the lowest of all provinces (the national average is 46%) and the unemployment rate, at 9%, the highest (national average is 6%). Thus a major challenge in KP is that economic growth be high enough and inclusive enough to increase the provincial labor force participation rate and provide productive employment to the fresh entrants.

The most recent Millennium Development Goals (MDG) outcomes for KP do not show an encouraging trend on inclusion. The proportion of population below the poverty line in KP at 39% is substantially higher than the national average. Net primary enrolment ratio at 53% is lower than Punjab's 67% as is the literacy rate (52% compared to Punjab's 60%) and substantially below MDG targets. Similarly, contraception, maternal mortality and infant mortality rates are also far below the respective MDG targets. KP is also off target on many indicators of gender equality. The objective of inclusion requires that the growth strategy removes the causes of such poor MDG outcomes.

The starting point of the growth strategy is to set a realistically ambitious medium term economic growth target. The benchmark for this is the federal government's projected national growth target of 7.5% to be achieved in the medium term to match the increase in labor force growth (presented in the Vision 2025 document). This will require a near doubling of total investment from 14% of GDP in 2013 to 26% in 2020. Much of this is expected to be private investment, which is projected to rise from 8.7% of GDP in 2013 to 19% in 2020.

Matching federal government's national growth and investment targets will mean that going forward KP's citizens will enjoy the same income level as the average Pakistani (in 2013, the average income in KP was 10% lower than the average Pakistani's). Economic growth and living standards in KP could be significantly higher than the national average if the benefits of regional trade are fully realized including making the transition from a trading hub to a manufacturing hub as outlined below.

KP's economic growth, moreover, has to be inclusive generating the needed jobs to continue to improve poverty outcomes. The ultimate goal is to reduce poverty to a single digit, concentrated in hard to reach areas and among the transitionally poor for which targeted cash grant programmes, such as the Benazir Income Support Programme (BISP), can be used as an effective tool.

Emerging Growth Drivers

While KP has suffered from several growth inhibiters, some important growth drivers have also emerged which, if properly harnessed, can propel the economy to a much higher growth trajectory. The salient ones discussed in this report include the ongoing urbanization in Peshawar valley and Hazara and the untapped potential of regional trade. KP also receives a large share of the rising remittances to the country that could, with improved financial intermediation, be a large pool of private investment. The recent substantial increase in fiscal transfers by the federal government, following the 18th amendment of the Constitution and the agreement on hydel profits, can facilitate larger public investments to attract private investment and entrepreneurial talent to the province.

Urbanization

KP has seen periods of rapid growth in its urban population, in part due to the influx of refugees from Afghanistan during the 1980s and the 2000s, and displacements caused by floods and conflict in the last decades. It is estimated that in 2013 Mardan, Charsada and Swabi districts all have a population density exceeding 1,000 persons/sq. km, and Peshawar a density of 2,716 persons/sq. km.

While 83% of the province's population is classified as rural, over two-thirds of the population of the province lives within a travel time of one hour from a city, and 90% of the population of the province lives within two hours.[1] City populations in KP have extended outside the administrative boundaries of the municipalities and "ribbons" of development along the highways have evolved, largely due to accessibility to transport links, availability of skills and services as well as tax and tariff incentives. Even in more rural areas, the highest population densities are along the major road corridors enabling easier access by these rural areas to services in the cities and towns. This has resulted in the emergence of three clearly identifiable urban agglomerations:

- *Central Pakhtunkhwa:* The districts of Peshawar, Charsada, Mardan, Swabi and Nowshera. These districts cover almost 10% of the area of the province and contain 36% of the population concentrated in and around the four cities of Peshawar, Charsada, Nowshera and Mardan.
- *Hazara:* The districts of Haripur, Abbottabad and Mansehra, with an area of 11% of the province, contain 15% of the provincial population (estimated at be 3.16 million in and around the city of Abbottabad and and in medium and small towns of the area–Mansehra, Haripur, Havelian and Khalabat.
- *Others*: Three relatively smaller but significant concentrations of population are in the districts of Swat with 7% of the provincial population, Dera Ismail Khan with 5% and Kohat with 3%.

It is estimated that these agglomerations account for nearly a third of the provinces area and two-thirds of the population. The development of these urban clusters have implications for the provision of services by the government and promotion of public/private infrastructure investments to develop the agglomerations as hubs of economic activity and employment generation.

[1] 7% of the population lives within a travel time of 2-4 hours from a city. The remaining 2% of the population that lives at a travel time of more than four hours from a city are all residents of Chitral district.

Regional Trade and Connectivity

KP has long enjoyed the advantage of being located at the apex of Pakistan's North-South economic corridor, linking the port of Karachi and Pakistan's economy to Afghanistan and beyond to Central Asia and China. Afghanistan and Pakistan are natural trading partners with complementarities in trade in goods and services. Karachi port facilitates a significant share of Afghanistan's foreign trade. Since 2000-01, Pakistan's exports to Afghanistan increased from US$ 100 million to US$2.4 billion in 2010-11 spanning a range of products including agricultural commodities, cement, pharmaceuticals, leather and footwear, machinery and household products. There is also substantial export of services (health education, IT etc.) with potential for significant increase. KP benefits from much of this trade and, if positioned well, stands to gain much more.

Two developments are likely to have far reaching consequences for regional trade and its implications for KP's economy. These are the impending withdrawal of NATO troops from Afghanistan and the other is the granting of MFN status to India and the likely impact of that on transit trade through Peshawar and other trading posts along the Afghan border. Peshawar valley, emerging as a major cluster of economic activity (see above), could again play its historical role of a cultural and commercial hub for a vast region stretching from Central Asia to India. Indeed, the prosperity for KP from cross border engagement could be on an unprecedented scale given that it would be the connector of the economies of India, China and Central Asia that are poised to grow at rates never seen before.

KP's ability to reap the transformational benefits from international trade opportunities depends on progress in three broad areas: Border related issues which include peace in the border areas of KP and Baluchistan and cross-border trade and transit agreements; trade facilitation that includes border ware-housing facilities, customs clearance etc. but also road and rail networks that facilitate the flow of goods and services between borders with Central Asia, India and China, and port cities on the Arabian sea; and competitiveness of priority growth sectors via improvement in investment climate, reduction in the cost of doing business, more skilled workers and more efficient intermediation of remittances and other financial flows (discussed below and in Chapters 2-5). Progress in policy and institutional dimensions in these areas will transform KP from a trading hub to a manufacturing hub for the region unleashing the innate entrepreneurial talent of KP citizens for sustained high economic growth and improvement in living standards.

Remittances

In 2012-13, Pakistan received an estimated USD 13 billion as workers' remittances through formal (banking) channels—almost 60% of its total export earnings and over 5% of its GDP. A full quarter of these workers—in other words, every fourth Pakistani who went abroad through the BEOE or Protector of Emigrants—comes from KP. The stock of KP workers among total overseas Pakistanis is calculated as between 1.2 and 1.7 million.

Most migrants from KP end up in the Middle East, where unskilled workers are the dominant category. The proportion of unskilled and skilled workers leaving the country from 2004 to 2012 ranged from 41% to 50% and 28% to 36% respectively. While the earlier phase of development in the GCC countries was dominated by construction activities, the skill mix has changed over time. New sectors have emerged, of which services has become the major sector. In the current occupational distribution of citizens and foreigners for the latest available years in three countries—Bahrain, Kuwait, and Saudi Arabia— the largest category of foreign workers is in sales and services: almost 42%, followed by professional and technical categories at 12%. The share of services in total employment has increased in recent years and is expected to go up further as these countries diversify their pattern of economic growth. The skill composition of other Asian workers, such as Indians, has changed due to this shift in demand; the composition of Pakistani workers, however, has not witnessed a shift towards more skilled workers.

In light of the expected growth trends and structural changes in the GCC countries, KP needs to: (i) gear up to the current and accelerated shift into higher paid jobs in services, including in the fast growing tourist sector such as hotels, shopping malls, and airport and airline services in which large expansions are planned, and to build on the

current major occupation in these countries as drivers and unskilled workers and (ii) take advantage of major planned events such as the Dubai World Expo Trade Fair in 2020 and the soccer World Cup in 2022.

There are two areas where KP government can play a role in maximising the development benefits of overseas migration:

First, overseas migration falls under the purview of the federal government and a separate ministry/division handles this subject, including supervising a number of agencies and organisations that have been set up to regulate, monitor and support overseas migration. The provincial government needs to work closely with these organisations. There is little evidence to suggest that this is actually happening, and an exercise needs to be carried out urgently to develop a strategy on how to take full advantage of the resources being spent by the federal government on these organisations, and to get them to work effectively and in close collaboration with the respective provincial bodies and organisations.

Second, education and skills training is a provincial subject and it is primarily in this area that we strongly recommend that the KP government takes into account the existing and projected demand for skills and professions abroad in formulating its educational plans and training programmes and policies. The principal aim of such policies must be to move the current profile of migrants from KP into higher and better paid skills and professions abroad.

Third, there is a need to improve the investment climate in the province (elaborated below) to convert remittances into productive investment.

Increased federal fiscal transfers

Provinces' autonomy for managing their economy has increased considerably following the 18th amendment to the Constitution in 2010. Many subjects that were previously in the mandate of the federal government have been devolved to the provinces. The devolved mandate is supported by the 7th National Finance Commission (NFC) Award that allocates greater financial resources to the provinces. Additional revenue from the federal government has also resulted from the transfer of 1% of the undivided divisible pool as compensation against war on terror and the payment of arrears by the Federal Government hydro-electric profits. This has raised the province's share of federal revenue sharply, from about 7 of provincial GDP to 8.7% in 2009-10 and 11.3% in 2010-11. As a result, KP realized an increase in fiscal space between 2006-07 and 2010-11 of 3.5% of provincial GDP over the previous five years[2]. Three channels—federal transfers, proposed revenue measures (see below) and savings from spending efficiency—have contributed/will contribute to the expansion of fiscal space, that allows the provincial government to sharply increase both current and development spending in the priority areas discussed below.

Priority growth sectors

Manufacturing and Construction

The recent performance of KP's manufacturing (17% of KP's GDP), which produces a range of products, is mixed. It grew strongly between 2003 and 2008 but declined thereafter mainly because of the difficulties faced by large firms. The slow-down is attributed to both the energy crisis but also to deterioration in law and order. Because manufacturing activity requires multiple contracts along a long supply chain, it is highly sensitive to deterioration in law and order because contracts are harder to enforce. Restoring manufacturing (with a focus on cement, marble and granite finishing, pharmaceuticals and furniture and woodworking) has to be high priority in KP's growth strategy. This is because manufacturing activity creates jobs for a broad spectrum of skills and has the potential to

[2] World Bank (2013), "Pakistan - Khyber Pakhtunkhwa : Public Expenditure Review". Washington, DC.

deliver well-paying jobs for many decades. Without a strong manufacturing base, KP is unlikely to reap the full benefits of the emerging regional opportunities.

Construction (4% of KP's GDP) is another policy priority area. After agriculture, it is the largest employer of workers. It is strongly correlated with growth in retail trade (a significant employer of low skilled workers), which has seen rapid expansion to cater to consumption-led growth facilitated by remittances and slow-down in manufacturing. A comprehensive construction sector strategy needs to be developed that focuses on both construction materials, the sector's skills and financing requirements as well as construction standards. A modern, organized KP based construction sector would build on KP's comparative advantage in materials and could be the backbone of the construction industry in the country and beyond in the region.

Manufacturing and construction sectors will benefit significantly from the removal of cross-sectoral hurdles that increase the cost of doing business. Discussed in Chapter 4are issues pertaining to energy, transport and rule of law. The sectors' need for educated and skilled workers is discussed in Chapter 5 on inclusive growth.

Agriculture and Livestock

Agriculture (14% of KP's GDP) is a large contributor to the economy of KP, providing direct and indirect livelihood to a majority of the rural population. However, despite the centrality of the sector, the overall performance in terms of growth has remained poor.

Farmers in the province are locked in low value crop production, such as wheat, due to lack of institutional support, fear of food shortage and lack of developed markets. The decrease in land use intensity over the years and lack of expansion in irrigation (despite KP's many rivers) is further deteriorating the sector's performance. The horticulture sub-sector has seen some progress in developing high quality fruit farms in recent years but the success remains localized to a few areas. The measures needed to improve agriculture performance include:

- *Diversifying into High Value Crops*: Given comparative advantage and rich potential, KP needs to diversify into high value maize from the current focus on wheat. For food security, wheat could be procured from Punjab. Private companies, like Rafhan, Pioneer, Monsanto, etc. could be encouraged to start an exchange programme of wheat with maize supported by the provision of modern inputs, especially seed and fertilizer.
- *Developing Horticulture Specialization*: Agro-clusters, replicating the successful experiences of growing high quality peach in Swat, should be developed.
- *Managing*: The province needs to benefit from abundance of rivers by increasing canal irrigation. There is also a need to provide incentives to the farmers for replacement of flood irrigation with high efficiency irrigation systems.
- *Promoting certified seed nurseries*: To promote certified nurseries, government has to establish mother blocks of original fruits and vegetable varieties from where true-to-type material can be distributed to certified nurseries. Financial support will be required to set up laboratories and green houses for nurseries in the private sector.
- *Strengthening agriculture Research*: KP can adapt the successful experience of Punjab Agricultural Research Board (PARB), which is responsible for research planning and prioritization, and coordination between research institutes in the public and private sector within the country and abroad to promote modern technologies and systems.
- *Agriculture Extension:* The current extension services system lacks modern capacity and is not functioning to support a commercially viable sector. The private sector's capability to provide extension services to farmers along the entire value chain needs to be explored and developed.

Livestock for meat and milk products is raised by millions of small and landless families in the province with an estimated value of 30% of agriculture GDP. Livestock herd size is small and yields are low despite KP being blessed with an ideal terrain and climate for livestock. Following KP's local government Act, 2012, the provincial government is fully empowered to frame all rules for modernizing the sector. It needs to invest in rangeland

management, disease surveillance and prevention, developing a fodder policy and deregulation of livestock markets. The private sector should be encouraged to invest in various stages of livestock value chain including semen production, livestock medicines and slaughter-houses.

Mining[3]

KP is blessed with vast reserves of minerals and gemstones. The mining sector has the potential to be a key driver of economic growth and has witnessed strong growth during the last few years, contributing 3% value addition to the provincial GDP in 2012. The provincial government also gets direct revenue from leasing out the mines, which further underscores the significance of this sector.

Despite stellar performance in recent years, the sector suffers from a number of challenges. The most significant of which is the use of outdated technology that results in wastage of minerals. The size of investment required to operationalize a mine is the key factor in the use of technology. At present very little large-scale investments are being made in the mining sector resulting in lost opportunity to maximize the returns from mineral resources. The challenges are further exacerbated due to the lack of a comprehensive mining development framework (though work is underway on it). The regulatory regime in place for mining operations has a number of loopholes that result in a lost opportunity to benefit the maximum out of this natural resource.

The province will benefit from a comprehensive mineral development framework that clarifies institutional arrangements; modernizes laws and regulations; establishes a predictable minerals fiscal regime; and protects workers, the environment and the society. The specific measures include:

- *Review of mineral rights awarding procedures*: There is considerable discretion in the award of mineral rights, with only 5% of licenses being actually evaluated by the licensing department. A review of these and putting together regulatory oversight mechanisms will drive away low quality mining operations by reducing the discretion that may be benefiting private parties.
- *Creation of a dispute resolution system***:** In KP there is significant reliance on the use of the provincial court system to resolve most of the cases; this results in project delays and negative perception of mining in the province. For attracting investment this regulatory gap must be addressed.
- *Regulating the use of explosives:* Existing regulatory mechanisms are not working properly to curb the use of explosives in mining operations. This is probably due to the deficiencies in enforcement but also due to lack of empowered inspectors and meaningful penalty schemes.
- *Technology up-gradation***:** The government has already eliminated all tax on the import of mining equipment. However, the lack of easy financing options makes it difficult for miners to procure such machines. The government should provide loans on easy installments or zero interest rates to help finance the procurement of proper equipment. Alternatively the government can facilitate the establishment of equipment rental market.
- *Rationalize leasehold size:* Sections of mines remain unexploited because of the limited capital available to mine leaseholders. Production can be enhanced by reducing the mine area directly under the control of the lease holder, allowing the investor to focus his/her funds to a smaller area and providing opportunities for new investors to enter the area.

Tourism[4]**:**

Tourism is considered to be a key source of poverty reduction and inclusive economic growth in poor countries. Tourism employs a large share of unskilled or semi-skilled workers, including youth and women. In KP tourism employs thousands of small and medium enterprises and covers locations with widespread poverty. Estimates suggest that the total number of domestic tourists visiting KP in a year is about 8.8 million, which is 19% of total

[3] The discussion draws on "Assessing Baluchistan and KP Minerals Policy Framework", draft report, USAID FIRMS Project
[4] The discussion draws on, "Tourism Policy for Khyber-Pakhtunkhwa", draft report, USAID FIRMS project, October 2013

national domestic tourist traffic. Geography has endowed KP with a competitive edge over other provinces in tourism.

However the tourism sector faces a number of challenges:

- *Law and order:* The poor law and order situation due to armed conflict in KP has taken a toll on the tourism sector, while the security crisis in Swat and other tourist areas have caused unprecedented damage.
- *Dilapidated and destroyed infrastructure:* Infrastructure loss and dilapidation due to recent armed conflict and natural disasters such as floods has affected the availability of tourist facilities in KP.
- *Lack of a marketing strategy:* There is lack of an effective and well-coordinated marketing strategy to promote Pakistan and particularly KP as a preferred tourism destination.
- *Workforce constraints:* There are only a few degree courses on tourism offered by large universities in KP. The only notable training institute in KP for tourism and hospitality-related training has been non-operational since the conflict in Swat.

The key objectives of a tourism policy will be to establish KP as a preferred tourist destination nationally with an aim to increase tourist traffic by 10% annually over the next 5 years. The following reforms can be carried out with an estimated investment of PKR 50 billion.

- *Tourism and allied Infrastructure Development:* Rehabilitate existing facilities and infrastructure, but also seek new opportunities for development, such as improving or building access roads to tourist towns and attraction places.
- *Quality assurance and standards:* Introduce standards and a quality regime for hotels, restaurants, tour operators, travel agencies and other tourism service providers.
- *Provide incentives to increase investment in tourism:* Provide land on long lease at subsidized rates for tourism projects in less developed areas; fast track clearance for investments to such projects that are above PKR 100 million; attract foreign investors for larger projects such as chairlift/cable car resorts, four and five star hotels/adventure activity centers and recreational parks etc. Introduce a law on public private partnerships (PPPs) to facilitate the private sector to invest in tourism.
- *Marketing and image-building:* Develop a multi-pronged branding strategy; promote and develop PPPs for tourism marketing and joint branding campaigns; involve PIA and Pakistan Railways for an integrated role in tourism promotion; promote cultural and sports events such as Shandur Polo Festival and Kalash Festival.
- *Develop a tourism workforce:* strengthen and upgrade curriculum and training facilities including PAITHOM.
- *Active Implementation*: Create a tourism development committee to spearhead implementation. The committee shall nominate tourism reform leaders for each of the strategic areas; these will be provincial legislators and will ensure removal of hurdles in implementation

Investment Climate

Investment climate spans a range of factors that determine a destination's attractiveness for investors such as the cost of interface with the government as a regulator, availability of reliable energy and transport, the legal environment for contract enforcement etc. These key determinants of competitiveness are discussed in this section.

Cost of doing business

The World Bank's survey on the cost of doing business includes the time it takes and costs incurred to meet government regulations for starting a business, dealing with construction permits, registering a property, paying taxes, trading across borders and enforcing contracts. The survey conducted in 2010 finds that Peshawar ranks 8th in overall ease of doing business well behind the best performing Faisalabad. It is critical therefore to improve this ranking to make Peshawar an attractive destination for business.

The key areas for improvement are:

- reduce the number of days for starting a business by developing online processes
- streamline procedures for construction permits and registering property
- simplify procedures for paying taxes and reduce the number of taxes
- make it easier to trade across borders through better facilitation (dry ports etc.)
- reduce the time and money cost of contract enforcement

Energy

Energy shortages are a major reason for the poor performance of KP's manufacturing. The government of KP has to engage effectively with the federal government to address the shortages arising from national constraints. At the same time, KP can develop its own considerable hydro-electric potential.

The total number of consumers under Peshawar Electric Supply Company (PESCO) has increased by approximately 3.5% over the past five years to 2.78 million. This is accompanied by a gradual rise in consumption by small, medium and large industries, reflecting a positive trend in the provincial economy. KP also has significant potential for power generation. Due to its terrain the province has a strong comparative advantage for hydel power generation; with a potential of generating 27,000 MW electricity of the 40,000 MW available in all of Pakistan. The province has also seen increased activity by nonprofit organizations such as AKRSP and SRSP in taking forward micro-hydel initiatives. Paktunkhwa Hydel Development Organization has already identified five big sites with a total capacity of 5000 MW and 67 small hydel sites with a total capacity of 400 MW.

A critical source of inefficiency in the power sector is the large magnitude of losses that occur at the transmission and distribution stages. These losses are both technical (due to physical components of the power system such as transmission lines or transformers) and non-technical (external to the power system such pilferage, non-payment, defective meters, errors in accounting etc.) The severe gap between the supply and demand for electricity has taken a significant toll on KP's economic growth and KP must exploit its power generation potential to address the power shortfall by either setting up power generation stations by itself or through PPPs. Within thermal power, the government can focus on power generation through coal or bio fuel as oil becomes expensive. For hydel power generation, small projects may be initiated in different parts of KP instead of large power generation units, which require large investments and more security measures. Micro hydel power generation has also got potential, but success rates have been slower mainly due to issues with sustainability.

Measures to improve the energy situation include:

- *Increased provincial stake in PESCO***:** PESCO, a federal government entity, relies significantly on assistance offered by the provincial government for its operations. To bridge lapses in cooperation, it is recommended that the KP government acquire controlling shares of PESCO. KP may offset amounts, which the federal government owes to it on account of net hydel profits or other outstandings to fund the acquisition.
- *Bifurcation of PESCO:* PESCO may be bifurcated by setting up of another independent company on the basis of geography, or consumers' mix; this would improve the performance and efficiency of the two companies.
- *Make idle plants functional:* The UAE government gifted a 320MW thermal power plant to Pakistan in 2009. Presently the plant is idle and it can use the gas from KP for power generation.
- *Attract investment:* There is a need to launch investment roadshows to draw private investors, through equity and debt, who can easily finance the construction of dams and earn a sizeable return on investment.
- *Encourage micro hydel power generation***:** the government should a) carry out a proper geological survey at UC-level to find out the overall potential available for micro hydropower projects b) encourage financial institutions to facilitate micro-hydel power based projects by delivering small business loans on easy terms and conditions for local business groups c) build link roads to ensure access to difficult sites d) reduce taxes or custom duty on all the imported machinery that is used in micro hydropower projects e) ensure that implementing agencies have in-house capacity to design and implement the project

Transport

The geographical location of KP, landlocked and being furthest from the sea-port, makes the role of transport (13% of KP's GDP) critical in its economic progress. Road connectivity plays a critical role in the formation of industrial clusters, which in turn results in agglomeration economies, attracting more businesses. This creates a virtuous cycle benefiting the economy in three ways: (1) pooling of labor with the required skill-sets; (2) reduction in the cost of transportation; and (3) technological diffusion due to the exchange of ideas. In KP, industrial density is the highest in the central districts and Swat, and high road density and/or proximity to national highways is positively correlated with the number of industrial units. Linking economically backward areas to economic hubs within and outside KP will provide access to employment, education and healthcare for the relatively low-income districts. The link between transport infrastructure and poverty alleviation in Pakistan is supported by empirical evidence.

Road and rail connectivity will be critical for realizing the benefits of regional trade for KP.

Despite the historical significance of transport and connectivity in the KP economy, the growth of the road networks and related infrastructure is far below that in Punjab. For districts having similar population density in the two provinces, the road density (km of road per sq. km of land area) in Punjab districts is higher than that in KP districts. There was also a sharp decrease in KP's road network in the year 2010-11 due to massive floods affecting 24 districts and resulting in a loss 6,511 kilometers of road network.

Industrial and economic disparity within KP is also a consequence of geography (elevation and terrain), which impedes infrastructure development. The regions of Kohistan, Battagram, Shangla, Hangu, Karak and Tank are the least industrialized districts with relatively low road density and lack of access to highways.

Since most economic activity is concentrated in the central region of KP, the aim of transport infrastructure should be to improve the connectivity of economic clusters in the center with the less developed regions of KP. This will lead to increased economic activity and creation of employment and income across KP.

- *Connecting relatively poor areas to economic hubs:* Investment in road networks is required in Kohistan, Battagram, Shangla, Hangu, Karak and Tank to better connect these regions to the rest of the province and the country. This will open up the relatively remote and economically depressed areas and facilitate inter and intra-provincial flow of goods, local investment and labour.
- *Continued maintenance of existing road network***:** In the absence of an extensive railway service, roads and highways are heavily used for passenger and freight traffic. To mitigate the resultant deterioration of road and transport infrastructure, the existing network needs to be improved with special emphasis on transport infrastructure up-gradation and maintenance. Existing projects to repair and rehabilitate the road network damaged in the 2010 floods need to be expedited towards completion, to recover the lost connectivity of the affected areas.
- *Mass Public Transit system for Peshawar***:** Mass transit system (MTS) for Peshawar is one of the major projects planned by the government. It includes the establishment of a bus rapid transit system in combination with a rail-based system. This will facilitate commuters by providing them with a safer, faster and convenient mode of transport.
- *Completion of existing and planned initiatives:* The government should also focus on completing existing initiatives on the regulatory and reform side as well as those dealing with infrastructure. This includes the following: i) Establishing and strengthening of a Transport Regulatory Authority that will take over some critical regulatory functions of the Transport Department; ii) Construction of trucking terminals at Peshawar and Dera Ismail Khan, to serve as focal points for trucks and containers and assist the government to better regulate the trucking industry.

Rule of Law

The KP province and FATA have been challenged by the specter of worsening conflict during the past decade. In addition, the province is faced with challenges of growing litigation and weak contract and regulatory

enforcement. These are important pre-conditions for slow growth and low employment creation in the province. Therefore, rule of law and governance reforms need to be a central pillar of KP's Growth Strategy.

The justice gap (the offenses brought to justice rate) in KP's criminal justice system is high. This is due to challenges related to the quality of police investigations; in particular evidentiary challenges related to the lack of forensic evidence and absence of witnesses; the lack of established processes, guidelines and standard operating procedures; and poor cooperation framework between police and prosecution. It is also adversely impacted by a weak, nascent and fragmented prosecution function that is based on a weak legal framework that has not ensured a transition to a truly autonomous and independent prosecution service. At the level of the courts, the justice gap is impacted by delays in litigation, growing case pendency and inconsistent sentencing. These problems are worsened by low barriers to entry for new cases and appeals and low costs for frivolous litigation and delays.

Weak contract is the result of a civil justice system with weak pre-trial disclosures, low costs for frivolous litigation and delays and an antiquated legal framework. Providing access to justice for the indigent and marginalized is a continuing challenge for the justice sector in KP. Finally, the absence of a comprehensive framework that builds linkages between formal informal justice systems that have a great presence, traction and popular appeal in KP is both a challenge and an opportunity.

There is an urgent need to institute a Police and Prosecution Reform Committee headed by senior members of cabinet, members of the KP legislature and other relevant stakeholders that propose implementable reforms that build on the Police Order 2002. The Reform Committee should also suggest reforms to the Police Rules 1934 and propose a legal framework that institutionalizes an independent and autonomous prosecution service. It should also frame a holistic crime prevention policy that consolidates and coordinates the divergent legal and regulatory frameworks for provision of security and information gathering. It should frame a modern sentencing law and work in coordination with the Local Government Department to propose a framework for strengthening linkages between the formal justice system, the local government system and informal dispute resolution mechanisms.

There is a need to invest in a forensic science laboratory in KP along with the establishment of a Command and Control System (with first responder capacity) and Crime Scene Units in the capital city. Police rules need to be revised to institutionalize modern protocols of securing and preserving scenes of crime and chain of custody protocols. These efforts need to be complemented by programmes that train officers in modern investigation techniques and the institutionalization of framework for witness protection that becomes the basis of a law and programme in this area. Adequate budgetary provisions need to be provided to enable the institutionalization of a modern investigation and prosecution system.

There is also a need to establish an effective case and docket management system at the level of courts that is integrated with the policing and prosecution system. There is also a need to introduce a performance management pilot for the Capital City Police and prosecution along with an independent case review board. Finally, it is important to design an evaluation model of legal aid and scale-up the more successful designs.

E-governance[5]

E-governance initiatives can play a key role in bridging the information gap for citizens. The following measures are proposed to strengthen e-governance:

- Restructure the Provincial Information Department to better manage modern communication tools for more effective governance
- Set up an autonomous and empowered Provincial IT Board
- Establish an ICT-based Complaint Redressal System for the Province
- Computerize government records and the process of issuing vital documents for citizens

[5] This discussion is based on Khyber Pakhtunkhwa growth chapter as reflected in the federal government's Vision 2025 paper.

- Automate government systems such as: procurement processes, public college admissions, crime investigation, land records, and birth certificates etc.

The Right to Information Act 2013 complements the e-governance initiative. This Act enables citizens' access to information in all public matters. It covers all public sector institutions of the province including subordinate judiciary and the provincial assembly.

Under the legislation, web-based e-publication and maintenance of official records/information of all public bodies is mandatory. The law provides for a sound enforcement mechanism in the form of an independent "Information Commission".

Inclusive Growth

Healthy, educated and better skilled workers are the most critical interventions for inclusive growth.

Health and education

With more resources available, following the most recent NFC award, the provincial government has an opportunity to increase education and health expenditures and also improve the efficiency of spending[6].A sound health and education sector will be the key to ensuring that KP meets its MDG targets and has a productive labor force to sustain long-term growth.

Continuing conflict and a deteriorating security environment has had disastrous effects on both health and education. The preventive health sector is plagued by problems of low immunization coverage (particularly in Hazara and Southern KP), stagnant infant and maternal mortality rates and low quality of curative healthcare with significant regional and gender disparities. KP has also failed to control polio despite using all the available resources. Curative health care is marred by problems of access and quality that are often ranked below national averages.

In education, significant gaps persist between access and outcomes across regions, gender and income. Dropout rates are high while transition rates remain abysmally low. Literacy figures are also substantially behind the national average. Access is constrained by both economic and cultural factors as well as by limited schooling inputs. Due to the floods in 2010 and subsequent years, thousands of children have been put out of school, with displaced families often remaining unable to send their children to school.

Specific measures for health include:

- *Management of the health system:* To reduce the burden on provincial and district health departments the government should expand the engagement on Basic Health Units with Peoples Primary Health Initiative (PPHI) to remaining districts. Rural Health Centers and Tehsil hospitals should be handed over to local governments with the authority to outsource the management of these hospitals on the model of PPHI.
- *Monitoring and supervision of health service providers:* The Punjab Government has experimented with using smartphones to improve monitoring of health facilities by making the senior health officers of the districts accountable[7]. A similar system can be pilot tested and adapted to the needs of the health department in KP.
- *Improve vaccination coverage:* Since there is huge variance in vaccine coverage across different regions of KP it is important to have a localized communication strategy. Government should set aside a specialized unit

[6] This discussion draws on World Bank (2013), "Pakistan - Khyber Pakhtunkhwa: Public Expenditure Review". Washington, DC.
[7] Michael Callen, Saad Gulzar, Ali Hasanain and Yasir Khan. 2013. "Political Economy of Public Employee Absence" IGC Working paper

along with necessary resources for running the polio campaigns and let the EPI cells focus only on routine immunization.

- *Explore public private partnerships:* A specialized ambulance or transport system should be started in partnership with the private sector that can shuttle the patients between hospitals for a minimum user fee. The government can also provide some subsidy on per patient basis to reduce the burden on poor families.
- *Tie healthcare to social protection:* The provincial government should form partnership with BISP to identify the families that can benefit from the transfer of additional cash if the vaccination and maternal health conditions are met and expand "waseela sehat" health insurance programme in the province.

On education, measures include:

- *Focus on Primary Education***:** KP needs to re-evaluate its policy of higher levels of investment in secondary and tertiary subsectors. Primary education should be the focus of provincial investments to improve enrollment rates and learning outcomes.
- *Enhance Female Enrolment:* One key intervention that the government can make is to increase the number of female teachers, since this hugely increases parents' confidence with respect to sending their daughters to school. Girls' access to school is still limited by safety concerns. Schools should therefore be built in those areas where they do not exist in order to reduce travelling time.
- *Improve Monitoring:* Emphasize monitoring performance in the education sector by giving increased importance to the Education Management Information System (EMIS) so that the school infrastructure conditions can be appropriately reflected.
- *Tie education to Social Protection:* By linking social protection programmes such as the Benazir Income Support Programme with school attendance levels and increasing the amounts provided for education, their impact could be enhanced.
- *School mapping:* School Mapping should be done to ensure that enough schools are present in far-flung and remote areas and not just concentrated in certain regions. This will ensure accessibility.
- *Improve transition rates:* Upgrade existing primary schools in all provinces to middle level so that children have opportunities to transit from primary to middle and then to secondary levels of education.
- *Education provision in emergencies:* Provision of education in emergencies, particularly floods, must become a core part of any education policy/strategy of the government of KP.
- *Target deprived districts:* It is important the resources over the next 5 to 10 years are spent in higher proportions in the most deprived districts. This will help reduce the stark disparities in the education sector.

Skills Development

KP is passing through a demographic transition that is creating a "youth bulge", which provides a one-time window for stimulating growth. However, this may turn into a disaster if the young are not productively employed. Realizing the dividends of the demographic transition will require addressing critical challenges related to human capital development, jobs and the labor market. It will require building skills sets that enable citizens to benefit from the province's tradition of migration. Since a large proportion of the young have poor educational attainment, skill development is the most important pathway for human capital accumulation for the citizens of KP. In the case of KP this pathway will be fundamental in restoring livelihoods and generating employment in the province, in the conflict zones and in FATA.

The supply-side of KP's labor market is severely constrained with labor force participation being 22% lower than the national average. This challenge is particularly severe among young males (15-25 years) and women, and is adversely impacting growth. The low participation rates reflect unemployment rates that are higher than the national average. An important challenge is to enable a transition away from low-end vulnerable employment that accounts for three-fourths of non-farm jobs in the province.

Massive underinvestment in skills provision by the public and private sectors is a critical challenge in the skills market, which forecloses human capital accumulation opportunities for young adults. This is coupled with the absence of a provincial skills policy and an institutional framework for ensuring coordination, quality of content and delivery, relevance, demand-responsiveness, industry-linkages and certification. Finally, the challenge is to integrate demand-side interventions, such as stipends and programmes with on-job components, which make skills training attractive for potential trainees from marginalized and poor households.

The Growth Strategy Report supports the KP government's target of increasing recurrent and development expenditures for the sector by 50% over the next three years. However, to be effective the increase in budget has to be accompanied by the formulation of a provincial Skills Policy and the formation of a high level Policy and Advisory Committee with representation from a key members of Cabinet, the business community, leading and supporting departments, skills experts and private providers. The Committee must align skills initiatives with growth priorities, set medium to long-term targets and monitor progress on the agenda. It must be given the task of coordinating provincial, donor and federal skills programmes and strengthening industry linkages. It should also ensure linkages between skills initiatives and programmes to augment jobs and catalyze self-employment. The Committee must also make a case for the institutionalization of a national accreditation system that ensures quality of training.

An immediate initiative is to improve institutional governance in the public sector by reviving idle capacity, setting clearly defined performance standards and monitoring performance of outcomes and outputs through third parties. Corporatizing KP-TEVTA and inducting private sector management is an important component of this task. This initiative should be complemented by the institutionalization of a Skills Development Fund with the objective of seeding quality supply by incentivizing the private sector to contribute to the supply of training. The Fund should adopt competitive bidding with an output-based payment system linked with outsourced monitoring. The Fund should also support demand-side interventions (for example, stipends) that enable access for marginalized populations. It should also incentivize providers to complement skills training with on-job components and job placement services. The Fund should have FATA and conflict-zones as an important focus. In the case of FATA the skills response has to be part of a programme to stimulate the earnings of migrant labor and tied to local clusters and be placed in a rehabilitation strategy integrated with education, counseling and family participation.

These initiatives need to be supported by the establishment of research capacity in the government that provides context-specific evidence on skills shortages and gaps in the province. Since KP is an important source of export of manpower, research may be commissioned to assess skills gaps in national and international sectors that engage labor from the province. This will ensure that the skills development plan is demand responsive.

Fiscal Space

The improvement in fiscal space following the 2010 constitutional amendment (and the supporting NFC award) and agreement on hydel profit needs to be consolidated with specific measures to improve public expenditure management and tax revenue.

Expenditure Management[8]

Measures to promote efficiency in health and education sectors were discussed in the previous section. More broadly, large pay and pension raises in the last two fiscal years have consumed significant public expenditure, which has compromised spending on operation and maintenance (a decline by 2% to 8% of expenditures in 2010-11 from previous year), with adverse consequences for assets maintenance. Another weakness pointed out by World Bank's Public Expenditure Review is that expenditure management does not foster linkages of inputs to outputs. Artificial bifurcation of current and development expenditure budgets increases compartmentalization of

[8] This discussion draws on, World Bank (2013), "Pakistan - Khyber Pakhtunkhwa: Public Expenditure Review". Washington, DC.

budget formulation, undermining efficiencies of a more integrated budget making. Measures to address these include:

- Develop a well-designed debt-management strategy. Given the borrowing powers conferred to provinces in 18th Amendment, KP may consider revisiting its debt recording and management system in collaboration with the EAD at the federal level.
- Given the large expected pension liability, KP may consider improving pension fund management, which would help reduce the claim on the budget of pension payments.
- Fully implement output-based budget allocation for all new schemes. This will move away from the current practice of artificially splitting current and development budget allocation. It should start by initiating a process of consultative agreement between the Finance Department, Planning & Development department and the line department to achieve measurable output indicators.
- Improve effectiveness of public expenditure by improving the balance between development and O&M expenditure.
- Revise "release procedures" to ensure smooth implementation of the budget. It may be appropriate to adapt the federal government's "New System of Financial Control and Budgeting" to streamline releases for recurrent and development budgets.
- Strengthen project design of new schemes by empowering Planning & Development department so that no new large activity can be budgeted for implementation without an approved feasibility study.

Revenue Mobilization

The high growth targets set by the KP growth strategy have implications for revenue mobilization by the province. A well-designed growth strategy, that aims at private sector led growth and creates the right environment for PPP in public investment, can help reduce the fiscal burden of financing growth but not eliminate it altogether.

Assuming that KP sets the same growth and investment targets as the federal government's national targets[9], this report estimates that KP's total expenditure will rise from PKR 283 billion in 2013 to PKR 340 billion in 2015 and PKR 504 billion in 2020 even with conservative projections of current expenditure relative to its growth in the recent past. Federal transfer from the divisible pool and hydel profits will help meet some of the needed increase in expenditure but will not be enough even with optimistic projections of tax-to-GDP ratio.[10] A substantial revenue effort by the government of KP will be required to increase the provincial tax-to-PGDP ratio from the current 0.36% to over 2%. This will have to be translated into concrete measures.

The major provincial sources of tax revenue for KP are: (1) land revenue (PKR 1061 million), (2) GST on services (PKR 4290 million), (3) motor and vehicle tax (PKR 964 million), (4) stamp duty (PKR 570 million) and (5) electricity duty (PKR 457 million).Each of these sources of revenue has to be made more buoyant and requires far reaching policy and institutional reform.

Tax on services, which until recently was being collected by the federal government on behalf of the provinces, is now being collected by three of the four provinces through provincial revenue authorities. The collection efficiency of sales tax on goods is low by international standards but collection of sales tax on services is still only a fraction of the collection efficiency of sales tax on goods. The growth in revenue achieved by Sindh and Punjab in sales tax collection suggests that KP can also expect to raise considerably larger revenue from this source in the next few years. The services sector in 2010-11 was estimated to be 58.5% of the provincial GDP. If a value added tax at the

[9]Federal government's Vision 2025 sets average GDP growth at 4.1% in 2013-15 and 6.8% in 2015-20. This implies that total investment will double from the current 12.6% to nearly 24% in 2020. Private investment is expected to constitute the bulk of the investment needs and is projected to rise from the current 8.6% of GDP to 16.2 in 2015 and 19% in 2020.

[10] The tax-to-GDP ratio (excluding provincial taxes) is projected to increase by 0.8% per year every year till 2018, taking the ratio from its level of 8.9% in 2013 to 12.9% in 2018 and then remain unchanged at that level.

rate of 16% is applied to all services, the potential tax revenue is PKR 214 billion. The current tax collection is effectively targeting only 2% of the full potential.

Agricultural land and incomes are taxable under the NWFP Land Tax and Agricultural Income Tax (Amendment) Ordinance 2001. The tax rates on agricultural land have remained frozen at the 2000 level and that of the income tax at the 2001 level. The NWFP Land Tax and Agricultural Income Tax (Amendment) Ordinance 2001 allows the taxation of agricultural incomes but it also allows for tax to be collected as a land tax if the tax assessed as Agricultural Income Tax (AIT) is less than the tax calculated as land tax. However, the tax is collected largely as a land tax. The tax rates have not been revised for many years and tax collection is miniscule.

Changing the current form of tax collection from a land tax to an income tax will require building a modern income tax machinery. This could take a number of years but in the interim, land tax rates could be revised in a way that the tax collection from land (as a proxy for income tax) is comparable with income tax collection in other sectors of the economy. These measures will not only hold an important symbolic value in terms of fairness and equity but will also add another PKR2 billion to the provincial government finances, which is over 19% of the provincial government's budgeted tax revenue in 2013-14.

Revenue from Urban Immovable Property Tax (UIPT) in KP in 2012-13 was PKR 93 million. This is 1.2% of provincial tax revenues. To achieve international benchmark, tax revenue from UIPT in KP must increase from its present level of PKR 93 million to about PKR 11.4 billion at 2012-13 prices. To reach the level in Punjab (Pakistan), UIPT must increase to over PKR 0.9 billion or over 10 times the present level of collection in KP. This will require:

- Separating valuation from rate setting; the former is a technical matter and the latter a political decision. The valuation tables, which report tax liability per unit of property and are implicitly a product of property value and tax rate, should distinguish between the tax base and the tax rate.
- Developing a system of periodic revaluation of properties.
- Broad basing the tax by eliminating tax exemptions, taxing vacant plots and removing tax preference for owner-occupiers.
- Allowing natural growth in the property tax base by indexing the tax rate to the rate of inflation.
- Upgrading the skills and size of the staff that assess and collect UIPT.
- Addressing intergovernmental issues of assignment of property tax policy and administration to local governments.

Chapter 1: Growth Challenges

Khyber-Pakhtunkhwa's economic growth strategy, summarized in this paper, is a key instrument for fulfilling the elected government's mandate to improve citizens' living standards and create opportunities for a promising future.

The starting point of the growth strategy is to set a realistically ambitious overall economic growth target for the medium term. The growth target must fulfill a primary objective of increasing employment and absorbing new entrants into the labor market. The province has the lowest labor force participation rate and the highest unemployment rate among all provinces of Pakistan.

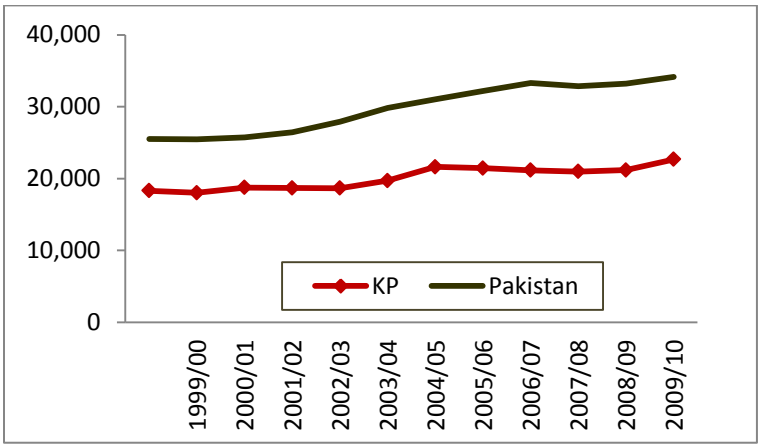
TABLE 1.1: LABOR FORCE PARTICIPATION AND UNEMPLOYMENT RATES IN PAKISTAN, 2010-2011 (%)

	Labor Force Participation Rate	Unemployment Rate
Pakistan	45.70	6.24
Punjab	48.33	6.38
Sindh	45.30	5.26
Khyber-Pakhtunkhwa	36.85	8.57
Balochistan	42.34	3.93

Source: Pakistan Bureau of Statistics, Pakistan Labor Force Survey (2010-2011)

In addition, the province's population has been growing at a faster rate than the rest of Pakistan.[11] As a result, per capita GDP lags behind the national average, and the gap has been increasing over time (see Table 1.1) In 1999-2000, the per capita GDP of KP was 25% below the national average; by 2011-12, this gap had increased to 33%.

FIGURE 1.1: TRENDS IN PER CAPITA GDP, 1999-2010 (PKR ADJUSTED)



Source: Author's Calculations

Furthermore, the province has a large young population and a high dependency ratio, as well as the lowest percentage of population employed to support this dependent population (see Table 1.2). Thus the rate of new entry into the labor force is only likely to increase over the next few years, and the provincial economy has to develop the capacity to absorb this rapid increase in order to avoid worsening the already high unemployment.

[11] The estimated inter-censal annual population growth rate for KPK was 2.82, the highest among all provinces (Pakistan Demographic Survey, 2007)

TABLE 1.2: DEPENDENCY RATIOS IN PAKISTAN, VARIOUS YEARS (RATIO OF PROPORTION OF POPULATION UNDER 15Y & OVER 65Y TO PROPORTION OF POPULATION BETWEEN 15-64Y)

	Dependency Ratio (Census 1998)	Dependency Ratio (PDS 2006)	Dependency Ratio (PDS 2007)
Pakistan	87.3	82.0	81.5
Punjab	85.6	78.2	77.2
Sindh	83.4	79.7	80.9
Khyber-Pakhtunkhwa	100.3	94.4	91.5
Balochistan	95.9	103.6	107.3

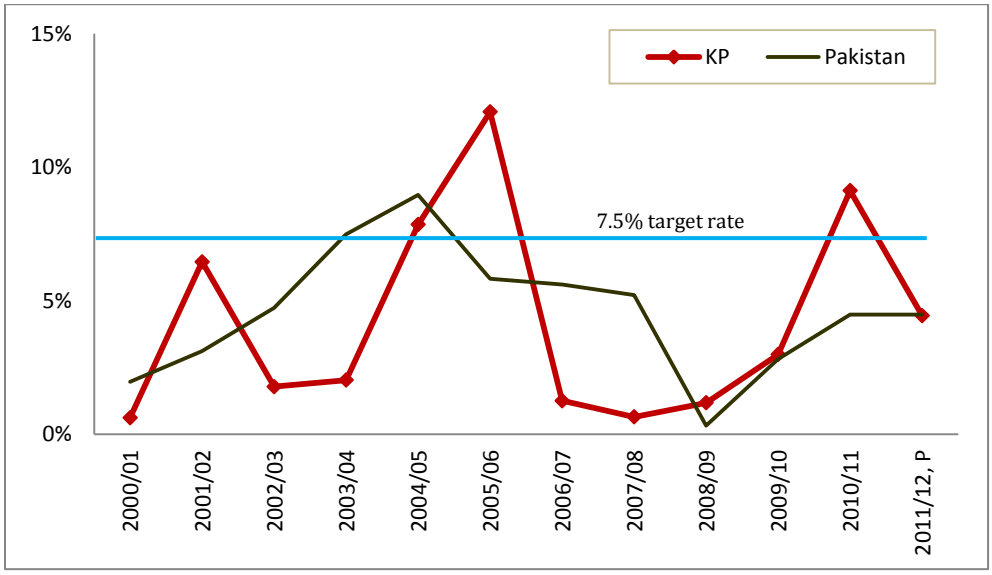
Source: Pakistan Bureau of Statistics, Pakistan Demographic Survey 2007

At a minimum, employment must be provided to all new entrants to the labor force. To achieve this, employment will have to increase at a rate of 3.0–3.2% a year. The NWFP Economic Report 2004-05 suggests that the elasticity of employment with respect to GDP growth is between 0.5 and 0.6. Using the lower bound, this implies a minimum required GDP growth rate of at least 6.0–6.5%. To additionally tackle the problem of current unemployment, a target growth rate of 7.5% is required.

Growth furthermore, has to be inclusive. The most recent MDG (Millennium Development Goals) outcomes for KP do not show an encouraging trend on inclusion. The proportion of population below the poverty line in KP at 39% is substantially higher than the national average. Net primary enrolment ratio at 53% is lower than Punjab's 67% as is the literacy rate (52% compared to Punjab's 60%) and substantially below MDG targets. Similarly, contraception, maternal mortality and infant mortality rate are also far below the respective MDG targets. KP is also off target on many indicators of gender equality. The objective of inclusion requires that the growth strategy removes the causes of such poor MDG outcomes.

The historical GDP growth rate average for KP from about 1970 through 2012 is roughly 4.5%. This provides a rough proxy for the province's potential rate of growth, given its present level of technology and institutional performance. Over the 2000-2012 period, growth has been slightly lower than the historical trend, at 4.1%. However, growth is highly volatile year-to-year (ranging between 0.6% to 12.1%) and has exceeded the target rate of 7.5% in three of the last twelve years (see Figure 1.2).

FIGURE 1.2: TRENDS IN GDP GROWTH RATES, 2000-2012 (%)



Source: Author's Calculations

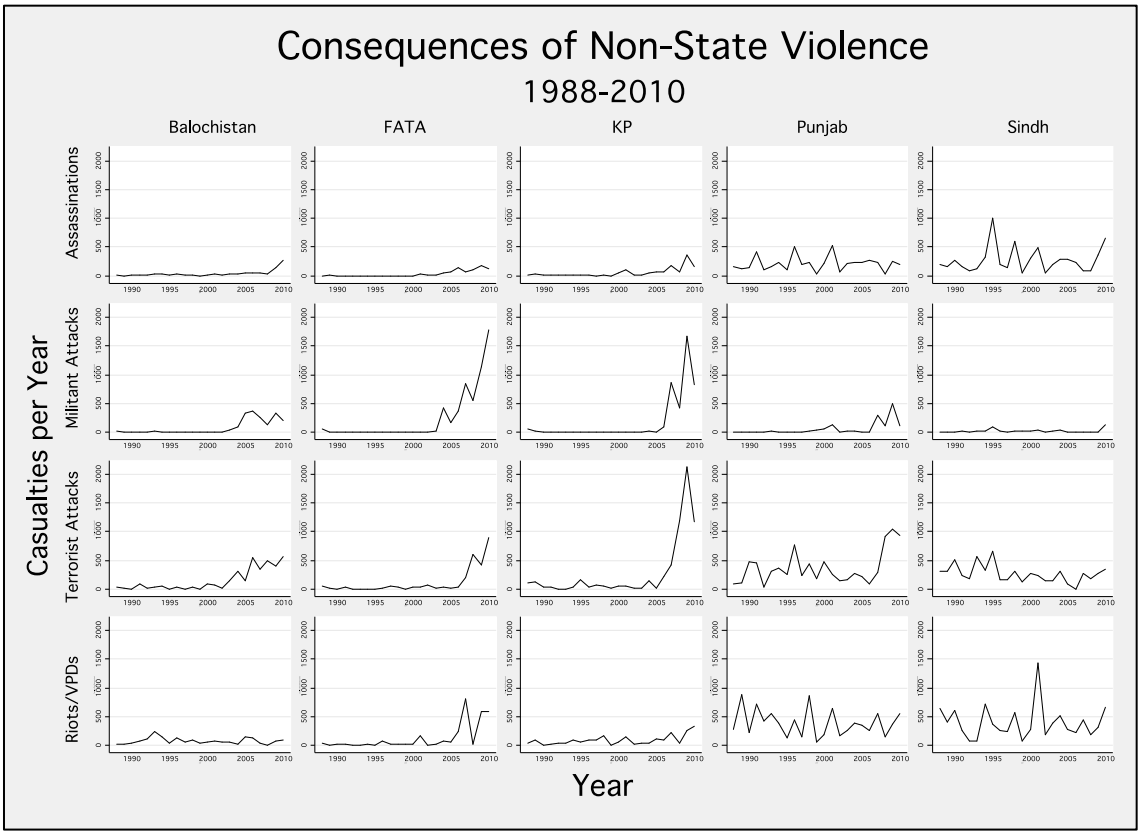
This implies that the target rate is achievable. The challenge is to sustain this rate over the medium term. This report undertakes diagnostics of the provincial economy, identifies areas of potential growth and presents a policy framework to achieve sustained economic growth at the 7.5% target rate.

Political Violence

As a frontline province, KP has had to deal with the fallout from the US-led war in Afghanistan and the rise of militancy within its borders. Prior to 2005, KP (excluding FATA) was the least violent part of Pakistan, suffering only 0.9 casualties per 100,000 per year from political violence, compared to 3.3 per 100,000 per year in the rest of the country. After 2005, however, the province saw a 14-fold increase in casualties from political violence, becoming the second-most violent part of the country. This reversal was driven by the massive 46-fold increase in militant attacks and concomitant state responses, due in large part to the operations in Swat and Malakand.

While FATA has long had the highest overall rate of violence per capita in Pakistan, it has also seen a 20-fold increase in annual casualties from 2006 onwards. Prior to 2006, FATA suffered 4.7 casualties per 100,000 per year, compared to 3.9 per 100,000 in Sindh over that period—with the violence distributed roughly evenly between militant attacks, terrorist attacks, and riots/demonstrations. From 2006 onwards, FATA saw a massive increase in violence to 100 casualties per 100,000 per year. This increase reflects the outright war between the state and militants in FATA, with the rates of state-initiated and militant attacks both rising more than 12-fold, and is reflected to a lesser extent in other types of violence.

FIGURE 1.3: CONSEQUENCES OF NON-STATE VIOLENCE BY PROVINCE, 1988-2010 (CASUALTIES PER YEAR)



Source: Political Violence Study, IGC

US Withdrawal From Afghanistan

Trade between Pakistan and Afghanistan has boomed ever since the beginning of the reconstruction process in Afghanistan, growing from US$ 500 million in 2003-04 to $ 2.2 billion in 2012-13. In the last five years, Afghanistan has been within the top-five destinations for Pakistan's exports. Furthermore, most of Afghanistan's land-transported imports go through Pakistan, via border posts in Chamman and Torkham, yielding transit trade volumes comparable to those of regular bilateral trade (Table 1.3). In recent years, Pakistan has benefited in particular from the nearly US$1.6 billion worth of goods transported by ISAF, NGOs, embassies and international organizations. In addition, undocumented informal trade between the two countries is estimated at an additional 40%– 50% of the total bilateral trade volume.[12]

[12]Pakistan Afghanistan Joint Chamber of Commerce and Industry (PAJCCI), Dividends of Peace and Governance. Pak-Afghan Bilateral and Transit Trade: Business Perception Survey 2012.

TABLE 1.3 AFGHANISTAN-PAKISTAN TRADE, 2008-2013 (USD MILLION)

	2008-09	2009-2010	2010-11	2011-12	2012-13
Commercial TradeTotal	**1,430**	**1,618**	**2,483**	**2,386**	**2,238**
Transit Trade	**2,120**	**3,627**	**3,434**	**1,918**	**2,088**
of which: Commercial Transit	1,442	2,306	1,912	1,313	1,433
Non-Commercial Transit	613	1,245	1,428	547	608
Ex-/Imports to Central Asia	66	76	94	57	46
Total Trade	**3,550**	**5,245**	**5,917**	**4,304**	**4,326**

Source: Afghanistan Withdrawal Report, MTTDF

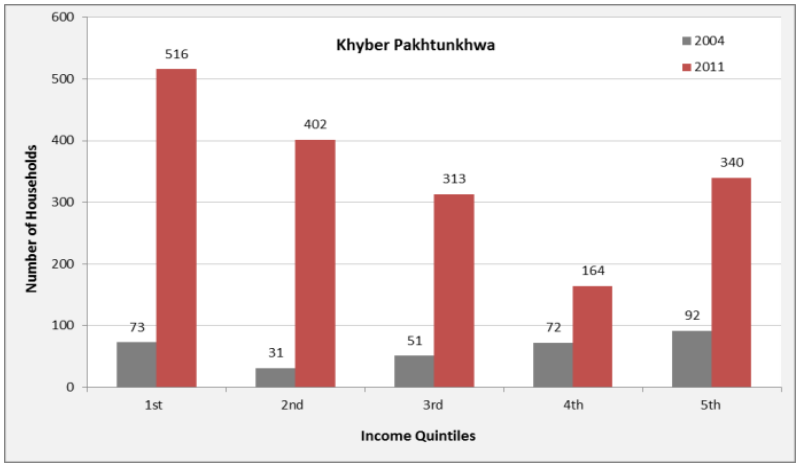
KP and FATA have benefited disproportionately from the sizable transit trade and the development of associated services. These include businesses involved in transportation, associated logistics and transportation services (storage and warehousing, mechanical services etc.) and supporting services (hotels, restaurants and food stalls, small shops etc.). Beneficiaries include large and small trucking companies as well as many small and microenterprises that emerged as a result of the increase in trade activities between Pakistan and Afghanistan. Withdrawal of international troops and closure of military bases in Afghanistan will ultimately lead to the shrinkage of ISAF-related transit trade, with potentially negative effects on the local economies.

Furthermore, income opportunities in trade-related sectors have grown substantially between 2004 and 2011. The number of households that gain income from employment in Trade, Transport, Warehousing and Communication (TTWC) sectors has increased by 290% for KP during this time period—more than in any other sectors—and the monthly per capita consumption of households associated with these sectors has doubled. Employment in trade activities has had a poverty-reducing impact—the growth in trade related sectors benefited poorer households more strongly than richer households presumably because trade-related sectors offer good opportunities for unskilled and semi-skilled employment.

Thus the impact of the discontinuation of ISAF is likely to be negative, especially for the poorer segments of the population. In addition, the local trucking industry will be most directly affected. The main transportation and logistics companies that are involved in handling ISAF cargo employ approximately 20,000 drivers and helpers.

Along with the risks come opportunities. First, in the immediate term (till March 2015), the border areas will likely experience another windfall from the southbound traffic (cargo that will be shipped back from the military bases). Second, given Afghanistan's dependence on imports from Pakistan, it is conceivable that growth in Afghanistan will lead to continued growth in commercial and transit trade. The local trucking industry has visibly developed and has the capacity to absorb new trade.

FIGURE 1.4: HOUSEHOLD DISTRIBUTION IN TTWC SECTOR, 2004 AND 2011 (000S OF HHS)



Source: Afghanistan Withdrawal Report, MDTF

Evolving Structure Of The Economy

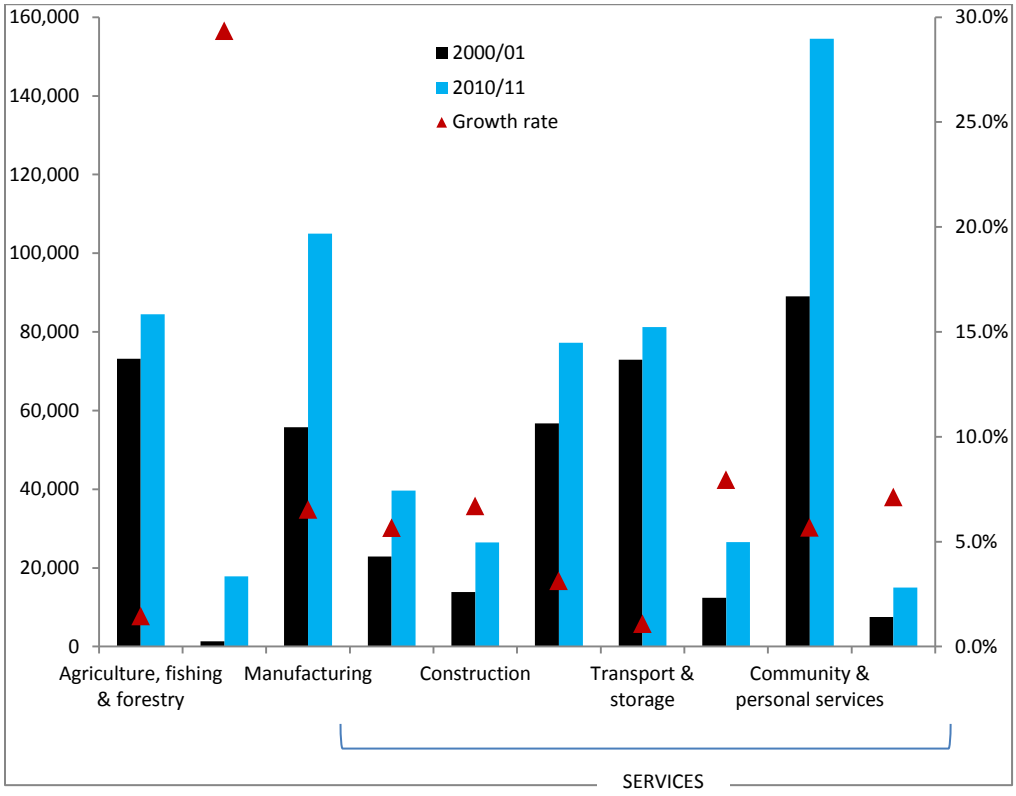
The provincial economy is dominated by the services sector (taken to include utilities, construction, trade, transport & storage, real estate, as well as financial, community and personal services). In 2012, the sector contributed just over two-thirds (67%) of provincial GDP. Manufacturing contributed an additional 17%, agriculture 13%, and mining 3%.

Figure 1.5 presents the various subsectors' contribution to provincial value-added GDP, and their average annual growth rates over the 2001-2011 period. The manufacturing sector and most services sectors grew rapidly in this period, with especially healthy growth (above 6% per year) in construction, finance, real estate & dwelling ownership, and community and personal services.[13] In contrast, agriculture grew at a sluggish 1.1% per year. The mining sector saw rapid growth, raising its share from negligible to 3% of provincial GDP.

The structure of the economy is thus changing, albeit slowly, with the share of agriculture declining, and shares of mining, manufacturing, and services rising. This indicates a shift from primary to secondary (and tertiary) sectors; from informal to formal; and from traditional to non-traditional activities.

[13] Within services, notable increases are in construction, finance, and real estate. This is in part due to migration within the province, due to the conflict situation, which has increased the demand and production of housing and urban amenities.

FIGURE 1.5: COMPOSITION OF KP GDP, 2000/01 AND 2010/11 (VALUE-ADDED, CONSTANT PRICES)



The remainder of the report presents a roadmap for achieving the overall provincial growth targets. The discussion is organized as follows. Chapter 2 assesses the emerging drivers of economic growth that will help propel the priority growth sectors to a higher trajectory. Chapter 3 discusses the constraints faced by priority growth sectors and measures to address them for generating higher incomes and employment. Chapter 4 identifies the main hurdles affecting all priority sectors that need to be removed to make KP an attractive investment destination. Chapter 5 addresses measures for promoting inclusive growth, a key element for sustaining high economic growth. Finally, Chapter 6 discusses the salient policies for creating the fiscal space needed to realize KP's full growth potential.

Chapter 2: Emerging Growth Drivers

2-A: Urbanization[14]

KP has seen periods of rapid growth in its urban population, in part due to the influx of refugees from Afghanistan during the 1980s and the 2000s, and displacements caused by floods and conflict in the last decade. Over the 1981-98 period, population density increased by over 60% from 148 persons/sq. km in 1981 to 238 persons/sq.km in 1998, with the highest increase in Peshawar (an increase of 720.6 persons/sq. km). Assuming similar trend growth over the 1998-2013 period, this implies that in 2013 Mardan, Charsada and Swabi districts all have a population density exceeding 1,000 persons/sq. km, and Peshawar has a density of 2,716 persons/sq. km (Figure 2.1).

While 83% of the province's population is classified as rural, over two-thirds of the population of the province lives within a travel time of one hour of a city, and 90% of the population of the province lives within two hours.[15] Similar to elsewhere in the country, city populations in KP have extended outside the administrative boundaries of the municipalities and settlements peripheral to the cities, capitalizing upon their proximity, transport links, employment opportunities and access to urban services. "Ribbons" of development along the highways, between major urban centers and industrial satellite areas have developed largely due to accessibility to transport links, availability of skills and services as well as tax and tariff incentives. Even in more rural areas, the highest population densities are along the major road corridors, which enables easier access by these rural areas to the higher-level services in the cities and towns. This has resulted in the emergence of three clearly identifiable urban agglomerations:

Central Pakhtunkhwa: The districts of Peshawar, Charsada, Mardan, Swabi and Nowshera. These districts cover almost 10% of the area of the province and contain 36% of the population.

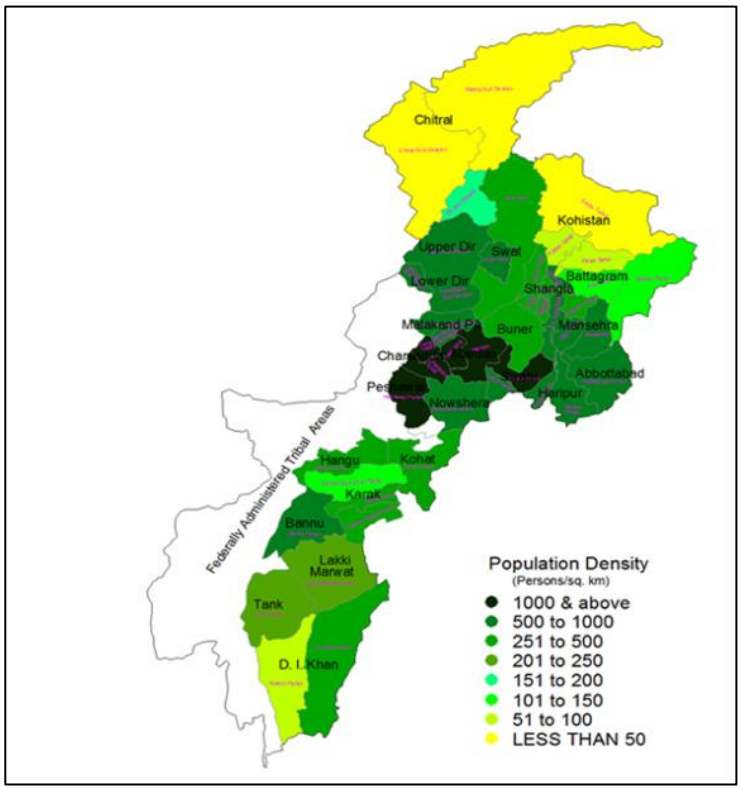
Hazara: The districts of Haripur, Abbottabad and Mansehra, with an area of 11% of the province, contain 15% of the provincial population.

Other: Three relatively smaller but significant concentrations of population are in the districts of Swat with 7% of the provincial population, Dera Ismail Khan with 5% and Kohat with 3%.

[14] Najm-ul-Sahr Ata-ullah and Ibrahim Murtaza, R. Ali Development Consultants. For a full discussion of urban agglomeration see Annex A

[15] 7% of the population lives within a travel time of 2-4 hours from a city. The remaining 2% of the population that lives at a travel time of more than four hours from a city are all residents of Chitral district.

FIGURE 2.1: POPULATION DENSITY, PROJECTED 2013 (PERSONS/SQ KM)

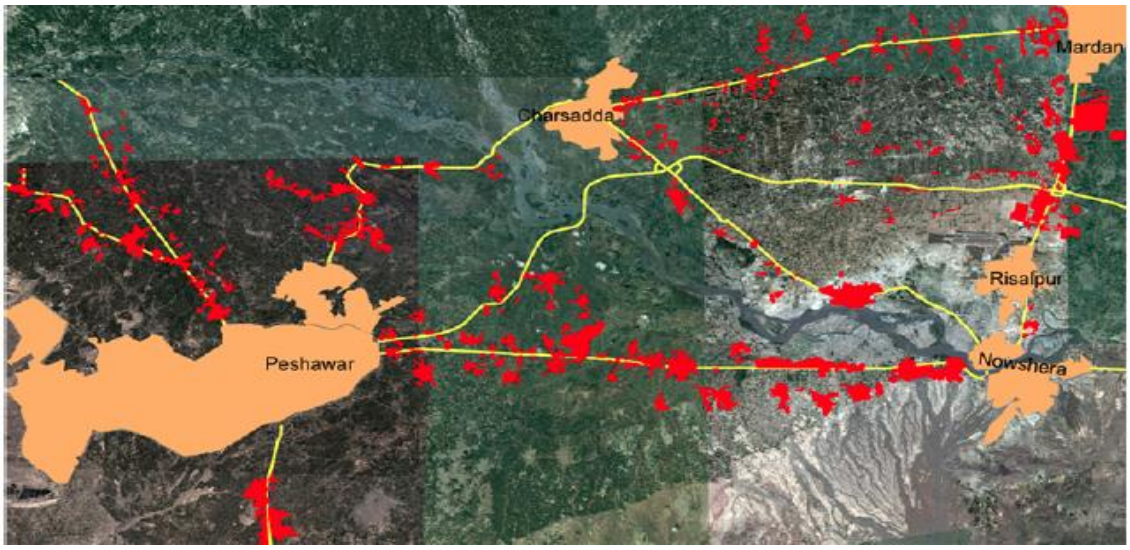


Source: Urban Agglomeration Study, IGC

Combined, these three agglomerations have a total area of 11,989 square kilometers (30.7% of the provinces' area). Their combined population in 1998 was 10.3 million (59% of the province's population) and growing at 2.85% p.a. The combined urban population of the three agglomerations increased to 2.5 million from 1.4 million, growing at 3.2% p.a. At this rate the projected 2013 population is just over 16 million, of which 4 million live in urban areas. In addition, the rural areas of the agglomeration have considerable advantage in terms of access to employment opportunities, municipal, social and business services and appear to have been influenced by their proximity and exposure.

Figure 2.2 below shows the districts in Central Pakhtunkhwa, which display the characteristics listed above: overspill beyond city boundary (most significant in Peshawar); peri-urban growth; and ribbons along major road corridors (significantly along N-5 and N-45 highways and the Peshawar-Charsadda-Mardan road).

FIGURE 2.2: CENTRAL KP AGGLOMERATION: CITY EXPANSION AND RIBBON DEVELOPMENT



Source: Urban Agglomeration Study, IGC

2-B: Regional Trade[16]

A key strength of KP province is its strategic location at the hub of the National Trade Corridor (NTC)[17], which links Peshawar through Lahore to Karachi and Port Qasim. The bulk of Pakistan's international trade is transported by road along this central corridor. The East-West corridor linking India to Afghanistan and Central Asia via Pakistan has been dormant due to tensions between India and Pakistan. However, the recent thaw in Pakistan-India relations manifested by Pakistan in principle agreeing to grant the MFN status to India is expected to revitalize this corridor. Therefore KP can benefit immensely from trade links with India, China and Central Asia by playing its natural and historic role as the connecter of a large, resource rich Central Asia to the rapidly growing but energy deficient economies of India and China. The potential rents that could accrue to KP can be invested in building a strong manufacturing and export base in the future. The city of Peshawar can reclaim its historic role as a vibrant regional trade and commercial center becoming a major growth node in the country (Nabi 2012).

Table 2.1 shows the share of Pakistan's exports to China, Afghanistan and India in year 2000 and 2010. While exports to both Afghanistan and China have increased substantially over the decade, export share to India is still relatively low exemplifying the present lack of East-West trade linkage.

TABLE 2.1: SHARE OF TOTAL EXPORTS WITH NEIGHBORS, 2000-10 (% OF TOTAL EXPORTS FROM PAKISTAN)

	2000	2010
Country	%Share*	%Share*
Afghanistan	1.3	7.9
China	2.7	6.7
India	0.7	1.3

Source: Hamid and Hayat, 2012

In order to reap the benefits of trade, especially through the East-West trade corridor, there has to be peace in Afghanistan and stability in FATA. Furthermore, KP will have to invest strategically and systematically in improving its connectivity and logistical infrastructure. Chapter 7 addresses the current situation of the logistical infrastructure in the province and the major issues in both intra and inter provincial transport connectivity. From a trade perspective, substantial investment is required in roads as well as truck-ports and storage capacity on both sides of the Afghanistan-Pakistan border.

Trade with China has increased manifold as a consequence of the FTA between the two countries in 2006. While there have been significant welfare gains to consumers from the flood of low priced goods from China, the impact on the industrial sector has been varied. Some sectors have gained through the import of cheap raw material and machinery, while others have not been able to survive the Chinese onslaught. The long-term benefits of economic relations with China lie in improving the connectivity of the fast growing western provinces of China with Pakistan - which provides the shortest overland route to the sea. This can be achieved by improving and upgrading the Karakoram Highway. Better connectivity can create economic opportunities for KP through potential Chinese FDI in the province and an enhancement in exports of Pakistan products to the western provinces of China. (Hamid et al 2012)

This chapter focuses on the prospects of KP becoming a regional trade hub by analyzing the trade potential with both Afghanistan and India. Strengthening regional trade relations will not only bring significant economic gains to KP but would also promote lasting peace in the province.

[16]Turab Hussain and Usman Khan, Department of Economics, Lahore University of Management Sciences

[17] The NTC encompasses the ports, roads and railways along the corridor that stretches from Karachi to Lahore and Peshawar. The NTC handles approximately 95% of the country's external trade and 65% of total land freight

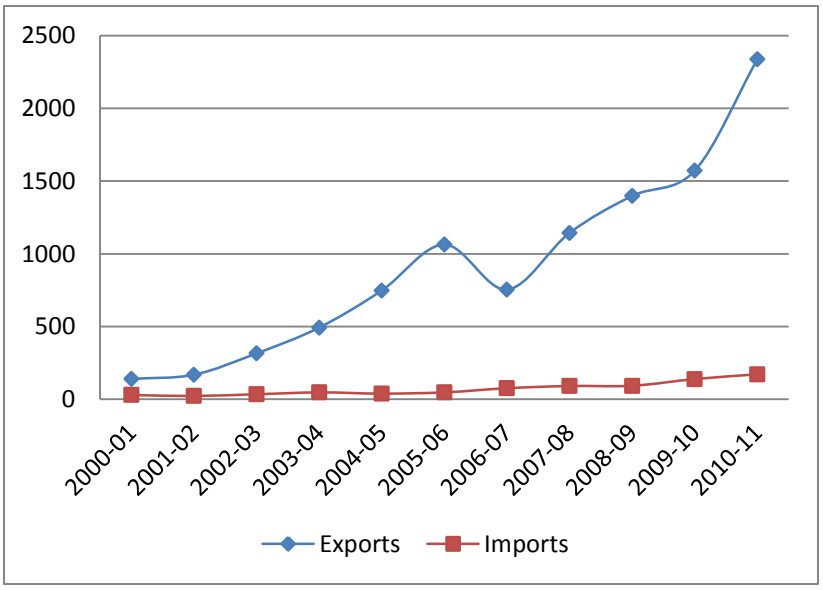
Trade with Afghanistan

Strategic Economic Depth

There is a dire need for policy makers in Pakistan to shift their thinking on security matters from a military perspective to an economic one i.e., from guns to butter. The idea of looking at the Durand line and Afghanistan from the prism of strategic depth needs to be abandoned for the more tenable concept of economic depth through trade and commerce. There is a long history of trade between Pakistan and Afghanistan through the famous silk route. Both countries are natural trading partners with complementarities in trade in both goods and services. As Afghanistan is land-locked, Pakistan acts as the key seaport for a significant share of Afghanistan's foreign trade. Similarly Afghanistan provides Pakistan the land link to markets in Central Asia. Trade between the two countries is currently governed by the Afghanistan-Pakistan Transit Trade Agreement (APTTA), which provides the procedures for use of port, roads, transport modes and customs.

Pakistan's exports to Afghanistan have been on the rise over the last decade and nearly reached US$2.5 billion, which is close to 10% of Pakistan's total exports. The only drop in exports came in 2006-07 due to measures taken to curb increased amounts of smuggling and illegal trade under the cover of the transit trade facility. However, as Figure 2.3 illustrates, the balance of trade between the two countries is heavily skewed towards Pakistan.

FIGURE 2.3: PAKISTAN'S EXPORTS TO AND IMPORTS FROM AFGHANISTAN, 2000-2011 (MILLION USD)



Source: PILDAT 2011

Products for Export from KP

The major exports from Pakistan to Afghanistan include; rice, petroleum products, cement, pharmaceutical, vegetables, fruits, machinery, household items, footwear, leather products, textile, wheat and other products. KP has a large manufacturing base in pharmaceuticals, which has the potential to significantly increase its exports to Afghanistan. Similarly, KP produces 23% of the countries limestone, a key ingredient in making cement. Local availability of limestone needs to be fully exploited to enhance production of cement in the province, which has tremendous export potential to Afghanistan. Furthermore, KP is rich in fruit orchards such as those of peaches and apricots. These products have a large market in Afghanistan.

Finally, there is tremendous potential for services trade between Afghanistan and KP. Similarity of language and culture can further facilitate such trade. Pakistan's education, health, financial and transport sector can play a key role in re-building the social, financial and physical infrastructure in KP. The resultant creation of employment opportunities within KP and FATA would co-opt the population economically within the country ensuring peace and stability (Nabi, 2012).

Transit Trade

It is estimated that the value of transit trade passing through the two countries is as high – in some years even higher – as the volume of regular bilateral trade. Pakistan has also benefited from an increase in transit trade due to large amounts of goods transported to Afghanistan through Pakistan by ISAF, NGOs, embassies and international organizations.

However, transit trade is highly vulnerable to the adverse security and law and order situation in the region and has also suffered due to rampant smuggling. The importers from Afghanistan on many occasions have imported a product much more than their actual domestic need. The surplus quantities make their way back into Pakistan via smuggling or illegal trade channels. Key examples of such goods are black tea and electronics. Most of these smuggled commodities pour into major towns of KP.

The misuse of the facility has caused chagrin amongst the local manufacturers who are unable to compete with smuggled goods. It has also created a perverse incentive for the private sector in KP to divest from manufacturing and invest in illegal trade. The shrinkage of the formal sector implies a significant loss of local and corporate taxes, which has major ramifications in terms of resource mobilization for infrastructure development.

Afghanistan's Transition and ISAF Withdrawal[18]

An important issue to consider is the impending withdrawal of ISAF forces, which presents several risks and opportunities for trade and economic cooperation with Afghanistan. A report prepared by the Multi-Donor Trust Fund for KP, FATA and Balochistan identifies two channels of impact:

1. A **direct** impact results from the gradual discontinuation of ISAF related transit trade to Afghanistan
2. An **indirect** impact could result from changes in the security situation

The report estimates that the discontinuation of ISAF related transit trade will have a limited direct impact on Pakistan's aggregate economy. Transit trade contributes relatively little to real sector production, since the goods are sourced elsewhere. While it does generate fiscal income (currently Pakistan earns around $40million in fiscal duties and fees from ISAF related trade), this is only 0.1% of Pakistan's total fiscal revenue.

On the other hand, transport and logistics sector stand to lose considerable business generated from ISAF cargo transit. This is likely to impact local economies in border regions of KP. Specific groups and individuals that stand to lose most include truck owners/companies, local creditors and insurers, clearing agents, tracking and security companies, and those owning/employed in restaurants, filling stations and weight gauges, spare part shops, NATO mechanical workshops, etc. Areas likely to be affected in KP include the corridor beginning with districts of Attock, Nowshera to the Peshawar terminals on Ring Road (and Ring road near hazar Khwani Chouk).

Changes in the security situation post ISAF withdrawal could have large indirect impacts in the economy. Given the balance of payments imbalance between the two countries, Pakistan is especially vulnerable to declines in export earnings from Afghanistan. While there is little reason to believe that demand for food items and fuel will decline since demand for these items is quite inelastic, Afghanistan has to find the wherewithal to pay for these commodities. This depends on the development of the country and the aid arrangements made by donors after ISAF withdrawal.

Another risk to Pakistan is a diversion of trade to Afghanistan's other neighbours; Afghanistan has signed more than 36 trade agreements and protocols with other countries and organizations in recent years, including neighbors Iran, Tajikistan, Turkmenistan and Uzbekistan. This is largely due to weaknesses in existing trade facilitation; improving trade institutions and infrastructure in Pakistan and KP specifically will be necessary to sustain existing trade and provide impetus for increases.

[18] This section is adapted from the MTDF Report "The Economic Impact of Afghanistan's Transition on Pakistan and its Border Areas" (January 2014)

Trade with India

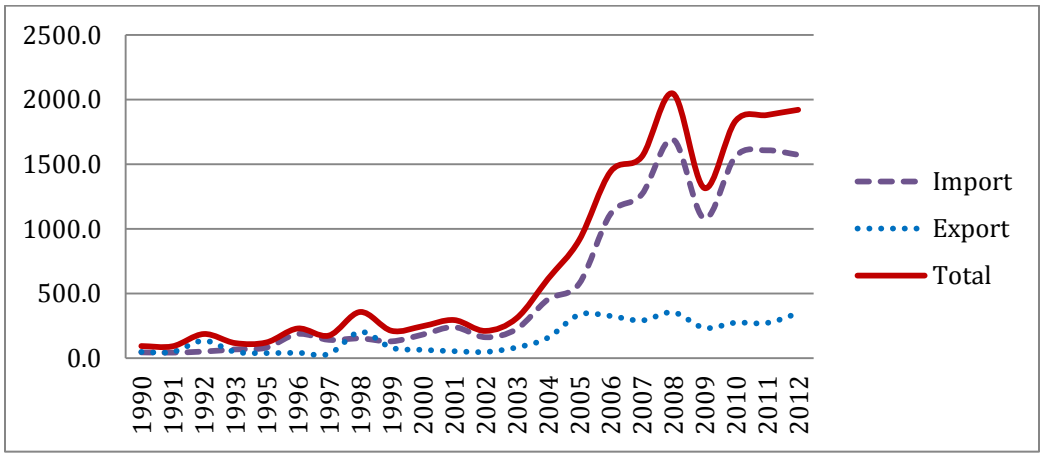
MFN Status and Recent Context

There was a major political breakthrough on trade between India and Pakistan in 2011. During the course of the year, Indian and Pakistani government officials held several high-level meetings aimed at improving trade relations. Subsequent developments i.e. India's liberalization of its investment regime, lifting the ban on FDI from Pakistan in 2012, and Pakistan's earlier announcement to move from positive-list-based to negative-list-based bilateral trade, granting India Most Favoured Nation (MFN) status provide new opportunities for economic cooperation.

India has emerged as a key player in international trade crossing US$ 700 billion in aggregate trade. However, India's trade with Pakistan is miniscule by comparison, amounting to just under US$ 2 billion. India granted Pakistan MFN status in 1996 but this has not been enough to trigger any significant increase in bilateral trade. Although Pakistan did not reciprocate by granting MFN to India until recently, its exports to India failed to register any noticeable increase pre and post 1996. On the other hand, as Figure 2.4 illustrates, India's exports to Pakistan went up considerably widening the bilateral trade deficit between the two countries.

Studies on Pakistan-India trade suggest that the main reasons for the bilateral imbalance are the Tariff and Non-Tariff Barriers (NTBs), which make Indian markets restrictive for Pakistani exports. It also seems that high costs of transaction is a factor restraining Pakistan from investing in marketing and advertising their products in India impeding potential exports.

FIGURE 2.4: PAKISTAN'S EXPORTS TO AND IMPORTS FROM INDIA, 1999-2011 (USD MILLION)



Source: UNComtrade Databank

Products for Export from KP

Top commodities exported from India to Pakistan include cotton, xylene, soya-bean waste, tomatoes, sugar, chickpeas, polypropylene, tea, iron and steel containers, and organic chemicals. Cotton alone accounted for 16% of exports in 2011.

Items being exported by Pakistan to India include cement, gold, lead, copper, cotton yarn, disodium carbonate, gypsum, terephthalic salts, and vinyl chloride.

In addition to cement, KP can potentially export marble and granite to India. The mining and stone sector of KP has seen significant growth over the last few years and the industry is now mature enough to produce products of quality that can be exported to India. The Indian economy, growing at an average rate of 8%, will continue to have high demand for construction related material presenting a lucrative opportunity for KP.

Furthermore, the pharmaceutical sector of KP can benefit from cheaper imports of raw material and base chemicals from India. The technology and research and development in this sector can come at a significantly cheaper cost from India as compared to the US or European countries.

On the other hand the government will also have to protect the local industry from low quality Indian pharmaceuticals that can potentially flood local markets in case trade is fully normalized. Thus enforcement of quality standards in both the domestic market and on imports is of paramount importance.

Strategies and Way Forward

Given the present situation and future challenges/opportunities for regional trade, this section identifies the following as key priorities for the KP government:

Facilitate Growth of Export Sectors:

- **Pharmaceuticals:** The KP government will have to negotiate strongly with the federal government to streamline their current ad hoc regulation on controlling drug prices. The strict price controls leave minimal room for pharmaceutical companies to invest in research and development and expand into international markets. A more consistent and supportive pricing policy must be put in place.

  The Government of KP will also have to work with the federal government to negotiate a facilitative trade policy on pharmaceutical with India. The policy should be based on the Bangladesh model whereby it allows imports of all raw materials but finished products of only those companies that have US FDA certification. This will prevent low cost poor quality drugs entering into the country.

  The provincial government should also assist companies in investing in research and development and in providing the information required for exporting drugs and accessing regional markets. This would require investments in training, human resource development and in pharmaceutical testing laboratories.

- **Cement:** To facilitate the cement industry in KP, land may be provided at subsidized cost to facilitate investments into cement production plants near limestone depositories in the province. An export-processing zone can also be created.

- **Horticulture:** The horticulture cold chain in KP has been adversely impacted by the security situation resulting in significant losses in areas such as orchards. The KP government in the medium term will have to come up with an alternative strategy to circumvent this problem. A way to do this could be to encourage contracting between land/orchard owners and locals of the area accompanied with training in farm/orchard management.

Ensure Afghanistan-Pakistan Transit Trade Agreement (APTTA) Enforcement and Control Smuggling:

The federal government under the APTTA has been working to resolve the issues of illegal trade. Some of the steps taken are the following:

- Transportation of the transit cargo in Customs licensed bonded carriers only
- En-route monitoring of the transit vehicles and cargo containers through Customs check posts located at different stations throughout the country
- Movement of the vehicles to border stations of Torkhum or Chaman to be regulated and monitored
- Restriction imposed upon over loading on designated vehicles
- Partial shipment has been forbidden

The government of KP should ensure that above measures are fully enforced. In addition, the KP Government can improve regulation on sale of smuggled goods. Steps taken to promote legal trade will trigger investments and will result in sustainable gains.

Minimize Negative Impact of ISAF Withdrawal:

The discontinuation of ISAF related trade will reduce current level of transit trade traffic in border areas of KP; given the large role of trade and trade associated activities in employment creation in these areas, the shock will be detrimental for a large number of households. The situation would be compounded if commercial trade was also negatively affected by a deterioration of the security situation.

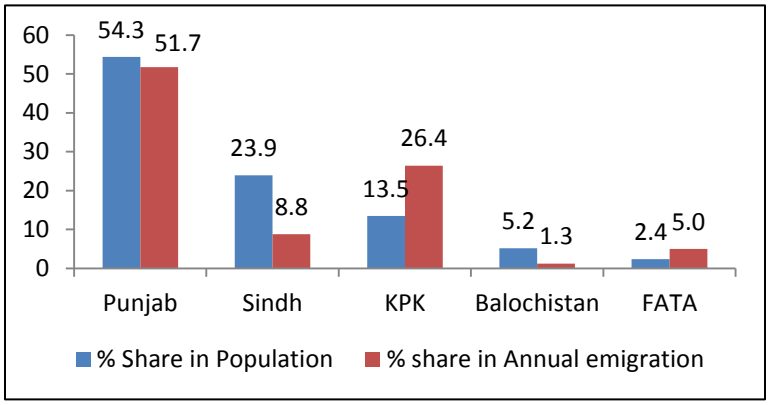
The best strategy to mitigate the impact is to prioritize opportunities for boosting regular commercial and transit trade with Afghanistan to stabilize the demand for Pakistani export goods, logistics and associated services. For the provincial government, this means infrastructure maintenance and development in the Peshawar-Torkham corridor, as emphasized in Chapter 7. Furthermore, to address the risks to local economies, the KP government can coordinate with the MTDF KP and FATA Economic Revitalization Project to channel grants and provide training and support in planning to SMEs affected by the loss of NATO cargo trade. Annex B outlines the specific strategies identified for affected segments of the population by the MTDF report.

2-C: Remittances[19]

In 2012-13, Pakistan received an estimated US$ 13 billion as workers' remittances through formal (banking) channels; which comprised almost 60% of its total export earnings and over 5% of its GDP (Pakistan, Finance Division, 2013). A full quarter of these workers—in other words, every fourth Pakistani who went abroad through the Bureau of Emigration and Overseas Employment or Protector of Emigrants (BEOE)—comes from KP.

KP has consistently maintained its share of around 25% in the BEOE annual placement throughout 1981–2013, and is the only province that has a much larger share in the annual outflow of workers than its share in the total population (Figure 2.5).[20] Several districts of KP (Dir, Swat, Mardan, Peshawar, Swabi, and Mansehra) are among the country's high-emigration districts. While this is considered an overestimate, the stock of KP workers among total overseas Pakistanis is calculated as between 1.675 million and 1.177 million, with a share varying between 17.5% and 25%. In short, KP is likely to have more than a million migrants abroad and this could be as high as almost 2 million.

FIGURE 2.5: PROVINCE-WISE SHARE IN ANNUAL IMMIGRATION AND TOTAL POPULATION, 2013 (%)



Source: BEOE (2013), Pakistan, Finance Division (2013).

Average annual remittances per household in KP are estimated to range from PKR 200,000 to PKR 440,000. Based on these estimates, the estimated volume of remittances in 2010-11 is between USD 1.58 billion and USD 2.25 billion, or between 14% and 20% of all official remittances.

Migrant remittances can serve as an insurance mechanism allowing families and communities to weather external shocks. In KP, remittances have proved crucial for coping with the aftermath of both conflict and natural hazards, which damaged infrastructure and jeopardized various economic activities. Beyond this, remittances can also contribute to overall growth if recipient households are properly incentivized and facilitated to invest these remittances. In order to assess how KP can fully tap into the potential of remittances, the remainder of this chapter addresses the following questions:

- How are remittances used by the receiving households of KP, and what is their impact on the provincial and local economy, including in conflict-stricken areas?

- What are the prospects of overseas migration from KP and how is the demand for skilled and educated migrants changing in different parts of the world?

[19] Rashid Amjad (Lahore School of Economics) and G.M. Arif (Pakistan Institute of Development Economics)

[20] The situation of the Federally Administered Tribal Areas (FATA) in terms of its share in the annual placement of workers appears to be similar to that of KP

- What measures can be taken to increase the flow of migration from KP to better paid and higher skilled jobs overseas and to create an enabling environment which results in the remittances being sent back to KP having a favourable impact on the provincial economy as well as on the families left behind?

Uses of Remittances

In a recent study, Awan et al. (2013) show that migrant households use 51% of their total household income on consumption expenditure, which includes food, health, education, housing, and transport; the remaining half is used for the repayment of loans, income generation (business), a better quality of life (consumer durables), and asset formation (real estate, savings, etc.).

Similarly, PPHS micro-data (Table 2.2) shows that migrant households are most likely to state food as their first preference for the use of remittances, followed by health and education. Housing and loan repayment are also reported by a considerable number of households as their third preference. Savings or investment, do not emerge among these preferences.

TABLE 2.2: PREFERENCES FOR THE USE OF REMITTANCESBY MIGRANTS' HOUSEHOLDS, 2010 (% OF TOTAL HOUSEHOLDS REPORTING AS *N*TH PREFERENCE)

Use of remittances	1st preference	2nd preference	3rd preference
	%	%	%
Food	81.31	1.87	0.93
Health	1.87	77.57	1.87
Education	0.00	2.80	47.66
Housing	0.00	2.80	10.28
Purchase of land	0.00	0.00	0.93
Savings	0.00	0.93	0.93
Business	0.00	0.00	0.00
Marriages	0.00	0.00	0.00
Loan return	0.93	1.87	8.41
Others	0.00	0.00	20.56
No information	15.89	12.15	8.41
Total	100.00	100.00	100.00

Source: Authors' calculations from the PPHS 2010 micro-data files.

However, the actual use of remittances could differ from the reported preferences of remittance-receiving household. The Household Survey on Overseas Migration and Remittances (HSOMR) 2009 has explored the uses of remittances by households with at least on migrant worker based in Saudi Arabia at the time of the survey. Again, food accounts for around the lion's share (40%) of remittance use, while 28% is used for the purchase of real estate and agriculture machinery.

TABLE 2.3: SHARE OF TOTAL REMITTANCES ALLOCATED TO VARIOUS USES BY KP SAMPLE OF HOUSEHOLDS WITH AT LEAST ONE MEMBER WORKING IN SAUDI ARABIA (%)

Use	%
Food	39.03
Health	3.64
Education	3.93
Real estate and agricultural machinery	27.60
Durable goods	7.97
Marriage	8.52
Loan repayment	2.99
Saving	5.22
Donations	1.10
Total	100.00

Source: Authors' calculations from HSOMR 2009 micro-data files

Several factors specific to individuals and their households affect how remittances are used. The duration of stay of a worker plays a key role—the income he or she earns during the first couple of years is generally used to repay loans and meet basic needs. A stay longer than two or three years enables his or her household to make some investment. The dependence of a household on remittances in terms of meeting its daily needs during the migration period restricts its ability to free money for savings and investment. Workers' education and skill level also influences the uses of remittances through their earnings and savings while abroad; local investment opportunities and awareness of these opportunities can induce households to use remittances productively.

Furthermore, area-specific conditions of instability and conflict also impact decision-making about remittance use. Gioli et al (2013) conducted a study in conflict-affected villages in Swat and Dir with high numbers of households with migrant workers. They found that remittances played a critical role in ensuring the survival of these households during the conflict – almost 74% of households (in a sample of 602) reported having avoided starvation due to remittances, since all regular economic activity came to a standstill during periods of prolonged curfews and on-going violence. Furthermore remittances also provided a means of reconstruction of livelihoods for 23% of the surveyed households; most respondents reported using the money to rebuild houses.

Skill Composition of Pakistani Workers Abroad

The skill level of a worker is closely associated with his/her earnings, savings, and ability to remit home, and as noted above it may also affect how remittances are used by his/her household.

Most migrants from KP end up in the Middle East, where unskilled workers are the dominant category (see Table 2.4). These workers are less educated and more vulnerable to exploitative recruitment practices. In terms of trends, the share of unskilled workers spiked in 2007 but has overall declined overtime. Meanwhile, the proportion of skilled workers also declined in 2007 and has fluctuated between 33% and 36% in recent years. Since the 1990s, there has been a general tendency in the Middle East to hire more professionals and skilled workers as opposed to unskilled and semi-skilled workers.

TABLE 2.4: DISTRIBUTION OF PAKISTANI MIGRANT WORKERS IN THE MIDDLE EAST BY OCCUPATION, 1971-2013 (% OF TOTAL PAKISTANI MIGRANT WORKERS)

Year of Migration	Professional Workers	Skilled Workers	Semi-Skilled Workers	Unskilled Workers	All
1971-2003	4.91	30.22	21.66	43.21	100
2004	4.49	34.23	18.65	42.63	100
2005	5.57	31.25	19.23	43.95	100
2006	6.01	29.01	18.11	46.88	100
2007	4.80	27.55	17.59	50.06	100
2008	4.41	34.06	13.78	47.74	100
2009	3.42	35.59	16.40.	44.59	100
2010	3.68.	35.73	18.36.	42.23	100
2011	4.23	32.70	18.86	44.21	100
2012	4.11	33.40	21.88	40.61	100
2013	5.18	35.64	21.62	37.57	100

Source: BEOE, 2013

Awan et al. (2013) have recently examined the skill composition of 421 emigrants from the Peshawar district of KP before migration and while abroad. They show that more than 70% of these workers had some skills before migration and that these skills were obtained through some formal or informal training. Table 2.5 compares the occupations of these workers from KP before migration and while abroad. Some interesting observations emerge. First, it appears that many skilled and semiskilled workers accepted jobs as laborers in the Middle East, particularly as electricians, welders, and drivers. Their skill level may have been low or there may have been no demand for the skill they had learned in Pakistan prior to migration. Secondly, engineers, doctors, and computer operators were able to get a job in the Middle East according to their pre-migration education or skill level.

TABLE 2.5: SKILL COMPOSITION OF CURRENT EMIGRANTS FROM PESHAWAR DISTRICT BEFORE MIGRATION AND WHILE ABROAD, 2013 (% OF TOTAL EMIGRANTS)

Occupation	Before migration	While abroad
Drivers	25.2	34.6
Computer operators	2.6	3.4
Welders	3.8	0.0
Laborers	27.6	41.7
Factory/construction workers	14.8	0.0
Electricians	10.5	4.9
Technicians	1.4	1.1
Carpenters	6.0	6.0
Accountants	0.7	1.1
Engineers	5.0	5.6
Teachers	1.9	1.1
Doctors	0.5	0.4
All	100	100
(N)	(421)	(421)

Source: Awan et al. (2013)

Global Demand and Emigration Opportunities

The major destination of migrants from KP, starting in the 1970s, has been the Middle East, mainly the GCC countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). Pakistan was one of the countries that benefited considerably from this boom in the Middle East in terms of overseas migration and remittances.

A number of important labour market and structural changes are taking place in the GCC economies that will have an impact on their demand for migrant labour, both in terms of absolute numbers as well as their skill composition.

Sectoral shift: While the earlier phase of development in GCC economies was dominated by construction activities, these economies are experiencing a shift. The current occupational distribution of citizens and foreigners for the latest available years in Bahrain, Kuwait, and Saudi Arabia, shows the largest category of foreign workers is in sales and services: almost 42%, followed by professional and technical categories at 12%. The share of services in total employment is only expected to go up further as these countries diversify their pattern of economic growth. Plans to diversify from low value-added commodity production of crude oil towards manufacturing of refined oil products means that within the manufacturing sector too, the demand for skilled foreign workers will increase, with less reliance on low-skilled workers. While the skill composition of other Asian migrant workers, such as Indians, has changed in response to this shift in demand (Srivastava and Sasikumar, 2005); the composition of Pakistani workers has not witnessed a notable shift towards more skilled workers.

Labor reforms: In response to the rapid growth of working-age population in these countries as well as high levels of unemployment in their existing labor force, a number of reform measures are being taken to facilitate the entry of nationals into private sector jobs with a major focus on quality improvements in education and training. Quotas are also being put in place and more strictly implemented than earlier for private sector firms to fill positions with nationals. Other measures suggested include liberalising the domestic mobility of the large foreign workforce, which at present, is considerably restricted through a rigorously enforced sponsoring system for a particular job.

An analysis of the projected demand in the short to medium term suggests that GCC dependence on migrant labour will continue but the skill composition will change. An important reason for continued demand is the cost advantage accruing to private firms in hiring migrants, with private sector wages being significantly lower for foreign labour compared to those for nationals with similar education levels.

To summarise, the implications for KP of expected future growth trends and structural changes in the GCC countries are: (i) to gear up to the current and accelerated shift into higher paid jobs in services, including in the fast growing tourist sector such as hotels, shopping malls, and airport and airline services in which large expansions are planned, and to build on their current major occupation in these countries as drivers and unskilled workers; (ii) to prepare for, and to target higher-wage jobs in manufacturing expected over the next five years; (iii) to take advantage of major planned events such as the Dubai World Expo Trade Fair in 2020 and the soccer World Cup in 2022; and (iv) to cater to the increased demand for food imports from the region which could boost agricultural exports from KP.

Another key change that has taken place in the last decade and a half is the increasing amount of remittances into Pakistan from countries outside the Middle East, mainly the US and UK, but also Europe, East Asia, and Australia. Immigration flows into the OECD countries have been increasing in recent years though at a lower pace compared to the pre-crisis 2008 levels. Migrants to these countries are primarily of highly skilled and educated people, which raises the question of whether sending countries should encourage such outmigration given the demand and need for skilled personnel in the national economy. Has migration to OECD countries led to a shortage of skills and professionals or entrepreneurs in KP? Unfortunately, available data is at the national level so we cannot precisely estimate the share of migrants to the OECD countries from KP. To answer this question would need a more in-depth analysis, but such shortages have not been reported or pointed to in recent studies. The emphasis should remain on ensuring supply of educated and skilled people but in planning for this demand from overseas should be taken into account.

The Way Forward

Given the existing high rate of unemployment and high growth rate of the labour force, accelerating the pace of domestic employment generation must remain the major priority of the KP government. However, in the short to medium term, given the pressures on the labour market, overseas migration clearly provides a safety valve that could release some of this pressure while bringing in an increasing amount of remittances, which, through their multiplier impact on the economy, could create more jobs, improve living standards, and reduce poverty levels. As discussed in this chapter, remittances have also played a critical role for families and communities in coping with the conflict and security situation by providing them income and food security and helping to rebuild assets destroyed in the conflict.

With these benefits in mind, it is necessary to examine policies that could lead to an increase in migration from KP to the major labour-receiving countries and to help upgrade prospective migrants' skills and educational qualifications, in turn increasing their earnings abroad and the total remittances sent back to KP. At the same time, it will become important to monitor possible shortages in skills and professionals that might arise as a result of overseas migration and, therefore, it is important to institute education and skills training plans and policies that take these into account.

The following are identified as the areas the KP government should focus on to maximize the development benefits for the province from labour migration:

Collaboration with Federal Bodies:

An important consideration is that overseas migration still falls under the purview of the federal government and a separate ministry/division handles this subject (the Ministry of Overseas Pakistanis and Human Resources Development), including supervising a number of agencies and organisations that have been set up to regulate, monitor, and support overseas migration and migrants through welfare schemes and other programmes. These bodies include the BEOE, the Overseas Pakistanis Foundation (OPF), and the Overseas Employment Corporation. The Bureau of Emigration has licensed around 1,200 overseas employment promoters (OEPs) who monitor demand and then send people abroad through the regional offices of the Protectorate of Emigrants after completing the required

formalities laid out in the ordinance issued in 1979. Similarly, the OPF has set up schools, colleges, and hospitals to support migrant families and housing schemes exclusively for migrants, including one very close to Peshawar.

The provincial government clearly needs to work closely and collaborate with these organisations, and though there is little evidence to suggest that this is actually happening, it would be imprudent to suggest setting up parallel organisations at the provincial level. However, it would be important to develop capacity in the Planning and Development Department, Education and Vocational Training Department and Department of Industries to take into account the impact of migration and remittance on the provincial and local economy given its current size and role in reducing unemployment pressures in the local market.

Facilitating Official Channels for Remittance Flows:

The flows of foreign exchange through remittances into KP are regulated by the State Bank of Pakistan, as is the case for the rest of the country. Only the corresponding rupees are transferred to migrants' accounts or those of their family. Policy measures to ensure that these remittances come through official channels (such as the adoption of a market-driven rather than overvalued exchange rate) are also under the purview of the State Bank. Recent measures undertaken to increase flows through official channels, such as the Pakistan Remittances Initiative (PRI), have been undertaken by the State Bank jointly with the Ministry of Finance and in collaboration with commercial banks. These initiatives, including the PRI, have played an important role in diverting remittances earlier sent through *hundi* and other unofficial channels to official channels and are partly responsible for the eleven-fold increase in remittances since 2000-01 from around US$ 1 billion that year to an expected US$ 15 billion in 2013-14 (Amjad et al. 2013).

While policies to regulate foreign remittances do not fall under the purview of the KP government, it can encourage flows through official channels, for instance by creating conducive conditions for commercial banks to set up branches (as well as the Bank of Khyber) where these do not exist (some estimates suggest that more than half the remittances to KP are sent through official channels). An advantage that would accrue to the people of KP if this happens is that it would make possible an increase in available credit for local business activities as a result of higher deposits through remittance inflows.

Skills Development

Education and skills training is a provincial subject and it is primarily in this area that we strongly recommend that the KP government takes into account the existing and projected demand for skills and professions abroad in formulating its educational plans and training programmes and policies. The principal aim of such policies must be to move the current profile of migrants from KP—who fall mainly into the categories of semiskilled and unskilled workers—into higher and better paid skills and professions abroad. This is addressed in detail in Chapter 5B.

2-D: Increased Federal Fiscal Transfers

Provinces' autonomy for managing their economy has increased considerably following the 18th amendment to the Constitution in 2010. Many subjects that were previously in the mandate of the federal government have been devolved to the provinces. The devolved mandate is supported by the 7th National Finance Commission (NFC) Award that allocates greater financial resources to the provinces. Additional revenues from the federal government have also resulted from the transfer of 1% of the undivided divisible pool as compensation against war on terror and the payment of arrears by the Federal Government hydro-electric profits. This has raised the province's share of federal revenue sharply, from about 7% to % of provincial GDP to 8.7% in 2009-10 and 11.3% in 2010-11. As a result, KP realized an increase in fiscal space between 2006-07 and 2010-11 of 3.5% of provincial GDP over the previous five years[21]. Three channels—federal transfers, revenue collection and savings from spending efficiency—have contributed to the expansion of fiscal space, that allows the provincial government to sharply increase both current and development spending, especially the latter.

[21] World Bank (2013), "Pakistan - Khyber Pakhtunkhwa : Public Expenditure Review". Washington, DC.

Chapter 3: Priority Growth Sectors

3-A: Industry and Construction[22]

The Gross Provincial Product (GPP) of KP increased at an average rate of almost 4.2% annually from 2000-01 to 2011. The growth in GPP was slightly lower than the average growth rate of the GDP of Pakistan, which averaged 4.6% per annum over the same period.

Structural Change

The structure of KP's economy has changed over the years, with the share of agriculture shrinking and that of mining, manufacturing and services expanding.The absolute size of KP's services sector (which taken to include utilities, construction, trade, transport & storage, real estate, as well as financial, community and personal services) nearly doubled over the last ten years, reaching PKR 420 billion in 2010-11. This steep increase mirrors the performance at the national level, where value-added services reached a level of almost PKR 3,500 billion in the same period. The composition of the economy in 2000-01 versus 2010-2011 is shown in Fig 3.1 below.

FIGURE 3.1: COMPOSITION OF KP GPP, 2000/01 AND 2010/11 (% OF TOTAL GPP)

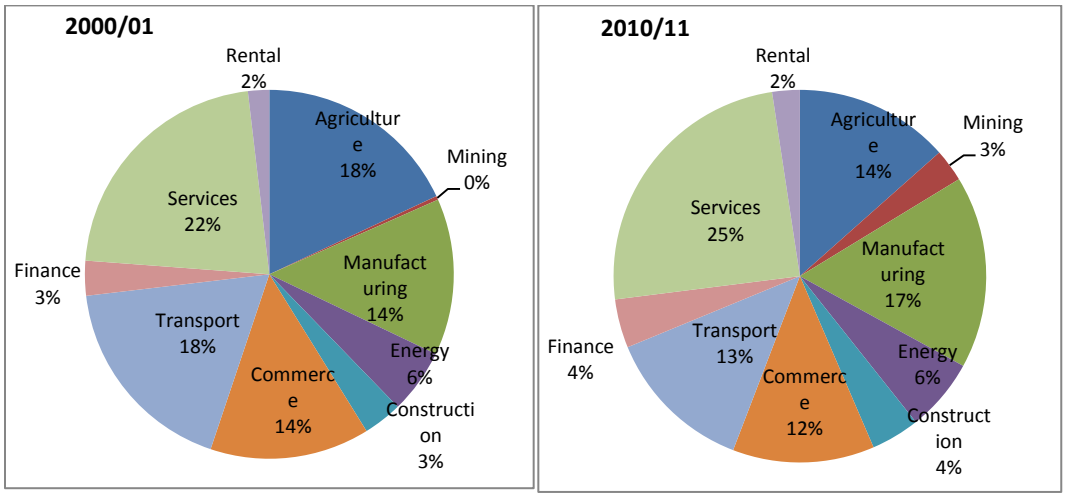


Table 3.1 shows the changes in the sectoral shares of value added to the national income from 2000-01 to 2010-11. Construction presently accounts for 4% of KP's GDP and its share of value added to the national income has increased from 15% to 20% in the 2010-2011 period. The growth in the sector is a result of investments flowing out of manufacturing and agriculture and movement into trade and retail. Meetings with stakeholders revealed that due to the conflict situation, there has been migration within the province increasing the demand and production of housing and urban amenities in safer areas.

[22]TurabHussain and Usman Khan, Department of Economics, Lahore University of Management Sciences

TABLE 3.1: ANNUAL SHARES OF GROSS PROVINCIAL VALUE ADDED TO NATIONAL INCOME USING ESTIMATES AT CURRENT PRICES, VARIOUS YEARS (%)

Sector	Share of National GDP (2000/01)	Share of National GDP (2010/11)
Agriculture	8.07	7.13
Mining	1.59	13.9
Manufacturing	9.62	9.44
Energy	19	17.27
Construction	15.78	20.63
Commerce	8.74	8.12
Transport	17.27	13.11
Financial	11.01	10.33
Services	15.77	14.97
Rental	6.59	8.76

Manufacturing and Industry

The manufacturing sector of the province is quite diverse and includes: cigarettes, cement, ceramics (producing sanitary ware and wall tiles), cotton textiles (producing yarn and cloth), woolen textiles (producing blankets and fabrics), electric bulbs, fertilizers, pharmaceuticals, jute textiles, matches, paper and paper board, sheet glass, paints and varnish, beverages, sugar, and starch[23]. The food-processing subsector, including vegetable ghee and cooking oil, has a considerable presence in KP, contributing more than 30% of the nationwide ghee production. Furthermore, in 2007-08, KP produced almost 100% of the tobacco and maize, 30% of cigarettes and vegetable ghee and 27% of cement in the country.

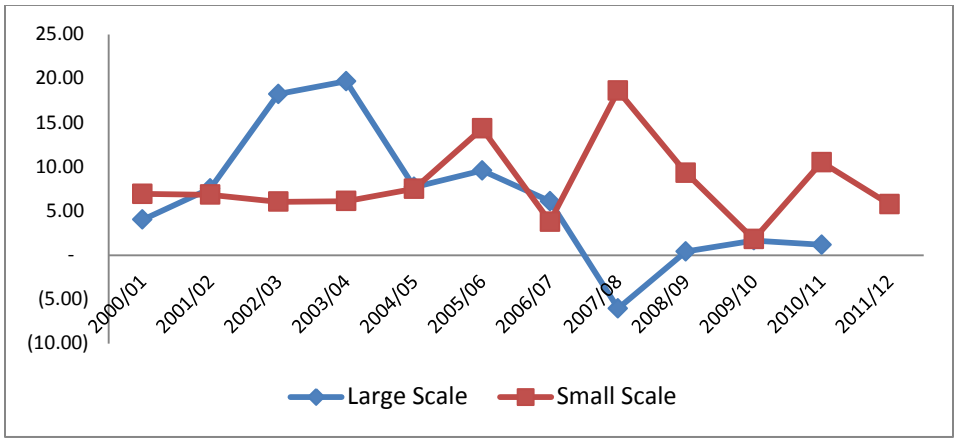
There is also considerable variation in the number of industrial units and workers employed across the districts in KP. For example, although Peshawar had almost twice the number of industrial estates in Swabi in 2008-09, both districts had roughly the same number of employees, implying that the industries in Swabi are more labor-intensive.

Although the growth rate of the industrial sector was particularly strong during 2003-04 to 2006-07, it has been declining thereafter. The decline in the manufacturing sector was largely due to a fall in value-added in large-scale manufacturing (see Figure 3.2)

[23] Vision Document for Industries and Manufacturing Sector of KP (2011)

Production in large-scale manufacturing saw a broad-based decline of over 10% during 2007/08 as against an increase of 4.0% during 2006-07. Over the past years, 1145 industrial units (62%) have closed down in the province, making thousands of workers jobless and increasing social evils like smuggling (according to the official statistics, 688 industrial units closed down between 2006 and 2010).

FIGURE 3.2: GROWTH RATES OF MANUFACTURING SUBSECTORS, 2000-2012 (%)



A number of factors—including intensified energy shortages, rise in input cost, lower domestic and external demand and the conflict situation—are responsible for this decline and investments out of the manufacturing sector.

The energy crisis has been a major blow to the industries in the province, whereby even the remaining industrial units are not working to their full capacity due to high energy and fuel costs and frequent power outages. Falling growth rates of construction and finance subsectors coincide with this trend – indicative of the unfavorable investment climate for manufacturing.

Export-driven industries (particularly textiles) have suffered due to a weakening in external demand. These industries also face marketing problems due to the security challenges, with foreign buyers avoiding travel to Pakistan, and foreign countries rejecting or delaying visas for Pakistani exporters. Furthermore, the private sector reported a reduction in export orders due to concerns among foreign buyers that the security situation would prevent Pakistani exporters from meeting delivery deadlines.

Apart from the energy crisis, the sector faces a number of other challenges, which have undermined the competitiveness of the sector by increasing production costs. These have been identified as locational disadvantage due to distance from the Karachi port, worsening law and order situation, administrative barriers, high power/gas tariffs, excessive state intervention, lack of skilled labor force, poor business development sector, poor infrastructure and transport facilities, poor perception by firms based on comparison across provinces and poor materials testing facilities. Apart from this, there are credit constraints, as the leading banks in the province have shifted their head offices to Islamabad, making it more difficult and costly to obtain loans. Consequently, the manufacturing firms in the province have lower productivity, lower value-added per worker, slower sales growth, and a lower rate of fixed capital investment.

Nonetheless, given the abundant natural resources in the province, particularly marble, granite and construction materials, light, high value-added industries are a potential growth sector. According to recent data, there are estimated to be 4 billion tons of marble reservoirs, found in 30 varieties in the province, which can form basis for a thriving industry. However, most of the marble factories suffer from use of outdated and inefficient techniques, inconsistent supplies of raw material, lack of proper infrastructure, absence of value addition, and of public-private cooperation, and ambiguous ownership rights.

Construction

The construction sector is considered to be a major source of economic growth and development. It provides impetus to other economic activities by creating backward and forward linkages, as every sector in an economy – be it health, education, business, agriculture, services, transport and communications or urban infrastructure (including water supply, sewerage etc.) – has a construction component. It is thus a key employment generation mechanism and a potential driver of pro-poor growth, offering job opportunities to millions of unskilled, semi-skilled and skilled workers, and a source of income generation, in both formal and informal sectors.

The absolute value of the GPP in the construction industry has increased overtime (see Figure 3.3), in spite of the conflict and security concerns and price hikes in major material inputs. The trends for the construction industry incorporate the reconstruction work done after the earthquake in 2005 and the floods in 2010. Moreover, the provincial government's contracts for public works projects, such as the District Development programmes and schemes for the Karachi Port Trust, Pakistan Steel, Port Qasim Authority and the Gwadar port, also represent an important part of the demand for KP's construction activities. Figure 3.3 also shows that the values of the GPP in the construction and wholesale sectors moved somewhat in tandem, with a correlation coefficient of 0.85. This captures the fact that the retail trade boom has injected substantial informal cash in the economy, which has been used to purchase land and construct new shopping centers and plazas.

FIGURE 3.3: GROWTH RATES OF GPP OF SERVICES SUB-SECTORS, 2000-2011 (%)

Furthermore, construction was the third largest source of employment creation in the province from 2008-2011, after agriculture and wholesale trade (see Table 3.2). In 2010-11, the labour force absorption rate of the sector (12.96%) exceeded its contribution to the GPP (4.22%). This implies that the sector "punched above its weight". Moreover, increased activity in the sector has not only generated employment, but also the high demand for construction has led to an increase in the wages of the construction workers. As earlier mentioned, since construction draws much of its labour force from the ranks of the unskilled and there is an abundance of low-skilled workers in KP, the sector can contribute significantly to poverty reduction. In addition, Table 3.3 reveals that the construction industry has also gained prominence in the informal sector, with an average increase in employment of around 20% between 2007 and 2011.

TABLE 3.2: EMPLOYMENT BY MAJOR SECTORS, 2007-2011 (MILLIONS OF WORKERS)

	2007- 2008			2010 - 2011		
	Total	**Rural**	**Urban**	**Total**	**Rural**	**Urban**
Agriculture	2.556	2.493	0.062	2.294	2.235	0.059
Mining and Quarrying	0.014	0.014	0.000	0.029	0.028	0.001
Manufacturing	0.465	0.323	0.142	0.619	0.443	0.177
Construction	0.463	0.391	0.072	0.784	0.692	0.092
Wholesale and Retail Trade	0.775	0.546	0.229	0.929	0.644	0.285
Transport and Storage	0.431	0.317	0.113	0.444	0.342	0.102
Finance and Real Estate	0.039	0.022	0.017	0.065	0.027	0.038
Community services	0.944	0.684	0.260	0.149	0.104	0.045

Source: Economic Survey of Pakistan and Labor Force Survey (various years)

TABLE 3.3: EMPLOYMENT IN THE INFORMAL SECTOR, 2007-2011 (MILLIONS OF WORKERS)

	2007/08	**2008/09**	**2009/10**	**2010/11**
Total	2.327	2.466	2.676	2.848
Wholesale and Retail Trade	0.822	0.860	0.868	0.8611
Construction	0.331	0.560	0.616	0.7330
Transport and Storage	0.257	0.372	0.384	0.4194
Manufacturing	0.486	0.351	0.490	0.5046

Source: Economic Survey of Pakistan and Labor Force Survey (various years)

Unfortunately, the construction sector is one of the most neglected sectors in Pakistan with the per capita consumption of cement being one of the lowest among the developing countries. In 2009, Pakistan had a per capita consumption of 131 Kg, which is comparable to that for India at 135 Kg per capita, but substantially below the world average of 270 Kg per capita and the regional average of over 400Kg for peers in Asia and over 600 Kg in the Middle East.[24] Moreover, a survey of the local stakeholders' perceptions revealed that poor business environment and inadequately skilled HR were significant bottlenecks in the sector. In addition to this, the stakeholders complain about the quality of materials, price instability and non-payment of escalation costs[25].

[24]MirzaRohailBaig, *Cement Industry*, http://economicpakistan.wordpress.com/2008/02/12/cement-industry/, February 2009.
[25]World Bank. 2007. Pakistan Infrastructrure Implementation Capacity Assessment.

In KP, formal lending to the construction sector is low and considered high-risk because of a general propensity for delays in payments and instances of clients canceling projects after commencement and contractors abandoning loss-making contracts. Although private financial institutions service the construction industry, the sector is perceived to be highly politicized and not credible, with a widespread culture of unofficial payments and commissions. Moreover, credit requirements are stringent and the use of construction finance is limited to large contractors who have access to abundant fixed collateral. The limited access to financial facilities restricts the capability of small and medium-sized construction companies to post bids and performance bonds and acquire capital equipment access. This prevents them from competing effectively and affects the growth of the sector. Apart from this, there are frequent problems of collusion, cost overruns and low quality, which inhibit the development of a competitive private construction sector. As a result, the sector lags behind Punjab in labor and capital productivity. These bottlenecks have to be removed in order to fully exploit the potential of the construction industry.

3-B: Agriculture and Livestock[26]

Overview

Agriculture is the largest sector contributing towards the province's economy. Nearly 80% of people live in rural and peri-urban areas, where about 85% of the population directly or indirectly earns their livelihood from agriculture. Despite a suitable climate for horticulture and livestock production, abundant water resources that can be tapped both for irrigation and energy generation, and a hardworking farming population, the agriculture sector is performing far below than its potential. Average annual growth in the agriculture sector has only been 1.1% per annum over 2000-2012.

KP's agriculture is predominantly small landholding in nature. Over the last four decades the province has seen a threefold increase in the number of farming units, driven almost entirely by increases in the number of marginal landholdings (under 5 acres), which have gone up from 55% of all landholdings in 1970 to over 80% in 2010. India, China, and Korea have average landholding sizes even lower than KPs, but the productivity of major crops is much higher in these countries. This is because access to input-institutions, knowledge, and technologies favor small farmers in these countries.

TABLE 3.4: CROSS COUNTRY COMPARISON OF CULTIVATED AREA AND PRODUCTIVITY OF MAJOR CROPS, VARIOUS YEARS (HECTARES & TONNES PER HECTARE)

	KP*	India**	Korea***	China**
Land holdings (ha)	1.22	1.21	1.00	0.6
Productivity (t/ha)				
Wheat	1.53	2.80	3.82	4.76
Maize	1.76	2.32	--	5.56

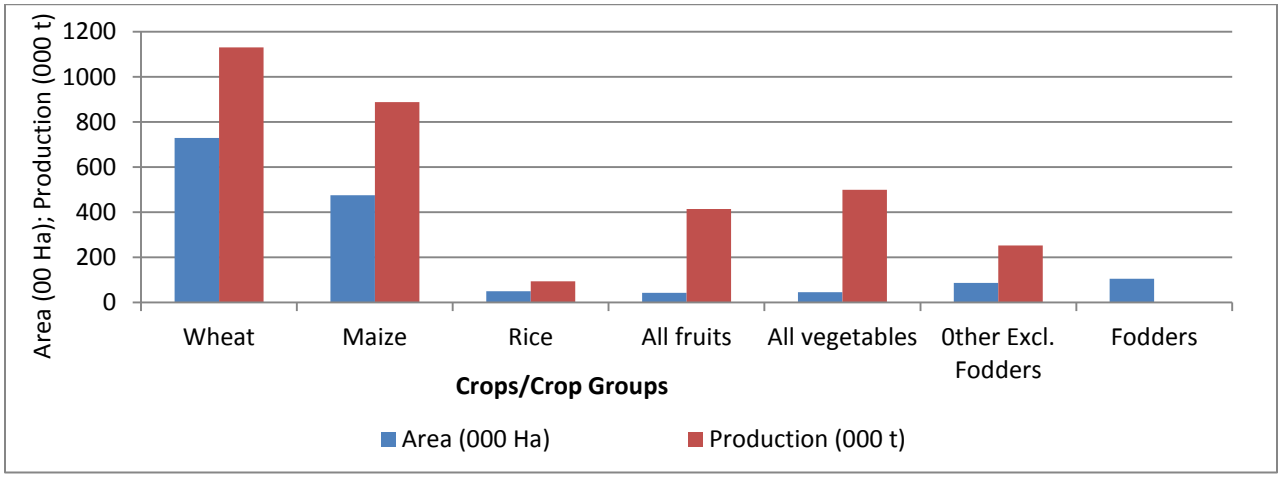
* Calculated from GoP, (2010b); ** Calculated from Chand *et al.*, 2011; *** Calculated from USDA, 2013

In contrast, in Pakistan institutional arrangements historically favor large and politically influential farmers. This has served to strangle overall development in the rural areas. The service delivery system, especially research and extension strategies and input supply system, especially credit and water, must be tailored to meet the needs of small farmers if rural development is to be sustained.

KP has a variety of seasons and altitudes, and can be divided into five distinct agro-climate zones that provide the province ample opportunity to diversify into high-value crops and livestock production. The major crops are wheat, maize, rice, cotton, and sugarcane, along with a wide range of fruits. The cropping pattern of the province indicates the nature of land resources, input availability and technology, socio-cultural factors, markets and farmers' knowledge about these markets. Dominance of low-value traditional crops in KP, such as wheat, is mostly due to lack of access, capacity and resources of small farmers to participate in high value markets. In addition, large and assured markets exist for the traditional crops like wheat, and farmers do not have to worry much about fluctuations in these markets. In this manner, the whole production system is supply-driven rather than demand-oriented.

[26] ArifNadeem (Pakistan Agriculture Council) and AhsanRana (SDSB, Lahore University of Management Sciences)

FIGURE 3.4: AREA (1000 HECTARES) AND PRODUCTION (1000 TONNES) OF MAJOR CROPS IN KP, 2012



Switching towards High Value Maize Crops: Though wheat occupies over 45% of total cropped area, it is not the most profitable crop in most areas of KP. Maize, the second important cereal crop grown on about 30% area, has a far better potential in the international as well as domestic market. However, occasional food shortages every 4-5 years lead small farmers to continue growing wheat to ensure food self-sufficiency. If continuous wheat availability is ensured in the market, switching to the more high value maize can potentially improve farmers' income in KP.

International seed companies are aggressively entering the maize market with high potential hybrids. Monsanto has recently developed a hybrid for white maize, which is used as a staple food by a large segment of the population. Furthermore, the maize crop has good market connectivity since companies like Rafhan Maize provide extension services and buyback arrangements. The silage industry is also developing fast in the southern provinces and some encouragement can provide the necessary boost to propel the maize production in KP. Maize is one of the main ingredients of poultry feed and the feed industry is already on a positive growth curve. The maize crop also rotates ideally with the tobacco crop, which has a fully developed extension model led by Pakistan Tobacco Company.

KP should ideally pursue a policy of importing its wheat from Punjab and developing its maize potential to optimal level for ensuring sustainable growth. The government should pursue certain private companies, like Rafhan, Pioneer, Monsanto, etc. to start an exchange programme of wheat with maize at a certain fixed proportion along with provision of modern inputs, especially seed and fertilizer.

Developing Horticultural Specialization: Due to diversity of seasons and altitude, KP is suitable for growing a large number of fruits and vegetables. Furthermore, there are areas where farmers can be persuaded to act as seed producers due to suitable environments. A comparison of yields suggests that KP has a comparative advantage over Punjab in fruits while Punjab has an edge in major crops. Despite the comparative advantage, however, the area under fruits and vegetables in KP is less than 6%, compared to 9% in Punjab. This suggests the need to grow more horticultural crops, which are not only more profitable but also labor intensive and for which the climate is ideally suitable.

Some areas can easily benefit from successful technologies tested elsewhere or at isolated pockets in these areas. There are many such examples of improved varieties and production technologies tested somewhere else but successfully adapted to local conditions. For example, successful introduction of off-season peas and potatoes in Battakundi and exotic varieties of peaches in Swat has raised farmer income.

Agro-based Clusters: The cluster approach[27] should be adopted to strengthen the already existing commodity clusters, or to create new clusters after careful analysis of the climate and yield interaction, providing specialized extension to resolve key production constraints, establishing collection centers in the commodity specialized areas, encouraging value addition, and promoting farmers' organization around those crops.

The government may consider replicating some very successful projects e.g. the Tutifruiti project and the Kalam Vegetable project implemented in Swat. Both projects ran for over ten years, mapped the end-to-end value chain and had international experts backstopping the process. In spite of having fragmented land holdings and low literacy levels (and few extension staff engaged), as the projects were based on sound concepts, they brought about a permanent change by converting this area into the best vegetable and fruit producing area of the province. Additionally, KP would have to invest in extension and research which favors participation of small farmers i.e. Specialized Extension through Farmer Field Schools. Fully developed blue prints of these projects already exist in KP.

Resource Use Efficiency

The basic strategy of agricultural development should be to improve efficiency of agricultural inputs, especially land, water, and chemicals. In this section such opportunities are discussed in details.

Land

There is a vast opportunity to improve land utilization in KP. Out of total cultivable land of 2.96 million ha, the area currently available for cultivation in KP is only 1.80 million ha, while a large proportion of area of 1.16 million ha is cultivable waste, which is one of the potential areas to be used for farming purposes sometime with marginal investment (Agricultural Statistics of Pakistan 2012). The total cropped area is 1.6 million ha producing very low land use intensity and cropping intensities at 61.5% and 88.9%, respectively (Table 3.5). Comparable figures in Punjab are 87.9% and 132.9%.

TABLE 3.5: TRENDS IN LAND UTILIZATION AND CROPPING INTENSITY IN KP, 2007-2012

Years	Land use intensity (%)	Cropping intensity (%)
2007-08	61.22	97.91
2008-09	60.00	100.54
2009-10	59.93	91.30
2010-11	60.81	88.33
2011-12	60.81	88.33
% Change	**-0.67**	**-9.78**

Source: (GoP, 2010b)

One troubling fact is that since 1990, both land use and cropping intensities have declined by 6% and 19% respectively, as cultivable waste and area sown more than once have declined overtime. Meanwhile both land use and cropping intensities have significantly increased in Punjab and Sindh. This indicates a considerable scope for achieving increased production through intensifying land use and increasing cropping intensity. Although a careful investigation is required to analyze the factors behind the decline in land use and cropping intensities in KP, normally availability of water and more productive and shorter duration varieties can induce cropping intensity and factors that can control land degradation such as salinity, water logging and soil erosion may help to increase land use intensity.

[27] Agro-based cluster (AC) is simply a concentration of producers, agribusinesses and institutions that are engaged in the same agricultural or agro-industrial subsector, and interconnect and build value networks when addressing common challenges and pursuing common opportunities. (FAO 2010)

Water

Productivity in the agriculture sector is seriously hampered by inefficient irrigation system and its low efficiency. 0.93 million ha (55%) of land is categorized as rain-fed and mainly depends on timely rains, exposing a large rural population to weather-induced risks. Low efficiency of water management and lack of modern technologies to conserve water resulted in low productivity in the agricultural sector. To reduce the cultivable waste and maximize the cropped area, the following steps should be taken:

- **Develop more river-canals**: with the exception of Karak all districts in KP have easy access to the water of a river passing nearby or flowing through for irrigation. The Indus travels 200 miles in the province but little use of its water has been made agriculturally. With the exception of the Chashma Right Bank Canal (CRBC) and the Pehur High Level Canal (PHLC), no use of Indus water is currently being made in KP (Baha, 1978:79).
- **Line *kacha*(uncemented) irrigiation channels:** One way to avoid irrigation water shortages at critical stages of crop growth is to minimize seepage losses from uncemented irrigation channels. If lined, most of the existing *kacha* irrigation channels and reservoirs are capable of irrigating 2-5 times more land by the same amount of water
- **Promote coordinated water management by farmers:** Some resourceful farmers at various locations have invested in dug-wells for irrigating their fields. In most villages, the farmers are not very well organized to make occasional repairs and bring improvements in the existing water channels. The Community Based Organizations (CBOs) and Village Organizations (VOs) formed through developmental projects in most parts of KP have to be empowered to play a vital role in improving the social organization of farmers towards the solution of their common problems. KP can learn from the On Farm Water Management Programme of Punjab in which large number of water channels was consolidated in collaboration with Farmers Water Users Association.
- **Harvest summer precipitation:** Most summer precipitation received in the monsoon period can be harvested for appropriate use during the dry season. Possibilities of water harvesting by building small dams in high rainfall areas should be identified and appropriate development strategies for water catchment areas of these dams shall be introduced. In some areas, flood irrigation should be replaced with high efficiency irrigation systems (HIES), like drip and sprinkler, on subsidized rate to reduce water run-off (with land erosion) or percolation losses beyond the root zone due to vulnerable soil texture and structure. Again Punjab's HIES programme can be used as an example to promote HIES in KP.
- **Introduce water saving crops:** Focus on switching towards water saving crops, like fruits, vegetables, and pulses, and discouraging high-water use crops like rice and sugarcane; the tax and incentive structure can be used for this purpose.

Fertilizer

Since 1991, fertilizer use in KP has increased at relatively faster rates than in Punjab and Sind, and the rate of increase was surprisingly much higher in unirrigated (*barani*) areas than in irrigated areas (see Table 3.6). The use of nitrogen (N) fertilizer is fast reaching its optimum level, while phosphorus(P) and potassium(K) are highly underutilized. The continuous imbalance and unscientific application of fertilizer has not only decreased its efficiency but also degraded land resources. This has increased the input cost and contributed to resource degradation. Therefore, the KP government should take up the issue with the federal government to make fertilizer industry more competitive, regulate its anti-trust activities to reduce prices, ensure timely availability, and transfer the subsidy on N to P and K to promote the use of the latter. In addition, more efficient methods of fertilizer application, and fertilizer products like bio-fertilizers, plant growth promoters, micronutrients, bacteria to improve water and nutrient use efficiency, etc. should be promoted to reduce fertilizer costs and its impact on resource degradation.

TABLE 3.6: FERTILIZER USE IN PAKISTAN BY CROPPING REGION, 1990-2012 (KG/HA)

	ANNUAL GROWTH						
PAKISTAN	86.3	111.4	111.17	161.79	167.60	174.17	1.66
PUNJAB	90.7	114.9	107.43	150.68	158.71	157.40	1.42
SINDH	88.0	134.7	154.88	208.8	246.48	296.51	2.28
KP	59.4	70.0	90.11	161.1	156.15	172.70	2.51
Barani	16.8	20.1	24.85	129.4	110.85	69.22	5.74
Mix	72.0	88.3	108.60	169.7	166.64	199.30	2.04
BALUCHISTAN	28.7	31.9	64.98	299.5	148.21	215.20	4.98

Seed

Seed is one of the most critical inputs in agricultural production; a competitive seed sector can also promote agricultural business development through the seed industry and related input.

The seed industry is poor in KP, even with respect to Pakistan's standards although some of its areas are highly suitable for seed production. Only a small proportion of the seed used by the farmers in the province is improved (see Table 3.7). The same material is used continuously for many years, which significantly reduces its yield potential.

TABLE 3.7: IMPROVED SEED DISTRIBUTION BY PROVINCES IN PAKISTAN, 2011-2012 (% OF TOTAL REQUIREMENT)

Crops	Punjab	Sindh	KP	Baluchistan	Pakistan
Wheat	31.1	23.2	12.2	3.6	27.3
Paddy	41.3	44.6	7.2	45.1	53.7
Maize	9.4	0.0	2.9	0.0	35.7
Cotton	6.4	29.2	0.0	28.0	8.0
Gram	0.5	8.0	0.0	0.0	0.6
Oil Seeds	2.1	2.6	0.0	0.0	15.4

Source: Agricultural Statistics of Pakistan, 2011-12.

The following steps should be taken to promote the efficient use of seeds:

- **Clarify a regulatory mechanism:** Presently, some wheat and corn seeds are imported into KP from Punjab, mostly in the private sector, but no regulatory mechanism exists to ensure seed quality. Since the devolution of agriculture to provinces, there is confusion about whether seed should be regulated at the provincial or federal level, due to which no regulatory framework currently exists in the province. KP has to develop its own mechanism to ensure seed quality to farmers through seed certification system in the private sector and promote seed sale under truth-in-labeling.

- **Incentivize local adaptation and production:** KP should incentivize the local production of imported or indigenized seed varieties; even if it continues depending upon imported varieties it needs to develop a strong mechanism for local adaptation through its own research system.

- **Promote certified seed nurseries:** Uncertified seed nurseries for fruit and the non-existence of commercial seed industry for vegetables is an impediment to the promotion of modern technologies in fruits and vegetables. To promote certified nurseries, government has to establish mother blocks of original fruits and vegetable varieties from where true-to-type material can be distributed to certified nursery workers. Financial support will be required to set up laboratories and green houses for nurseries in the private sector.

Markets and Institutions

Markets

A major challenge for the agricultural sector is that scattered farmers with smallholdings do not have direct access to markets; the average distance for a KP farmer to the nearest output market is 10 miles. This makes it difficult for farmers to have accurate, up to date information about consumer preferences and to adjust supply with demand in a timely way; it also allows the middlemen between farmers and consumers to become exploitative. Furthermore, farmers do not have the resources, knowledge, and skills to meet sometime stringent requirements of high-value markets.

To make markets more accessible and inclusive, the government can establish farmer-managed collection centers/trading platforms with minimum modern market infrastructures, such as washing, grading, packing, storage. These collection centers can develop forward links with other markets in the country and abroad, and backward links with farmers, input dealers and service providers. An example of this is the successful Farm Service Center (FSC) initiative, which has already improved farmer linkages to the market. Currently, an amendment to FSCs act is under consideration to make such centers available at Tehsil level. To ensure the success of future FSCs, it is important to ensure social mobilization of farmers around these centers, provide resources to build market infrastructure at these centers, and arrange certain liquidity for their operation. The government also has to provide management and accounting training to those who directly run the center, and guard and guarantee farmers against any anomalies by the managers.

In the private sector, USAID has recently announced a support fund for agribusiness activities in KP. The programme aims to strengthen the capacity in horticulture and livestock value chains to increase sales to domestic and foreign markets, strengthen the capacity of small farmers and enterprises to operate autonomously and effectively, and to increase agricultural efficiency and productivity through the adoption of new farming techniques and technological innovation among targeted beneficiaries (The Agribusiness Project, 2013). The private sector in its own has initiated some projects out of which Mardan Mega Mart, Hunza Organic and Roshni Organic, etc. are worth mentioning. Such initiatives need to be scaled up and encouraged by infusion of fresh capital on friendlier terms.

Storage Facilities

KP lacks a proper system for storage of wheat and other agricultural produce. This leads to an increase in food prices and seasonal fluctuation in prices.

It is necessary to provide more storage facilities and improvement in the existing storage facilities. Furthermore, the current wheat quota system to flour mills should also be revisited to encourage them to add and improve their own storage capacity and the local needs. General subsidy on flour may be transferred to targeted subsidy for the poor.

Post-harvest wastage can be minimized through improved harvesting practices, solicited and farmer-friendly procurement processes, and outreach and transparent procurement system. It is also recommended here that modern commodity-based storage facilities should be made available for maize, rice, potato, onion, and fresh fruits. The authenticated receipts provided to framers can be used as collateral in the bank for short-term loans. In this manner, the farmers will be able to meet their immediate needs, will not be forced to sell at throw away prices in the peak harvest period, and be able to receive full return of their produce as and when prices recover during the off season.

While increasing storage, caution needs to be exercised that enhanced storage should come as result of public private partnership, rather than being wholly owned by the government. A model followed in the Punjab, where the International Finance Corporation (IFC) encouraged private sector multigrain storage by promising to purchase 40% of the storage space to store the government's wheat stock, thereby making the model attractive for the private sector.

Agricultural Research

Agricultural R&D in KP is facing various challenges that hamper delivery of the system. These include centralized administration, poor research planning and prioritization, poor linkages and coordination, insufficient operational funds, inequitable financial and human resource, limited career development opportunities, limited human resource development opportunities, weak monitoring and evaluation, poor scientific equipment and their replacements, obsolete research programmes and severe shortage of social scientists in the system. In 2009, the KP agriculture research system engaged over four hundred full-time scientists and invested about PKR 256 million; although Pakistan is one of the countries in Asia with the lowest investment in agriculture research, this level of investment is even lower than the national standards.

KP can adopt the successful model of the Punjab Agricultural Research Board (PARB), which is responsible for research planning and prioritization, coordination between research institutes in the public and private sector within the country and abroad, funding projects on competitive basis which have quantifiable targets, monitoring the quantifiable log-frame, and commercialization of research outputs to stakeholders. The Board has funded research, which was prioritized by all stakeholders in the value chain, and developed a rigorous monitoring mechanism.

Extension Services

Currently, there are 2654 extension employees (GoKP, 2013) for 1.54 million farms (GoP, 2010b) in KP, as compared to 32,759 staff members (GoP, 2013) for 3.86 million farms in Punjab. This is a ratio of extension staff to farms of 1:580 in KP, versus 1:118 in Punjab. Apart from sheer numbers, the lack of capacity of staff to provide specific services in wide range of crops, especially fruits and vegetables, is a problem.

Linkages and coordination between the Provincial Agriculture Extension Department (AED) with Agricultural Research System (ARS) have historically been weak, thus reducing the flow of new innovations to the farming community. However, with the setting up of Model Farm Service Centers and District Agriculture Coordination Forums, the functional linkages among Research and Extension in the province are envisioned to improve.

Specialized extension using farmer field schools approach through the private sector can solve the problem reaching large number of scattered farmers with limited resources. For this, value chain mapping at the commodity cluster level has to be carefully conducted and highly skilled people have to be hired who can provide extension solutions at different value chain levels. These solutions can be taken to stakeholders by the private sector players and paid on competitive basis. The public sector should limit itself in providing extension solutions and monitoring of the private sector extension activities.

Social Mobilization

The old "*ashar"* (joint effort by the villagers to solve their common problems) system has been replaced by Community Based Organizations (CBO's) and Village Organizations (VO's) formed through development projects in most parts of KP. These CBOs and VOs have to be empowered to play a vital role in the social organization of farmers towards the solution of their common problems. Focusing social mobilization on trading platforms, crop clusters and special commodities will be beneficial.

Livestock

Livestock plays an important role in the agricultural economy in KP. It is a main livelihood source for many landless farmers and a form of social security for the poor, who cash it at the time of need and use it as security against crop failure in*barani* (rain-fed) areas. Due to the high level of informal marketing and processing, the contribution of livestock to the KP economy is difficult to measure, with one estimate[28] suggesting approximately PKR 75 billion worth of livestock products per year, which is 30% by value[29] of the total KP agricultural GPP.

The average herd size in KP is small - on average, livestock farmers in the province keep 7 - 8 sheep or goats per farm and 3 - 4 buffaloes or cattle. Inter provincial comparisons show that this is comparable to herd sizes in Punjab (Agricultural Census of Pakistan 2010). So far modern, large-scale livestock management systems have not been adopted on any substantial scale. For example, it is estimated that only 9% of buffaloes are managed on a commercial scale. As production becomes less dependent on rangeland grazing, and more on integrated crop-livestock systems, satisfying local and international demand will require increased efficiency and transfer of resources from existing agricultural enterprises.

With enterprise margins regarded as below potential in much of the industry, livestock is still treated as a sub-sector of agriculture. This potential is constrained by distortions and imbalances in the policy and regulatory framework, which have created inefficiencies in the planning, management and development of livestock infrastructure, facilities and services. The private sector is also affected by restrictions from entering areas of business dominated by government, such as livestock market management, and slaughter and processing for domestic consumption, limiting incentive to develop markets, create demand, and increase economic activity.
Although there is potential for increased growth, demonstrated by the increase in dairy and meat price indices over the last ten years, the current policy environment has reduced economic performance to a level, which is unacceptable under these conditions of demand.

KP livestock markets have been exclusively controlled by local governments under the West Pakistan Municipal Committees (Cattle Market) Rules of 1969, however the KP Local Government Act 2012 now allows the Provincial Government to frame rules in all matters and empowers it to control the making of by-laws by local governments. Thus, the following priority areas should be addressed by the provincial government to foster growth in the livestock sector: It must however be emphasized that introducing new policies will require time and substantial commitment from the provincial government, as traditional practices are deep rooted in local production and marketing systems.

- **Marketing:** Policies have to be introduced which encourage competition by reducing restriction on supplies and encourage transparent sales. A system of vendor identification, vendor declaration and livestock identification will enable disease identification and limiting contamination and go a long way towards ensuring product integrity.

- **Private extension services:** The current system of extension provision by the public sector is inadequate and archaic. In this regard, modern dairy farms can serve as focal points for private provision of extension services to producers of livestock, as well as producers of feed-lot. However, such private sector-led extension provision may not meet the needs of socially and economically disadvantaged communities and so separate policies will have to be devised for these groups who will remain dependent upon the public sector for provision of extension services.

- **Disease surveillance and protection:** Reforms will have to be introduced in disease surveillance and prevention. Current services are limited to artificial insemination and vaccination, with little to no mechanism for measuring outputs and outcomes. Similarly, inadequate arrangements exist in livestock

[28]Prof M. Subhan Qureshi, Pakistan 29/4/2013
[29]KP Comprehensive Development Strategy 2010-2017

medicines. All segments of the supply chain, livestock producers, community livestock health workers and veterinary professionals need capacity enhancement. A labeling regime in livestock medicines should ensure that users are aware of condition for safe use of these medicines. Subsidized vaccine production in the public sector has stifled production of commercial supplies by the private sector; the government should restrict itself to production of only those vaccines that are economically nonviable for the private sector to produce and sell.

- **Breeding:** Efforts must be made to encourage private semen production and ensuring standards for regulating a viable breeding industry, which has expertise in trading in genetics, private semen production, insemination, and ensuring standards of business practice with regard to quality of semen and insemination.

- **Forage and fodder:** A forage policy will also need to be developed to support fodder seed production, promotion of silage making, development of feeds, and basic testing facilities for assuring quality of feeds. The fodder varieties suitable for silage making and machinery required for this shall be promoted to overcome fodder shortage during winter. The extension services would have to include activities that relate to technology transfer, dissemination of information, developing the human resource capacity of the stakeholders, and should not be restricted to disease control and artificial insemination.

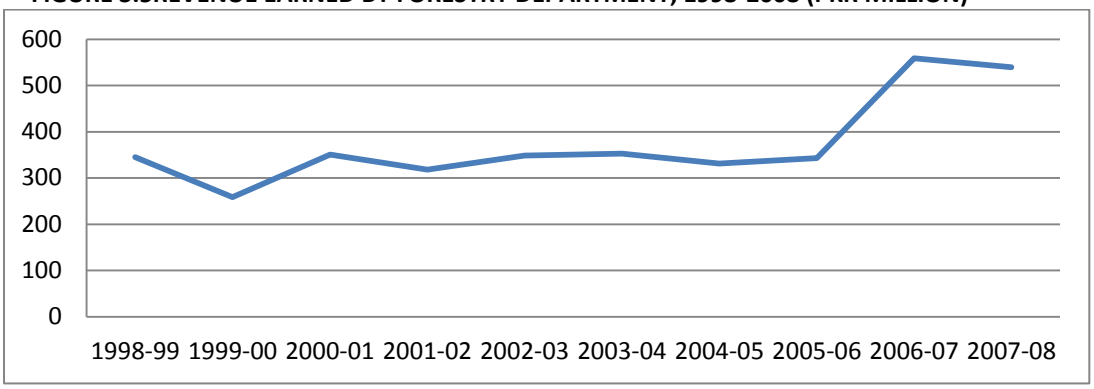
- **Sustainable management of rangelands:** Policies need to be introduced to integrate ecological, economic and social aspects of use of rangelands. A multilevel governance regime that gives incentive and space for community participation and ultimate governance can result in developing the rangelands as a sustainable resource. Where appropriate, principles of charging users with cost of managing public rangelands need to be developed to keep future deterioration in check.

- **Promotion of investments in dairy:** KP has agro ecological zones that are ideal for dairy animals. Abbottabad and Manshera Districts have mild temperatures during summers, which can boost production of milk. The key would be to induct a big dairy player in the zone to stabilize the value chain. Corporations like Nestle, Sapphire etc. have invested heavily in Punjab and can be induced through a properly designed project to make similar investments in KP. Backward integration for fodder supply can be generated from Haripur District. In addition to contributing to overall economic development in the province, such large-scale private investment in the dairy sector will have a positive impact on poverty alleviation.

Forestry

More than 31% of the country's forest area is in KP. The total standing volume of forests is 5 million cubic feet (GOKP, 2013). Currently, forestry contributes 1.2% towards national agricultural GDP (GoP, 2010). The revenue from these reserves is gradually on the rise (Figure 3.5). Despite an increase of more than 56% in the revenue generated by forestry, the growth of its share (released amount) in ADP remained 53% (GoKP, 2013). Such small growth in allocation of resources for development of this sub-sector constitutes a major constraint for the development of forestry in the province.

FIGURE 3.5REVENUE EARNED BY FORESTRY DEPARTMENT, 1998-2008 (PKR MILLION)



Source: GoKP, 2013

Another major constraint in the forestry sector is the lack of skilled and trained manpower, which gives rise to unsustainable forest management. The ban on commercial harvesting of forests has further complicated the issue by encouraging theft, smuggling and encouraging rent seeking behaviour by the Forest Department staff. The Forest Department also suffers from political interference with timber mafias distorting the picture further. The law and order situation of the province is another major constraint towards the development of forestry as an important economic component. In order to bring a positive transformation, a holistic approach will have to be adopted to attract technological and capital investments to the forestry sub-sector.

A connected sub-sector is wildlife, which depends upon the existence of adequate forest cover to grow and thrive. At the moment, KP is home to 52%, 68% and 32% of mammal, birds and reptile species found in Pakistan. Proper management and care can improve the habitat for these species, which in turn can generate economic, social and aesthetic benefits. Currently, these species are under threat due to the pressures of increasing human population, deforestation, habitat degradation, over exploitation of natural resources, illegal trade and hunting of these species. The various types of wildlife reserves (community game reserves, national parks etc.) are few in number and are also facing difficulties in performing their functions properly due to lack of trained field staff, wildlife (veterinary) hospitals, lack of funds and operational budgets (Wildlife Department, Government of KP).

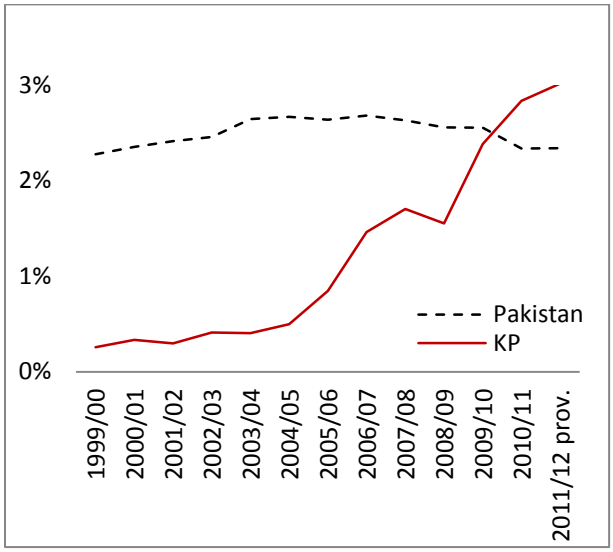
3-C: Mining[30]

Growth Potential

KP is host to a large array of industrial minerals and dimension stones, including marble, granite, and dolomite, as well as coal (ranging from lignite to bituminous) and limestone. While the contribution of the mining sector to the provincial economy has historically been small, it is a clear avenue of potential growth. The sector has grown at an annual average of 28% over 2000-2012, which is the highest across all sectors; moreover, the growth rate of mining value-added as a percentage of GDP has been especially strong in KP (see Figure 3.6).

Furthermore, the mining sector has demonstrated excellent revenue generation capacity. During the period 2002-13, the government collected royalties of over PKR 4 billion from mining leaseholders, surpassing even its own revenue targets over the last four years. The mining sector also provides a small number of jobs that are nonetheless significant in mining areas. There are over 400 current mining leaseholders and 800 prospecting leaseholders, and the industry employs approximately 32,500 workers.

FIGURE 3.6: MINING VALUE-ADDED, 1999-2012 (% OF GDP)



Priorities

In order to allow the sector to develop to its potential, the government should prioritize the following:

- Attracting large scale investment,
- Improving the transparency of mining operations,
- Modernizing and improving mining technology, and
- Discouraging small-scale holdings that do not actually operate (i.e., they only pay "dead rent" and hold on to the land included in the mine area)

In keeping with these priorities, the government will adhere to internationally recognized best practices by:

[30] This chapter draws from "Assessing the Balochistan and Khyber Pakhtunkhwa (KP) Mineral Policy Frameworks", Draft Repot, USAID FIRMS project (2013) with contribution by Munir Ahmad (Independent Consultant)

- Providing **security of tenure** by offering certainty over mineral rights
- Encouraging **high quality investment** by developing and enforcing predictable frameworks
- **Regulating** and closely overseeing all aspects of mining activity, including the treatment and protection of workers, citizens communities and the environment
- **Managing revenues** in a way that directly benefit the economy and society.
- **Informing and regularly consulting** with all stakeholders in the mining sector

To date, the government has already conducted a geochemical survey for gold and base metals over 40,000 square km in the northern part of the province. It has also set aside PKR 1.2 billion to establish three new regional offices, improve and construct new roads connecting mines to markets, purchase safety equipment, upgrade research and testing infrastructure, upgrade existing GIS and minerals databases, develop a model coal mine in Nowshera and a model open marble quarry in Buner, conduct further exploration for precious metals and coal fields, and provide the MDD much-needed vehicles, multimedia equipment, and a new building. Finally, the government has developed a minerals policy statement in 2013 and a policy action plan that is currently being implemented.[31]

Strengthened and Expanded Regulatory Framework

Mining is a provincially governed topic with each province adopting somewhat modified versions of former federal Mining Concession Rules. A National Minerals Policy, recently amended in 2013, effectively serves as official legal guidance on mining matters. However, the legal authority for enforcement lies in the province's Mining Concession Rules, developed in 2005. As published, the Rules set forth clear and relevant processes for the award and implementation of license/lease rights, but do not comprehensively address environmental, social and fiscal aspects.

To make the mining sector competitive, the government needs to develop a comprehensive regulatory framework that (1) clarifies institutional arrangements; (2) modernizes laws and regulations; (3) establishes a predictable minerals fiscal regime; and (4) protects workers, the environment and the society. Some initial steps towards a stronger regulatory framework include:

Preparation of a template minerals contract (i.e. terms and conditions): Even in the absence of a complete regulatory regime, clear mine contracts can set the legal basis for the implementation of mining activities. Considerable international experience may be reviewed, notably for large-scale mining.

Assessment of environmental and social impact: No agency is currently tasked with expert oversight of mine-related environmental aspects, including review and monitoring of environmental impact assessments and environmental management plans, water, air and soil testing, health testing and more, or oversight and monitoring of equitable outcomes for workers and citizens to ensure that they benefit from provincial mining activities.

Review of mineral rights awarding procedures: There is considerable discretion in the award of mineral rights, with only 5% of licenses being actually evaluated by the licensing department. Furthermore, investors typically expect a range of license possibilities and how they may be awarded (i.e., by application, by tender, by auction). The Concession Rules rely on auction of mineral rights and limit the types of licenses/leases. An up to date review of how best to award mineral rights and the various types of licenses would be timely.

Greater distinction amongst mining types and phases: As KP seeks to facilitate investments in medium and large-scale mining, it will be increasingly important to set forth the differences between quarrying and mining notably with respect to the use of technologies (i.e., explosives), health and safety, and processing in order to capture full benefits and to protect workers and citizens.

Production and dissemination of information: Greater financial, geological and overall sector information will assist the government to understand critical issues, attract investment, and manage citizens' expectations. This requires better collection and collation of geoscience data (i.e., by hiring more geoscientists and procuring relevant equipment) and development of a formalized system for information exchange.

Streamlining community development requirements: At present, occasional initiatives for development of mining communities and local infrastructure (e.g. road building) are ad hoc and not sufficiently regulated as part of an overall provincial plan for development. Investors are not legally required to make certain contributions, but rather a "case by case" contribution is provided that changes over the course of the mine investment.

Ensuring land use and land access for private and public lands: Regulatory approaches that ensure land access as part of mineral rights and clear mechanisms to resolve disputes are needed, notably at the early stages of mine development. With respect to public lands, a lack of clear regulatory guidance results in KP Government departments other than the Mining Department blocking licensed/leased mining activities. In some cases an approval by the appropriate provincial department has been issued but is subsequently canceled. This lack of predictability in regulating mineral rights causes legitimate investors to proceed with caution if at all. Political will to resolve these issues is essential.

Creation of a dispute resolution system: A regulatory gap that must be addressed is the manner in which mineral-related conflicts are resolved and rules are enforced. In KP there is significant reliance on use of the provincial court system to resolve the most minimal of cases; this results in project delays and negative perception of mining in the province.

Monitoring and enforcement of health and safety standards: Leaseholders often engage daily contractual labor for mining and quarrying, freeing them from liabilities if a laborer suffers from an injury or ill health. This requires greater monitoring and the government should create a monitoring team that visits all mines from time to time to see that all leaseholders are conforming to the minimum safety standards, and that all mineworkers are properly equipped with safety equipment. In addition, The Mines Act requires all mine owners to provide ready medical services to their workers. The government should enforce this as well as install well-equipped health facilities in close vicinities of mines.

Regulating the use of explosives*:* This is a large regulatory gap particularly for dimension stone quarrying. Some policy has been introduced but it is not sufficient. Enforcement of best practices is problematic; and clear technical regulations, enforcement mechanisms, empowered inspectors, and meaningful penalty schemes are needed.

Assessment and publication of government institutional roles and responsibilities on mining: An assessment of the Mining Department, as well as other government departments that should play a strong institutional role in how provincial minerals are developed, should be conducted. This would include assessing comparative mineral markets' institutional arrangements for how matters relevant to mining – including but not limited to revenue management, environment, worker and social protection, transport and downstream aspects - are addressed. Importantly for international investors, some clear reconciliation of district, provincial and national government roles is essential; harmonization of how the provinces manage mining is recommended. Adoption and publication of a provincial minerals policy will be an important step toward clarifying the institutional roles.

Plugging the Resource Gaps

Provide low interest loans for equipment purchase: The government has already eliminated all tax on the import of mining equipment. However, the lack of easy financing options makes it difficult for miners to procure such machines. The government should provide loans on easy installments or zero interest rates to help finance the procurement of proper equipment.

Facilitate the development of an equipment rental market: The government could procure and maintain a pool of commonly used equipment such as loaders, excavators etc. which can be rented out to miners with limited capital.

Integration of mineral development: The government can link mining to economic and social improvements in the process by integrating mineral development with infrastructure and other developments.

Improve road / rail connectivity to remote mines: The province's uneven terrain makes for high construction cost of rail lines from mines or quarries to markets, so most of the transport of heavy dimension stones etc. is done through trucks. The government should identify the regions where factories or mines are in greater concentration, or offer a great revenue potential (e.g. marble mines in Buner or feldspar mines in Mansehra) and develop significant road networks there to help the miners deliver their production promptly.

Provide support for technical modernization activities: The province will benefit from the introduction of a modern cadastre system (i.e., using cadastral blocks) and requirement of geology-based mine design ("control mapping"). More work to collect geo-data and the systematic provision of support services to mine operators will be useful.

Establish a Clear Mining Fiscal Regime

Improve the collection and management of mining revenue: A combination of complex fiscal arrangements blurs the actual reality of payments being made related to mining activities. "Royalty" is a term used to describe all types of payments ranging from taxes on minerals to bribes and other local informal payments that are so entrenched that they have become institutionalized practices. Aside from how revenues are generated and paid, the manner in which they are collected and utilized must also be reviewed; there is currently no formalized programme for management of revenues generated from mining in KP. The KP Mines Department relies on pre-calculated mine royalty receipts and government budget funding which results in cross-subsidization of mineral sector operations not always to the benefit of the local population.

Review current mining investments: A deeper review by the KP government would be useful to assess existing investments in the minerals sector and whether these types of investments – and investors – are the types that will help the province further develop the sector. Assessment criteria should include not only the immediate financial benefits of the investments, but also whether the investor is bringing shared values of community development, citizen consultation, environmental protection and other aspects to the province. Government consultation with local non-government and citizen groups will also be useful to gauge the sentiment of community members toward mineral investments. In some districts, citizen sentiment was expressed as "100% against mining". This and other citizen perspectives must be understood and addressed if a sustainable minerals sector is to develop.

Rationalize leasehold size: Sections of mines remain unexploited because of the limited capital available to mine leaseholders. Production can be enhanced by reducing the mine area directly under the control of the lease holder, allowing the investor to focus his/her funds to a smaller area and providing opportunities for new investors to enter the area.

Undertake cost analysis: Current mine operators in KP rely on understanding the local business investment culture that does not necessarily require market-based analysis and cost assessment. Increased attention to actual production costs is needed. Globally, mine operators always conduct financial modeling for the projected life of the mine which includes factoring in costs of labor, equipment, taxes, royalties, transport, environmental rehabilitation and social contributions. The government must be similarly equipped to model the financial consequences of mine investments and to be able to determine which project structures best suit the provincial needs. No one has calculated the ratio of road cost to mine, which would be useful for Government to understand if this is a value-added contribution of the mine operator or should be reconsidered.

Design and implement a Minerals Revenue Management Programme: There is presently no formalized programme for the management of revenues generated from mining in Balochistan or KP. Considerably more attention is needed in costing out the mining investments in both provinces. Market-based analysis and mine cost

assessments are essential at every stage of mine development. Government may also more closely review the fiscal incentives and benefits of mining investments to ensure that mining companies want to invest for the long-term benefit of the provinces. Some immediate actions may include an assessment of "mine investment lessons learned" from other mining markets in the world and the development of a provincial "Minerals Revenue Management Plan" that will address:

- definition of "Minerals Revenue" (i.e., royalties, community funds, taxes)
- how these revenues are to be collected and banked.
- how these revenues are to be monitored and allocated.

Improve Transparency and Stakeholder Engagement

Establish and publish clear rules for licensing: In order to increase the transparency of the process through which mineral rights are auctioned, awarded, implemented and monitored, clear rules for licensing and license registries should be established. Award of licenses must specify that mining under licenses must commence within a certain time from award so investors cannot simply buy licenses and hold on to them. A defined royalty system should ideally be published as part of law or rules. Furthermore standard mine contracts and terms should be published in the provincial gazette, and there a formal procedure for public access to cadaster and mine contract information should be established.

Reduce discretion and conflict of interest: While the participation of community elders in sector decision-making may continue but this role should be clearly defined for all to understand. Government officials may not hold licenses or invest in mining until at least one year after leaving office. The discretion of licensing authority should be reduced through more defined rules on award, suspension, cancellation of mineral rights.

Strengthened MDDs. The focus on the MMDDs and their departments should be rudimentary on license procedures and regulatory oversight. Environmental permits must become an inherent part of sector operations. Monitoring not only of investments but social impacts of these investments is the only way to ensure long-term benefits from non-renewable mining resources. While mining remains a provincial topic, federal authority over environment and foreign investment issues must be reconciled with MDD as the primary institutional intermediary.

Establish a formal mine worker grievance system: Currently, mine workers do not have adequate information to protect themselves and the trade union structure for mine workers is very weak. As a result, these workers are paid the minimum wage as required under the labor law, but with no consideration of the dangerous aspects or limited timeline for mine work. There is a "produce or perish" approach to pay and workers are not contractual which means they do not have benefits attached to their jobs. Mine workers are not always "registered workers" under the law, which limits their capacity for legal redress against mine operators. Moreover, penalties that may be levied on mine operators rely on 1923 and 1948 legal acts and are far too low (e.g. PKR 10-25 per violation. Improved rights for mine workers including health and safety equipment and protective gear are needed, in addition to a system of grievance redressal for workers.

Facilitate stakeholder consultation: As mining increasingly becomes part of the provincial economy, tripartite dialogue between the government, investors and civil society must be organized to ensure that developments are sustainable and of equitable benefit to all citizens. Civil society organizations, non-government organizations, district and village councils and other structures are already in place through which consultations may be conducted. A first use of consultation may be in disseminating Government's Minerals Policy for discussion with all stakeholders.

Improvement of the Mine Inspectorate: The inspectorate has no experience with large-scale mining. Attention to certification and preparation of inspectorate capacity for all types of mining and quarrying is needed. A dedicated

training programme for mine inspectors should be institutionalized, along with enhanced familiarity with modern mining techniques, geological preservation (e.g. use of explosives) and health and safety practices.

Public information campaign on mining*:* There is currently a lack of public awareness on mining and general lack of understanding of the risks and benefits of mining. Additional measures to improve information exchange and transparency of sector operations may be made:

- Preparation of basic "what is mining" information including provincial mineral information, why mining is good for the province, etc.
- Use of existing district and village forums to disseminate information and collect feedback from affected communities.
- Training and engagement of local media as a regular part of sector developments to accurately tell the story of mining.

3-D: Tourism[32]

Overview

The tourism sector is considered to be a key source of inclusive poverty reduction in the developing world. An IMF study investigating tourism specialization as development strategy finds that an increase of one standard deviation in the share of tourism in exports leads to about 0.5 percentage point additional annual growth (IMF 2009). Job creation through tourism often occurs in locations where other employment opportunities are limited. As a labor-intensive sector, it employs a large share of unskilled or semi-skilled workers, including youth and women, thus maximizing impact for the poor and marginalized in the population (WB Investment Climate 2012). This is true in KP where tourism is a significant source of employment generation; it encompasses thousands of small and medium enterprises and includes geographical areas with widespread poverty.

The KP tourism sector has huge potential, which if tapped, can result in tremendous benefits for the province. As per some estimates, the total number of domestic tourists visiting Khyber Pakhtunkhwa in a year is about 8.8 million; which accounts for about 19% share of the total national domestic tourist traffic[33]. A higher share of KP in domestic tourism, compared to its share in population, is a clear indicator of the competitive edge the province possesses over other provinces/regions of the country.

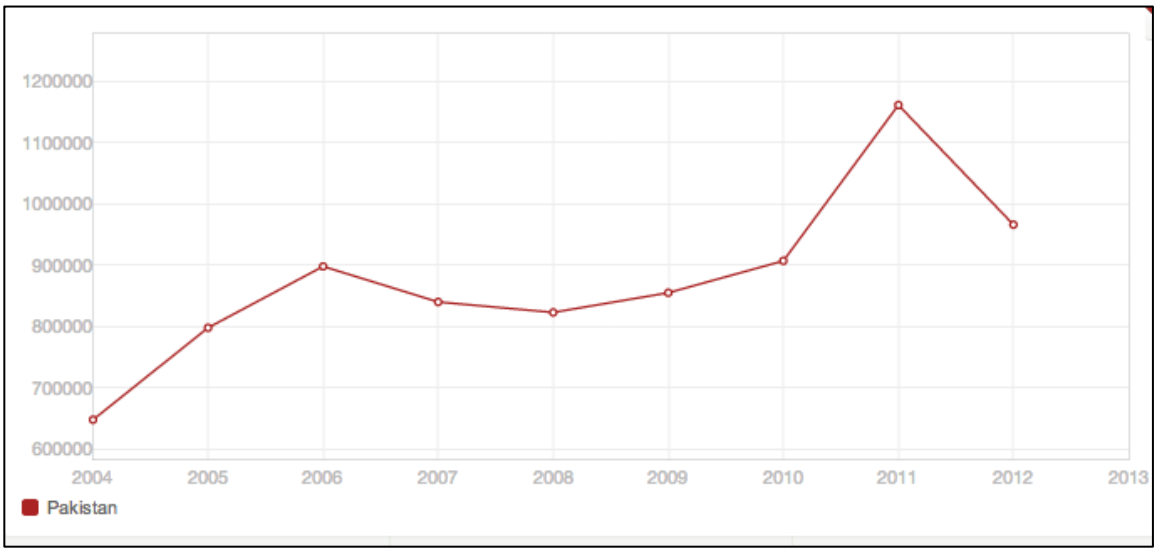
The current institutional setup for tourism management and promotion in KP includes the Tourism Corporation Khyber Pakhtunkhwa (TCKP) and the Department of Tourists Services (DTS). The main responsibilities of TCKP are to promote local and foreign tourism, to monitor and manage all tourism activities and to play the role of catalyst by providing a level playing field for the private sector. In addition, Pak-Austrian Institute of Tourism and Hotel Management (PAITHOM) is responsible for producing skilled human resources in the hospitality sector. All these organizations are collectively working under the Department of Sports, Tourism, Youth Affairs, Archaeology & Museum (DoT).

However, the tourism sector in Pakistan and KP has been facing a host of challenges – some of which are cross-cutting challenges linked to the broader national scenario, while others are sector-specific - that have impeded its growth. These are elaborated in the following section.

Additionally, it is important to note that the number of inbound tourist arrivals in Pakistan declined sharply in 2012 (see Figure 3.7) as a result of the economic recession, but also due to institutional changes. The Federal Ministry of Tourism was dissolved in 2011 and power was shifted to provincial governments, without any focal authority. Thus provincial governments were unable to optimize their power in 2012 and there was no relevant authority promoting the country as a tourist destination leading to an abrupt impact on arrival figures that year (Euromonitor International 2013).

[32] This chapter draws from "Toursim Policy for Khyber Pukhtunkhwa", Draft Repot, USAID FIRMS project (2013)
[33] KP Tourism Vision Document 2009

FIGURE 3.7: INTERNATIONAL TOURISM IN PAKISTAN, 2004-2012 (NO. OF ARRIVALS)



Source: World Bank Open Data

Present Challenges

The key challenges currently facing the sector are enumerated below:

Sluggish economic growth and low investment: High inflation and the economic slowdown have not only reduced domestic consumer spending on leisurely activities like tourism, but have also discouraged new investment in the sector thus limiting inbound tourism. There has been insufficient private and public investment in the sector. In terms of travel and tourism government expenditure, Pakistan was ranked 101st in the World Travel and Tourism Competitiveness Report. The Tourism Department's budget in 2011-12 stood around PKR 10 million, whereas an amount of PKR 1,391.698 million was allocated for tourism (and sports) sector in Annual Development Programme (ADP) for 38 projects, out of which only 11 projects were completed.

Energy crisis: High load shedding has created severe operational problems for existing businesses in the tourism sector.

Law and order: The poor law and order situation due to the armed conflict in KP has taken a toll on the tourism sector, while the security crisis in Swat and other tourist areas in KP have created unprecedented damage. This is further compounded by the public sector's weak administrative capacity to handle the delicate situation.

Dilapidated infrastructure: Infrastructure loss and dilapidation due to a recent history of armed conflict and natural disasters has taken its toll on availability of tourist facilities in the province. Moreover, damage caused to access roads, unreliable supply of electricity, poor sanitation at tourists spots and closure of Saidu Sharif airport have further worsened the situation.

Lack of marketing strategy: While the law and order situation has played its role in discouraging tourism in KP, some responsibility also has to be placed on lack of an effective and well-coordinated image building and marketing strategy to promote Pakistan and particularly KP as a preferred tourism destination. According to the World Travel and Tourism Competitiveness Report, Pakistan has been ranked at 117thnumber in the world on effectiveness of marketing and branding activity. Similarly as per the Travel and Tourism Competitive Index, Pakistan has been ranked at 125th, 127th and 62nd positions on affinity of the local communities for tourists and tourism openness; attitude of population towards foreign visitors; and participation in international fairs.

Unclear institutional regime: Under the 18th constitutional amendment, a number of functions have been devolved from the federal level to the provinces. With the abolishment of the federal Ministry of Tourism, there is no entity in the federal government responsible for managing this function at the national level. The situation is worsened by the absence of a tourism policy in KP. While TCKP has been endeavoring to sustain the tourism sector in the province, the sector requires coordinated efforts by a number of other departments and agencies.

Outdated policies: A key regulatory challenge faced by the tourism sector in KP, is that the existing tourism-related laws in the province are outdated and need revision. This is to facilitate a robust regulatory role played by the public sector, to facilitate investments by the private sector and to promote small businesses to compete. There is also no Public Private Partnership (PPP) law in the province, under which the government can invite private investment, hindering growth in the sector.

Limited sector-specific information: One of the issues that affects tourism in KP is limited availability of information since the sector definition is porous and a number of private sector players such as hotels, restaurants, travel agencies, etc. are catering to both tourism and non-tourism sectors. This prevents both the collection and use of reliable data.

Workforce constraints: Another concern is the low quality of workforce. There are few degree courses on tourism offered by large universities of the province. Furthermore, Pakistan Austrian Institute of Tourism and Hotel Management (PAITHOM) in Swat, the only notable training institute in the province for tourism and hospitality related training, has been non-operational since the conflict in Swat and is still in use by the Pakistan Army.

Lack of a standards regime: Another challenge for the sector is the absence of standards and its enforcement. This has implications for services offered by hotels and restaurants; licenses for tourist guides; fitness certification system; vehicles used by tourists; transportation rates, etc.

Future Strategy

At present, the KP government does not have a clearly articulated formal tourism policy. However, the need for one is critical. The key objectives of a tourism policy will be to firstly establish KP as a preferred tourist destination, nationally in the short run and globally in the long run; it will also aims to increase tourist traffic by 10% every year over the course of 5 years; this can be carried out by ensuring PKR 50 billion is invested in the sector.

Based on the key challenges identified above, a comprehensive provincial tourism policy should aim to do the following:

- Clarify the division of responsibilities between the federal and provincial government to ensure coordination and optimum resource utilization in a post 18th Amendment Scenario
- Establish the two-pronged role of the provincial government vis-à-vis the private sector, as a facilitator to promote private sector driven growth, and of a regulator to ensure compliance with service standards.
- Focus on sustainable tourism development, which prioritizes creation of employment opportunities and socioeconomic benefits to local communities particularly in remote areas, alongside developing quality facilities for visitors
- Create a strong institutional framework for the implementation of such a tourism policy, which includes empowering the TCKP and specifying the role of other agencies and departments

Specific strategies for achieving these goals are elaborated below:

Tourism and Allied Infrastructure Development: The top priority of the government will be to provide quality services to tourists. The government will not only rehabilitate existing facilities and repair existing infrastructure, but will also seek new opportunities for development. In particular, the government will improve/build access

roads to tourist towns and attraction places, improve the electricity supply to them and provide/improve support for rehabilitation of tourism infrastructure. It will also develop new tourist sites and attractions overcoming seasonal limitations and improve facilities to increase average stay at tourism destinations.

Quality Assurance: The government will introduce voluntary standards and quality regime for hotels, restaurants, tour operators, travel agencies and other tourism service providers. Once these standards are adopted at a relatively wider scale, the government will introduce certain mandatory standards for quality assurance, followed by a robust compliance regime. Overtime, this standards and certification regime will be linked to and brought up to par with similar international regimes.

Create Enabling Business Environment for Investment The government will offer incentives to promote investment such as: providing land on long lease at subsidized rates for tourism projects in less developed areas and providing fast track clearance to tourism projects for investment above PKR 100 million. Efforts will also be made to attract foreign investors and donors for large scale projects such as chairlift/cable car resorts, four and five star hotels/adventure activity centers, recreational parks etc.

Institutional and Regulatory Reforms: On the regulatory regime side, the government will make necessary amendments in the existing laws and promulgate new laws. On the investment side, the government will come up with a public private partnership law, to facilitate the private sector to invest in tourism development in Khyber Pakhtunkhwa. On the institutional development front, the government will rationalize the existing institutional setup, by delineating a clear responsibility and accountability regime for DoT, TCKP, DTS and other government entities. This will be followed by provision of adequate resources to these entities to enable them to fulfill their responsibilities. A key need is to strengthen government's regulatory and planning capacity, coupled with arrangements to manage private sector transactions.

Marketing and Image-building: The government will develop a multi-pronged branding strategy that includes developing interesting and multilingual tourism information and promotion material and ensuring its wide distribution and regular update. The government will further develop a robust KP Tourism Portal. It will promote and develop public private partnerships for tourism marketing and joint branding campaigns; involve PIA and Pakistan Railways for an integrated role in tourism promotion; organize cultural and sports events for tourism promotion and endorse existing ones like the Shandur Polo Festival and Kalash Festival.

Workforce Development: The government will develop a high quality workforce by strengthening and upgrading the curriculum and existing government and private training facilities including PAITHOM; reviewing curricula and programmes at university level degree programmes and regularly monitoring supply and demand of workforce in the sector. Moreover, it will introduce new programmes and incentivize the establishment of new institutions by the private sector; while developing international linkages for local institutions.

Implementation: In order to implement the tourism policy, the government of KP will formulate a Tourism Development Committee to spearhead the implementation. Moreover, the DoT will be given capacity development support to drive the tourism development agenda. Additionally, to create a broad-based ownership of the tourism policy, TDC will also nominate a Tourism Reform Leader for each of the six strategic thrust areas. These leaders will be provincial legislators and shall ensure the removal of any hurdles in reforms implementation and advise TDC in devising appropriate strategies to address key challenges. Furthermore, a detailed Resourcing Plan and Technical Assistance Mobilization Plan will be created to improve implementation.

Monitoring and Evaluation: Developing baselines of key interventions and monitoring the progress of major activities and results should be a key part of this tourism policy. While each implementing agency/department will be responsible for monitoring its own set of interventions, the DoT will drive the policy and work with departments/agencies to improve the quality, timeliness and analysis, while communicating the analysis to the Tourism Minister, provincial cabinet and to the Chief Minister. In particular, DoT will have a dedicated Monitoring & Evaluation Unit to drive monitoring and evaluation of the policy. DoT would also form Monitoring Committees for each strategic thrust area, involving members from government, private sector, academia, media and civil

society. These committees will be responsible for providing guidance for delivering results within their strategic thrust area and driving timely delivery of results.

Chapter 4: Investment Climate

4-A: The Cost of Doing Business

The key elements underpinning the development of the private sector are the ease and the cost of doing business, and the impediments to investment. The World Bank/IFC *Doing Business Study* compares the ease of doing business in economies around the world and also between cities at the sub-national level. Table 4.1 below summarizes the national ranking for Pakistan in 2014 and the latest sub-national rankings for Peshawar from 2010 on a number of indicators:

A critical constraint identified by businesses in Pakistan in the World Bank Enterprise survey was **electricity,** followed by **corruption** and **crime**. These three constraints were rated as more severe in Pakistan than other countries in the South Asia region. Access to finance, tax rates and access to land were also important obstacles. It is recommended that government of KP conduct a fresh investment climate assessment survey to identify the key constraints specific to the province.

TABLE 4.1: RANK OF PAKISTAN AND PESHAWAR ON VARIOUS COST-OF-BUSINESS INDICATORS, 2010 & 2014 (RANK OUT OF 189, RANK OUT OF 13)

Indicator	Pakistan's Rank, 2014 (out of 189 countries)	Peshawar's Rank, 2010 (out of 10 cities in Pakistan)	Top Ranked City in Pakistan
Ease of doing business	110	8	Faisalabad
Starting a business	105	3	Islamabad
Dealing with construction permits	109	6	Multan
Getting Electricity	175	-	-
Registering Property	125	9	Faisalabad
Getting credit	73	-	
Protecting investors	34	-	
Paying taxes	188	10	Islamabad
Trading across borders	91	8	Karachi
Enforcing contracts	158	8	Sukkur
Resolving insolvency	71	-	

Source: World Bank and IFC

A simple strategy to improve Peshawar's ranking and to make the province a more attractive investment destination would be to encourage KP to adopt the best practices of the highest-ranked cities of Pakistan. More specifically KP can do the following:

- Reduce the number of days it takes to start a new business. Most of these delays occur post incorporation of the business. This could be done by:
    - Making online incorporation fully functional
    - Promoting the use of online services
    - Eliminate antiquated requirements such as getting companies seal
    - Creating a single access point for all tax registration and for social security requirements

- Reduce the number of procedures and bring down the cost of getting construction permits. Dealing with construction permits in KP requires 3 additional procedures as compared to Multan, which is the top ranked city for this indicator.

- Simplify property registration procedures, particularly for transfer of title and clear backlogs. Registering a property in Peshawar takes 8 more days as compared to the best-ranked city Faisalabad; most additional days are spent on transfer of title in Peshawar.

- Simplify the tax payment system and broaden the tax base to reduce individual incidence of tax. Peshawar has a low rank in paying taxes due to high taxation and number of payments to be made to comply with tax requirements; in Peshawar 47 payments are required to comply with tax liabilities as compared to only 35 in Islamabad.

- Establish more efficient dry ports that can facilitate trade across borders. This will require installation of electronic data interchange systems and improvements in land route transport. It currently takes longer and costs more to import and export from Peshawar than 7 other cities in Pakistan.

- Introduce time limits on judgments, reduce backlog and formulate an alternate dispute resolution system to facilitate speedy contract enforcement. In Peshawar it takes over 2,000 days to enforce a contract as compared to the top ranked city Sukkur where it takes only 1,000 days. Peshawar is the worst performer in this indicator.

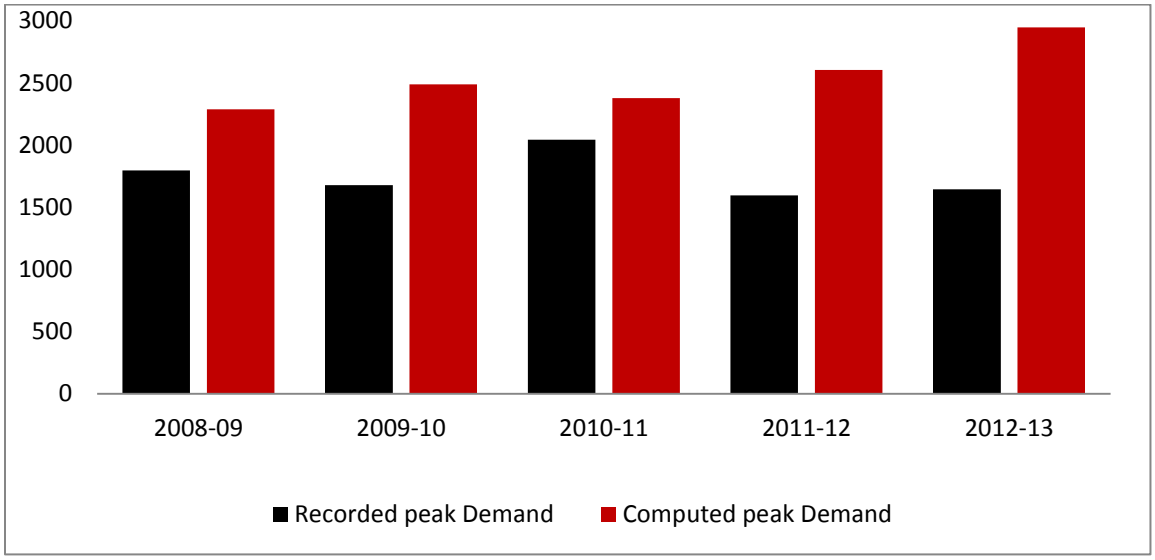
The remainder of this chapter focuses on the issues of energy, transport, rule of law and e-governance, whichare key to improving the investment climate in KP.

4-B: Energy[34]

Overview

Pakistan's recent energy crisis has taken a significant toll on its economic growth; the severe gap between the supply and demand for electricity exists both on national and provincial level. The figure below illustrates this widening gap for KP over the past 5 years.[35] Peak demand of the Peshawar Electric Supply Company (PESCO) in the year 2012-13 was recorded at 2947 MW, and the corresponding supply was 1644 MW.

FIGURE 4.1: RECORDED AND COMPUTED PEAK DEMAND FOR PESCO, 2008-2013 (MEGAWATTS)



PESCO currently supplies power to civil divisions of Peshawar, Mardan, Bannu, Malakand, Dera Ismail Khan, Hazara and Kohat. During 2012-13, PESCO had seventy-nine 132 kV, sixteen 66 kV and five 33 kV sub-stations. The numbers of consumers in PESCO has increased by approximately 3.5% over the past five years (2008-2013). During 2012-13 out of 2.78 million total consumers, 2.45 million were domestic consumers, 0.28 million were commercial, 0.028 million were industrial consumers and 0.023 million agricultural. This number explains the reason for low economic activity in the province; two-thirds of domestic electricity produced is sold to domestic consumers. However, this share has declined slightly over the past 13 years, while the total share of small, medium and large industries has increased from 21% in 1999 to 26% in 2012-13 which reflects a positive trend in the provincial economy.

Addressing the pressing energy shortfall requires reform of the sector at the level of power transmission and distribution, as well as generation.

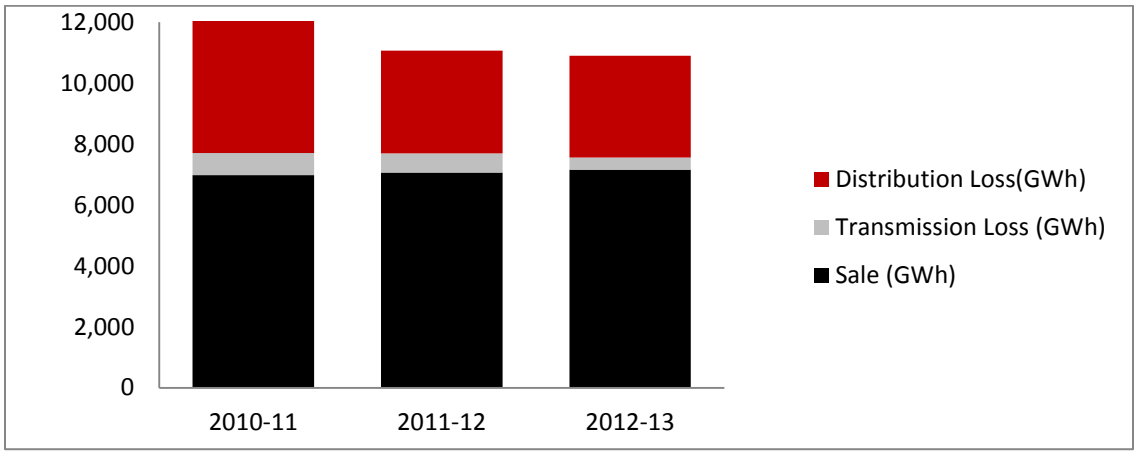
Transmission and Distribution

A critical source of inefficiency in the power sector is the large magnitude of losses that occur at the transmission and distribution stages. Figure 4.2 illustrates the magnitude of these losses for PESCO over the past 3 years. In 2012-2013 PESCO's energy sale was 7,162 GWh and energy purchased was 10,892 GWh; the difference is represented by the transmission and distribution loss.

[34] Munir Ahmad (Independent Consultant)

[35] As there is no data available on actual demand, we use computed demand, which is simply the sum of the amount supplied plus whatever is rationed through load-shedding.

FIGURE 4.2: SALES AND LOSSES, 2010-2013 (GWH)



These losses may be either technical or non-technical:

Technical losses occur due to the physical components of the power system e.g. power dissipation in transmission lines or transformers. Minimizing such losses is a matter of assessing the state of existing equipment and upgrading as needed.

Non-technical losses, on the other hand, are a result of actions that are external to the power system including electricity pilferage and theft, non-payment of bills by customers, defective meters, unmetered supply and administrative errors in accounting. Non-technical losses may also be viewed as an undetected load on the system/consumers that the supplier is unaware of. When an undetected load is attached to the system, the actual losses increase while the losses expected by the utilities remain the same. The increased losses will show on the utilities' accounts, and the costs may be passed to customers as transmission and distribution charges. This effectively means that bill-paying customers end up subsidizing the cost of pilfered or unmetered supply.

Priorities for the reduction of non-technical losses should be the revision of electricity tariffs on a timely basis, prevention of electricity theft; speedy collection of bills; and disconnecting those not paying their bills. However, governance issues in the sector pose a challenge to effective loss prevention. In view of increasing consumer base and demands of electricity, performance of PESCO requires immense improvements. KP may consider the following two reform options for performance improvement:

Increasing the Provincial Stake in PESCO

At present, PESCO is owned and controlled by the federal government. The KP government has limited role in decision making and checking on performance of PESCO. A major cause of not achieving the target of reducing technical and non-technical losses is that despite being a federal government company, PESCO requires assistance of provincial government for its operations. For example, for installation of equipment and transmission lines, despite all powers available to it under the NEPRA Act and Electricity Act, PESCO has to rely on the support of the provincial government institutions. Similarly, for reducing non-technical losses, such as recovery of bills and prevention of theft, PESCO is always dependent on the provincial government resources such as police and revenue departments. Usually because of the lack of ownership in the organization, there are lapses in cooperation from the provincial government and vice versa. To bridge this gap, it is recommended that the KP government acquire controlling shares of PESCO and appoint directors from among the relevant provincial government institutions such as KP Energy Department. This way, PESCO, being part of the provincial government setup, will have more access to KP government resources for improvement in reducing its losses. In regard to funds for acquisition of PESCO controlling shares, KP may offset amounts which the federal government owes to it on account of net hydel profits or other outstanding heads.

Bifurcation of PESCO

Currently, PESCO covers whole of the KP province, which is technically and commercially not feasible for a company to handle. It is recommended that PESCO be bifurcated by way of setting up of another independent company on the basis of geography, or consumers' mix; this would improve the performance and efficiency of the two companies.

Power Generation

Besides minimizing losses, the key way to address the energy shortfall in the province is for KP to exploit its power generation potential. The following table shows the various power generation options, their cost and time required for development:

TABLE 4.2: POWER GENERATION OPTIONS

TYPE	Cost per MW ($)	Timeframe (YRS)
Hydel - run of the river	$1.5-3 million	3-4 years
Multipurpose dam	$2 to 3 million	4-7 years
Thermal - FO	$1.1 million	2-4 years
Thermal - Coal	$1.6 million	2-4 years
Microhydel	$0.7 million MW	1-2 years

Thermal is considered a reliable source of the power generation since hydel power stations are not available throughout the year. It should be noted that oil-fired thermal generation is relatively very expensive and a heavy reliance on oil furnaces, compounded with the boom in oil prices in 2007 was a main reason for Pakistan's severe energy crisis. Thus, within thermal power, the government should focus on power generation through coal or bio fuels. KP government may set up thermal power generation facilities near the oil & gas reservoirs since it has 50% ownership in the revenues. The revenues can be offset in the form of provision of gas for generation of power. In this regard, KP may benefit from the federal government's gas allocation policy and get a gas resource allocated for the power generation facility.

The UAE government gifted a 320MW thermal power plant to Pakistan in 2009, which remains idle to this date, partially due to lack of fuel availability for its operation. There has been recent interest by private parties to set up this plant near Kohat, where new gas discoveries have been made. The provincial government needs to discuss this matter with the federal government, as presently the plant is idle and it can use the gas from KP for power generation.[36]

HydelGeneration: KP's terrain gives the province a strong comparative advantage for hydel power generation. There is a potential of 27,000MW electricity generation from hydropower alone from KP out of 40,000 MW available in the Pakistan. In order to meet power demands, KP can set up power generation stations by itself or through public-private partnerships. Rather than large power generation units, which require large investments and therefore require more investment security measures and increased rate of returns thereby burdening the consumers with higher costs, small projects may be initiated in different parts of KP.

Paktunkhwa Hydel Development Organization (PHYDO), previously called Sarhad Hydel Development Organization, has been instrumental in identifying and exploiting hydel potential in KP since its inception in 1986. PHYDO has prepared a master plan, which consists of an identification study over seven regions of Khyber Pakhtunkhwa including Chitral, Dir, Swat, Mansehra and Kohistan districts. Initially a total potential of about 400 MW, comprising

[36] The private investor will get the required return in dollar terms thus the investment will be safe from any exchange losses. The plant is old and the efficiency will be low (up to 30%), however if a steam turbine is installed it can utilize flue gases and can generate additional 120 MW. This installation is likely to improve the overall efficiency to 45% (the best IPPs are around 30-48% efficient) and the cost per unit will be around PKR 5-6, making this a cost-effective investment.

of 67 small hydel sites has been identified. These sites are suitable for regional supply to isolated communities in the mountainous areas. Apart from this PHYDO has also identified five big sites with a total capacity of 5000 MW. It also completed feasibility studies for nine hydropower projects.

According to hydropower development plan, the KP province will initiate the following:

- 3 projects of capacity 56MW under short-term strategy at a total cost of PKR 12 billion and a revenue of PKR 2 billion per annum.
- 8 projects for generation of more than 600MW electricity in the medium-term (5 years) at the cost of PKR 100 billion and a revenue of PKR 18 billion per annum
- 13 projects would initiate with total capacity of 15,000MW under long-term plan.

These projects offer a fair rate of return (as indicated by the already completed projects) and hence are financially feasible for any investor. At present the government is relying on its own kitty to fund small projects and is looking towards the federal government for larger dams. There is a need to launch investment roadshows to draw private investors, through equity and debt, who can easily finance the construction of dams and earn a sizeable return on investment.

Small Dams and Micro Hydel Generation

Micro hydel power generation has been undertaken in Pakistan in the past; various projects were initiated in the 1970s with the goal of electrification of rural and far-flung areas with difficult terrain that were not connected to the national grid. However past experiences have yielded mixed results and there is a need for undertaking a study to identify operational details of working micro hydel plants (MHPs) and identify the causes of failures/key problems with failed plants. This should be undertaken before the provincial government embarks on any ambitious plans for MHPs.

In order to further develop MHPs in KP, the government should take the following steps:

- **Carry out a proper geological survey** at UC-level to find out the overall potential available for micro hydropower projects; availability of stream-flow data of major and minor streams/canals in will help the investors
- **Encourage financial institutions to facilitate MHP-based projects** by delivering small business loans on easy terms and conditions for local business groups, interested to invest in MHP projects, including production of electricity as well as installment of small industrial units in local areas.
- **Build link roads** to insure access to difficult sites for micro hydropower projects in rural and mountainous areas.
- **Reduce taxes or custom duty** on all the imported machinery that is used in micro hydropower projects can facilitate MHP projects at community level.
- **Ensure that implementing agencies have in-house capacity** to design and implement the project for a known lifetime with Least Cost Life Cycle Approach (LCCA).

4-C: Transport[37]

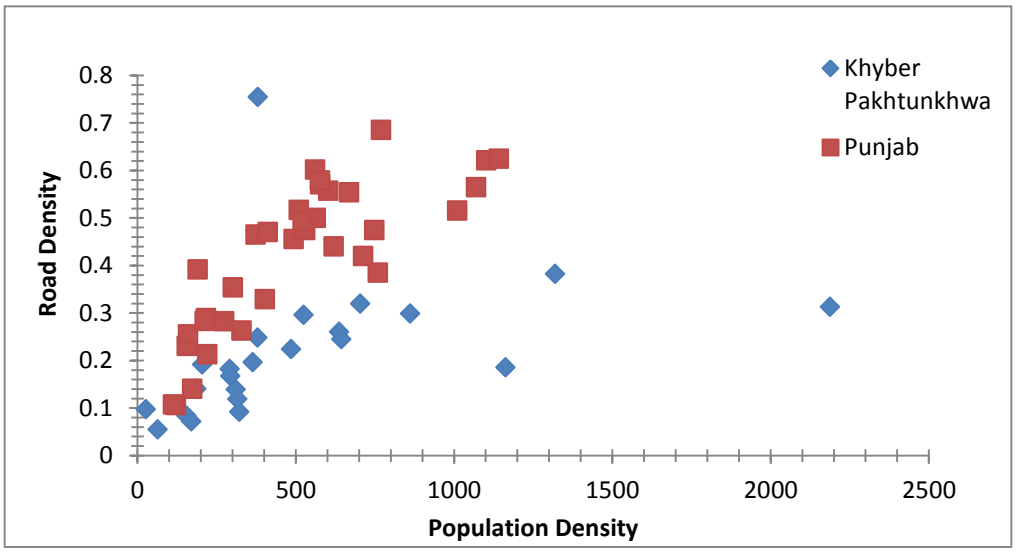
Overview and Inter Provincial Disparities

The geographical location of KP – landlocked and being furthest from the seaport – makes the role of transport critical in its economic progress. The North-South corridor has been of continued importance especially since the FTA agreement with China. Infrastructure investments, in particular the road networks connecting KP with the rest of the country, reflects the relative importance of this corridor.

Despite the historical significance of transport and connectivity in the KP economy, the growth of the road networks and related infrastructure is far below that of Punjab. This section highlights some of the key aspects of the present situation of KP's transport sector:

- **Road density by population:** Figure 4.3 shows a comparison of the road densities in districts of Khyber Pakhtunkhwa with those of Punjab. For the purpose of analysis, the data was divided into five groups based on the population density in the districts. The figure clearly indicates that districts in Punjab have higher road density (km of road per sq. km of land area) than districts in KP with comparable population density (persons per sq. km) .

FIGURE 4.3: DISTRICT-WISE ROAD DENSITY (KM/KM SQ) BY POPULATION DENSITY (PERONS/KM SQ) IN KP AND PUNJAB, 2005

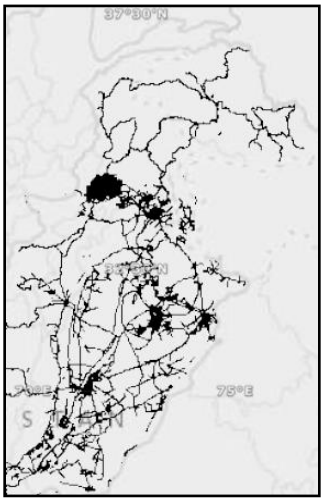


- **Addition to road networks:** Table 4.3 shows the increase in the road networks from 2009 to 2012. The numbers indicate that Punjab leads the other provinces by a significant margin in road kilometers added in the past three years. A total of 2,341 kilometers of roads were added to the network of Punjab, which is approximately 4 times more than the increase in KP. There was a sharp decrease in road networks in the year 2010-2011 due to the floods; according to the Annual Flood Report 2010[38] all 24 districts of KP were adversely affected by the flood.

[37] TurabHussain and Usman Khan , Department of Economics, Lahore University of Management Sciences
[38] Ministry of Water and Power, Government of Pakistan

TABLE 4.3: CHANGE IN ROAD NETWORK BY PROVINCE, 2009-2012 (KM INCREASE OR DECREASE)

Year	Punjab	KP	Balochistan	Sindh
2009-2010	971	396	275	755
2010-2011	168	-215	-227	-993
2011-2012	1202	425	125	335
Total	2341	606	173	97



- **Spatial Clustering:** The satellite image on the right shows the road networks of KP and Punjab. As evident from the image, the road network of Punjab is much more widespread and dispersed geographically and has multiple clusters (Faisalabad, Islamabad, Sialkot, Multan etc.). These road network clusters overlap with the main industrial clusters in the Punjab, suggesting the presence of 'locational economies' which allow industry to benefit from increased connectivity to factor and product markets. The image also clearly shows that the dispersion of road densities in Khyber Pakhtunkhwa is markedly different from Punjab. There is a sizeable cluster of roads concentrated in the west-central region of the province covering Peshawar-Mardan-Nowshera. The road network thins out considerably as we move away from this central region.

- **Underdevelopment of Railways:** The underinvestment in railways and their underutilization for passenger and freight transport in KP mirrors the national situation. Pakistan Railways is perhaps the most beleaguered public sector enterprise in the country; years of poor management and rent-have eroded the extent and quality of the service. Furthermore the singular emphasis on roads has facilitated a competitive, albeit unregulated private trucking service. At the end of 2011-12 the total length/distance of railway tracks in KP was 331.9km, which is a small fraction of the 7,791km of railway tracks in Pakistan; the railway lines network in Punjab and Sindh is much more extensive. The railway network in KP is limited to the central area around Peshawar with no connectivity to the northern districts of the province. There are a total of 24 railway stations in KP, most of which are located at a considerable distance from the population centers causing problems of accessibility for freight and passengers. Most railway passenger traffic from KP is directed towards Karachi; there is little passenger traffic elsewhere or between districts within KP. According to a senior railway official, there is no rail freight transportation to and from KP which is indicative of the gross under-utilization of the railway service and an over reliance on trucking[39]. There is also a major deficiency in the number of locomotives operating in the province.

Opportunities from Infrastructure Development

This section discusses the major foreseeable benefits in industrial agglomeration, labor market linkages and poverty reduction that can accrue from investing in infrastructure development and increased transport connectivity in the province.

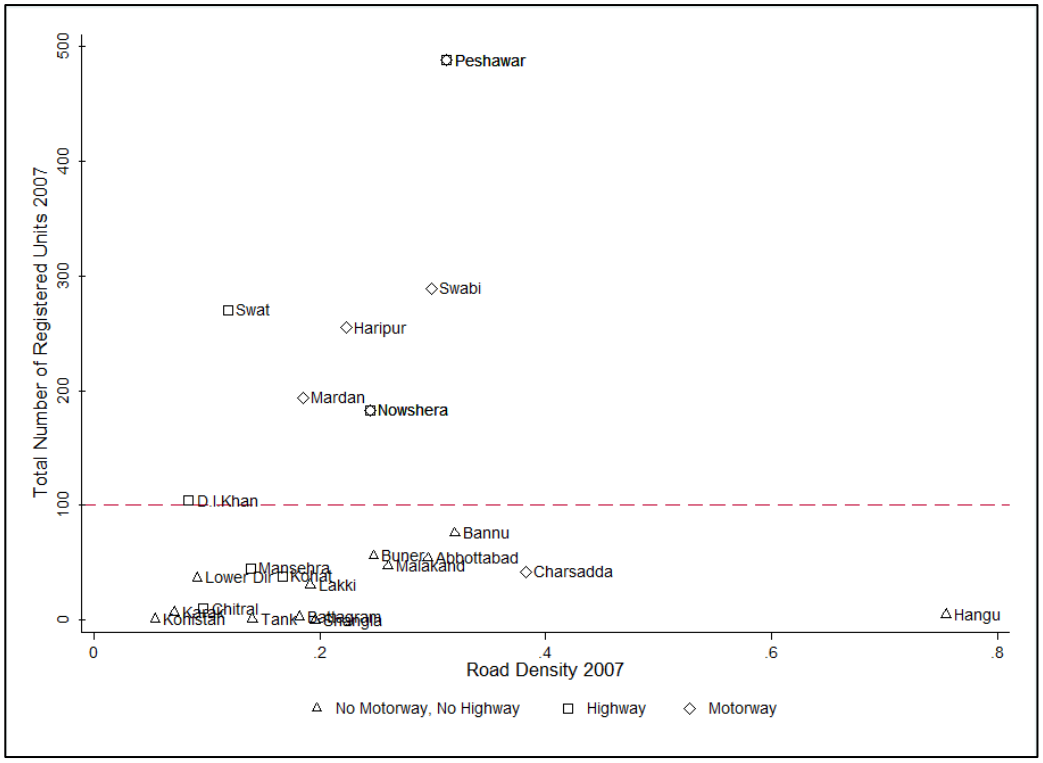
Firms in Pakistan chose to locate in areas of high connectivity or road density because of better access to raw materials, factor and product markets (Burki and Mushtaq 2010). Road connectivity plays a critical role in the formation of industrial clusters, which in turn results in agglomeration economies attracting more firms. This

[39] Mr. Sarhad Bacha, Chief Operating Officer (Peshawar), provided information about the situation of railways in the province.

creates a virtuous cycle of industrial agglomeration benefiting the whole sector in three ways: pooling of labor with the required skill-sets, reduction in the cost of transportation and technological diffusion due to the exchange of ideas.

This pattern of industrial clustering is evident in KP; industrial density is highest in the central districts and Swat, which have high road density. Figure 4.4 shows the positive correlation between district wise road densities and the registered number of industrial units. Moreover, districts with comparable road density, but which are proximate to the motorway (M-1) or are connected by a national highway have significantly more industrial units than the districts that do not enjoy the same proximity. Therefore, both the degree of road density and proximity with the Motorway and main highways are important factors behind increased industrial activity in KP.

FIGURE 4.4: TOTAL NO. OF REGISTERED UNITS PLOTTED AGAINST ROAD DENSITY (KM/SQ KM) FOR VARIOUS DISTRICTS IN KP, 2007



This clustering pattern is also evident from Table 4.4, which lists the top three districts (by number of operating units) for the five largest industries of the province. The data indicates that Peshawar and Swat have the highest number of industrial units. Furthermore, Mansehra, Nowshera and Buner host the highest number of production units for marble & chips. Also, Nowshera is a very important logistical node as it connects Peshawar with Haripur and Buner through Swabi. It is interesting to note that Swat is the only district in northern KP which has high industrial clustering.[40] The regions of Kohistan, Battagram, Shangla, Hangu, Karak and Tank are the least industrialized districts and also have relatively low road density and lack of access to the Motorway or major highways.

[40] The main products of Swat include fruits, cosmetics and pharmaceuticals (Bureau of Statistics Khyber Pakhtunkhwa).

TABLE 4.4: IMPORTANT DISTRICTS (RANKED BY NO. OF OPERATING UNITS), 2005-06

Industry	Top Three Districts
Marble & Chips	Buner, Mardan, Nowshera
Pharmacy	Nowshera, Peshawar and Swat
Plastic & Rubber	Swabi, Swat and Peshawar
Silk	Swat
Cement	Mardan, Nowshera and Swat
Other Industries	Peshawar, Haripur and Swabi

Source: Bureau of Statistics, KP

The industrial and economic disparity between different districts in KP may also be a consequence of geographical features such as elevation and terrain, which can potentially impede infrastructural development. Despite these geographical constraints, the medium to long-term benefits of infrastructure development in linking remote areas to economic hubs would far exceed the initial costs associated with it.

The link between labor supply/migration, demand for goods and services and investment is essentially bi-directional. The availability of labor supply and more importantly, the demand of goods and services generated by cities with higher population is an incentive for businesses and industries to locate nearby.

An efficient and well-planned road network can widen the geographical perimeter of an area's labor market[41] and also facilitate inter-provincial and intra-provincial labor migration.KP has 38.1%[42] of its population below the poverty line and most of them look for employment opportunities either in the more developed central region or outside the province. Linking economically backward areas of KP to the economic hubs within and outside the province could provide access to education, health and employment to the relatively poor-low income districts in KP. The link between transport infrastructure and poverty alleviation in Pakistan is supported by empirical evidence, which shows that an increase on one standard deviation in a districts road density is correlated to approximately a 4.4% reduction in poverty (LUMS, 2011).

Although better transport infrastructure helps alleviate poverty and spurs economic growth, it can potentially lead to unregulated urban sprawl, congestion costs and environmental and social externalities. Therefore, increased migration, population growth and urbanization place tremendous pressure on the infrastructure of the provincial capital and the central region of KP (see Annex on Urban Agglomeration for a detailed treatment of this issue). To mitigate the negative impact of rapid urbanization it is imperative that major investments in new transport projects are made along with an emphasis on the maintenance of the existing transport infrastructure.

Priorities

Given the present situation and potential from investment, the following are identified as the priority areas for the KP government in the transport sector:

Connecting Relatively Poor Areas to Economic Hubs:
It is evident from the analysis of spatial distribution of industry and road infrastructure that most of the economic activity is concentrated in the central region of KP. Thus the broader aim of the transport infrastructure policy should be to improve the connectivity of the industrial clusters in the center with the less developed regions of the

[41] The geographical limit of a labor market is generally defined as the area within a one-hour commute of the city center.
[42] Comprehensive Development Strategy 2010-2017

province. Such a policy would eventually lead to increased economic activity, facilitate the inter-provincial flow of goods, services and labor and create employment and income across Khyber Pakhtunkhwa, reducing inter-district socioeconomic disparities. In particular, investment in highways and road networks is required in Kohistan, Battagram, Shangla, Hangu, Karak and Tank in order to better connect these regions to the rest of the province and the country. The government of KP should employ the public-private partnership model for these new investments and leverage private sector investment to reduce the burden on public finances.

Continued Maintenance of the Existing Road Infrastructure:
As stated before, there is high concentration of population and congestion in the central areas of KP. In the absence of an extensive, well connected and properly functioning railway service, roads and highways are heavily used for both passenger and freight traffic. To mitigate the resultant deterioration of road and transport infrastructure, the existing road and highway networks need to be improved with special emphasis on transport infrastructure up gradation and maintenance.

Multi-Modal Transport Network to Boost International Trade and Domestic Commerce:
The current transport system in the country in general and KP in particular is essentially uni-modal - there is an excessive reliance on road networks for both passenger and freight traffic (trucking). KP being a landlocked province can utilize the potential of the railways sector in conjunction with the road network to improve the connectivity of Pakistan with China, Afghanistan and Central Asia. This would significantly boost trade and commercial activity within the province.

Like the road network, the railway service needs to extend to the northern parts of the province in order to galvanize economic activity in the relatively low-income areas. Moreover, there is a need to improve road connectivity to the railway stations to facilitate both passengers and freight traffic.

As stated above, the main deficiency in railways is the lack of freight traffic and inadequate locomotives. A multi-modal transport policy is required which connects roads and railways optimally to best utilize both the trucking and railway freight system. Road and railway networks are complementary because railway freight is the most efficient long distance carrier of bulk freight, while trucking is more cost effective for smaller loads and shorter distances. Thus railway freight can bring goods, raw material etc. from longer distances to outskirts of cities where it is loaded onto trucks for transport within the city.

Current and Planned Transport Projects

Repair and Maintenance of Existing Road Network:
The Comprehensive Development Strategy 2010-2017 and the Annual Development Plan lists the projects related to the road infrastructure undertaken by the KP government. Most of the projects are related to the maintenance and widening of the roads. Many projects are aimed at re-constructing the infrastructure lost due to the floods. In particular, the areas adjacent to the banks of river Swat were severely damaged, which are now being redeveloped. A number of re-construction projects are being executed in partnership with foreign donors such as JICA, World Bank and DFID.

According to the Comprehensive Development Strategy (CDS), 44% of the province's roads and 78% of the district roads are not in good condition. In the absence of a properly functioning railway system, roads account for 91% of passenger travel and 96% of freight transport in the province. Due to this situation, it is imperative for the government to undertake repair and maintenance projects. The following two tables from the CDS highlight the future plans of the government. The strategy shows that the government plans to spend most of the funds on the rehabilitation, maintenance or improvement of the *existing* roads and only a small percentage (9%) is aimed at building new roads. In order to implement these schemes the government plans to turn these development projects into investment opportunities for the private sector.

TABLE 4.5: PLAN FOR INVESTMENTS IN THE ROAD SECTOR

Measure	Expenditure in PKR Million				Project Type
	Y1-Y2	Y3-Y5	Y6-Y7	Total	
Asset Management System	192	144	96	432	Grant
Institutional strengthening of the department and community institutions	144	240	106	490	Grant
Maintenance for district/provincial roads	1,815	2,304	1,536	5,655	Budget Support
Rehabilitation for district/provincial roads	4,935	6,908	4,606	16,449	Investment Project
Improvement for district/provincial roads	14,400	17,280	6,720	38,400	Investment Project
Development of new roads	1,920	2,880	1,440	6,240	
Total	23,406	29,756	14,504	67,666	

Source: CDS 2010-2017

National Trade Corridor

The National Trade Corridor programme aims to give an impetus to trade by re-establishing and strengthening the historic trade routes in Pakistan. As part of this programme, the trucking policy has been reviewed with the specific recommendation to improve trucking regulations, which among other objectives would aim to improve quality of trucks. The table below shows the allocations of the government for bolstering the transport sector.

TABLE 4.6: PLAN FOR INVESTMENTS IN THE TRANSPORT SECTOR

Measures	Expenditure in PKR Million			
	Y1-Y2	Y3-Y5	Y6-Y7	Total
Development and rehabilitation of infrastructure	240	336	144	720
Initiatives for strengthening of t-business	192	192	96	480
Enabling of t-business to enter the formal sector	38	115	115	268
Modernization and regulation of driver training schools	120	125	58	303
Drivers and road-users education and trainings.	192	140	90	422

Source: CDS 2010-2017

In addition to all this, the KP government has been working on improving the road infrastructure in the province for the past two years. In the year 2010-2011 and 2011-2012, 134 (116 on-going and 18 new) projects worth PKR 8,770 million and 94 (85 ongoing and 9 new) projects worth PKR9,736.1 million related to the road development were initiated. The foreign assistance provided to the government was used in the completion of these projects and total allocation to the projects. As a result of the annual development plan of year 2010-2011, 419 kilometers and 14 bridges were added to the infrastructure. According to the annual development plan of year 2011-2012, 524 kilometers and 26 bridges would be completed. A huge project aimed at improving the road networks in the flooded areas is under process in collaboration with JICA and under this project 519 kilometers of roads and 32 bridges would be constructed by 2015.

Establishment of Transport Regulatory Authority

The Transport Department is planning to hire 14 Additional Directors to increase the scope of the department and to give it a district level representation. The government is planning to establish the Transport Regulatory Authority (TRA) to manage the operation efficiently. The department of transport is authorized to issue driving licenses and maintain traffic records. The responsibility of the issuance of driving licenses lay with the police department before the establishment of the transport department. The government aims to hand over the functions to the transport department within a year. In addition to this, the staff of the transport department will be trained through different capacity building programmes to make the department autonomous and efficient. This cost of this reform is estimated to be around PKR 200 million.

Mass Transit System for Peshawar

Mass transit system (MTS) of Peshawar is one of the major projects planned by the government. The plan includes the establishment of the bus rapid transit system in combination with the rail based mass transit system. This will reduce the load of traffic on the roads and will facilitate the commuters by providing them a safer and quicker mode of transport. Apart from this, the transport planning and traffic engineering unit (TPU) would be established in the transport department to make future expansion plans in order to cater for the projected increase in usage over time. The estimated cost for this project is USD 472,000 (approved by Asian Development Bank) along with the designing costs of PKR 100 million (to be paid by Urban Planning Unit).

Computerized Services and Records

In order to manage transport related data efficiently and to make it more accessible, the provincial government is planning to computerize transport operations and develop a Management Information System (MIS). The staff of the TRAs will be trained to use this computerized system, and, traffic permits (issued at the provincial and the regional levels) will be computerized. The estimated cost of this reform is PKR 80 million and the government plans to implement the computerized system by 2016.

Construction of Truck Terminals

Trucks constitute a major portion of the traffic in KP, but the data related to the trucking industry is not regularized. The government plans to construct trucking terminals at Peshawar and Dera Ismail Khan to meet the needs of the trucking sector for the next 50 years. These terminals will serve as the focal points for the waiting of trucks and containers. This will not only facilitate the goods transporters of the province but will also help the authorities to monitor the trucking industry and collect data relate to it. The estimated cost of this project is PKR 6.650 million and the project would be completed by the end of year 2017.

Establishment of a Transport Complex

In addition to the trucking terminals, the department of transport will establish a transport complex at (GT Road Peshawar) to bring all the transport related operations under one roof. The facilities at the complex would include a driving school, and would host authorized officials to issue computerized route permits, motor registrations and driving licenses.

4-D: Rule of Law[43][44]

Overview

A broad body of evidence developed in recent years suggests that the quality of formal legal institutions is a primary driver of economic growth. In the process of finalizing Pakistan's Vision 2025, policymakers have acknowledged a strong rule of law as a "basic requirement for economic stability" (The News, April 10 2014). Improvements in property right protection and contract enforcement and lowering transaction costs will be a key for making KP an attractive investment destination. However, the legal system and regulatory environment in Pakistan faces a number of challenges that are mirrored at the provincial level and pose a threat to the investment climate. The Rule of Law Assessment Report for Pakistan (USAID 2008) noted that the uncertainty created by the legal posture is highly damaging to investment prospects and regular commercial dealings.

Pakistan was globally ranked 91/97 by the World Justice Project Rule of Law Index in terms of civil justice. The current state of affairs of the system of civil justice can be attributed to minimal, piecemeal and myopic reform efforts undertaken since 1947 – a reform approach characterized by lack of appreciation of historical development, local context and democratic deficit as well as opaqueness to external accountability attributable to an exclusive set of players controlling the justice sector reform domain (essentially, judges, foreign donors, select lawyers, professional consultants and top bureaucrats).[45]

As a result, in KP (much like elsewhere in Pakistan) the civil justice process is essentially in control of litigating parties and lawyers. The better leveraged parties and lawyers retain effective control of civil cases, primarily due to outdated, lax and highly manipulable procedures regarding court appearances, adjournments, various stages of litigation, and the execution of court decrees. There exist seemingly endless possibilities for appeals and civil revisions. While specific disaggregated data on civil litigation in KP is essentially non-existent and/or publicly unavailable, various broad studies of the civil justice system in the province show several similarities with the rest of the country. Pre-trial disclosures as well as additional mechanisms for blocking unmeritorious and frivolous cases at the case initiation stage are very weak; a majority of case disposals are through dismissals on grounds of non-prosecution, withdrawal of cases and non-deposit of process fee and not as a result of completed adjudications leading to judgments on merits; cases are often adjourned on an unmeritorious basis; and, delays are rampant at various stages of the case.[46] This clearly demonstrates that the civil courts are frequently used to create greater coercive pressure and leverage vis-à-vis the weaker parties, in order to achieve more suitable outcomes – but not necessarily more just and equitable ones – outside court.

The ineffectiveness and inefficiencies of the mainstream civil procedure to manage civil disputes has over the years caused the creation of special procedures, tribunals and courts for banking, corporate and other highly time sensitive matters. However, the creation of these special enclaves while neglecting the overall system of civil procedure has only left the bulk of the ordinary civil litigants mired in the old-style slow litigation but the new and ostensibly more efficient adjudicative regimes, while achieving some time efficiencies, continue to be adversely affected by the larger systemic shortcomings of the civil justice system.

At the same time, the increasingly poor quality of the bar and the bench creates multiple obstacles in the way of efficient and perceptive resolution of progressively complex civil, regulatory, commercial, corporate and business disputes that involve multifarious policy implications, require innovative jurisprudence and have far-reaching and divergent impacts on the economy and politics of the province as well as divergent social groups in society. In

[43] Osama Siddique, Department of Law and Policy, Lahore University of Management Sciences

[44] This section focuses exclusively on issues of civil law directly pertinent to investment climate. Annex D discusses the issues facing the criminal justice system in KP and strategies to address them.

[45] *See* Pakistan's Experience with Formal Law.

[46] *See* Syed Ali Murtaza& Osama Siddique, Pakistan: Local Court Efficiency Assessment Report (2010), at 64.

essence highly outdated laws are being employed by very narrowly trained judges and lawyers under a cumbersome and delay-ridden procedure in order to tackle complex civil disputes.

Key Issues

The following are identified as the key issues for the justice sector in KP:

Contract Enforcement
Contract enforcement is a key issue for many businesses and corporations. In terms of contract enforcement, Pakistan is ranked as 158globally (out of 189 economies for which data is provided) by the World Bank/IFC Doing Business Report in 2013. Furthermore, Pakistan's ranking is 125for registering property and also fairly low according to additional indicators – the overall rank for ease of doing business is as low as 110.

In addition, the time taken to enforce a contract in Pakistan was estimated to be 976 days (as compared to 437 days in the UK); whereas, the cost of enforcing a claim was as estimated to be as high as 24% of the claim amount.[47] Moreover, in Peshawar this time was estimated to be even higher at 2190 days and the cost of enforcing a claim was estimated to be 22% of the claim and the average number of procedures required was estimated at 47.

Case Pendency and Backlog
According to available statistics, in 2011, the case disposal figures in subordinate civil courts in KP were as follows:[48]

Court	Pendency on 1/1/2011	Institution during the year	Disposal during the year	Balance on 31/12/2011
District judiciary (Civil cases)	52,174	142,163	125,571	67,847

Clearly the number of pending cases is rising and there is no reason to presume existing judicial reform thinking will control this. Reducing or diverting inflows and increasing the number of case disposals are the only way to control the situation.

It is important to note that land disputes are an important reason for the backlog; land disputes must go to court for resolution because of the absence of a land recording and registration system – this makes it necessary for every party to prove their right to land *ab initio* every time any question arises. Estimates of the huge impact of land cases ranged from 60-80% of court caseloads. These cases are not easy to solve speedily and they therefore occupy a great portion of the civil docket.

Court Delays
Delays in criminal and civil courts continue to be a persistent problem and have various cost and justice implications for the litigants. As a consequence, various surveys reveal low public confidence in the system.[49] The reasons for persistent delay are not dissimilar to those that beleaguer the justice system in the rest of the country. These include, *inter alia*:

- **Absence of an effective case management system:** In KP more particularly, such a necessary system is still in the works and that too at a very rudimentary level. There is limited familiarity with established international principles of institutional administration and case management and there have been no real

[47] At http://www.doingbusiness.org/data/exploretopics/enforcing-contracts
[48] See Judicial Statistics of Pakistan, 2011, Law and Justice Commission of Pakistan.
[49] *See* Pakistan's Experience with Formal Law.

attempts to institutionalize the same. Absence of regular and meaningful disaggregated data collection, poor communication loops and two-way information flow with the district judiciary, and low prioritization of empiricism based decision-making translates into the fact that the provincial High Court is ill-equipped to accurately identify bottlenecks and causes for delay and make suitable adjustments and interventions. Available rules and frameworks regarding case management (in the High Court circulars and orders) are inadequate, spread over different documents and lack necessary legal authority.

- **Low barriers of entry for new cases and appeals from cases**: This is a function of long pending procedural and administrative amendments and adjustments that are required to be undertaken in order to better filter the admission of fresh cases as well as appeals.

- **Insufficient training for judges in case and docket management**: KP has a promising new judicial training academy but still has some way to go to ensure that it has the capacity to meet the diverse training needs of its judges.

- **Absence of case diversion mechanisms**: Despite the fact that many cases can and ought to be taken out of the formal legal system and diverted to court assisted and informal alternative dispute resolution (ADR) mechanisms, there has been slow progress in KP, like elsewhere in the country, in this domain. As a result, the court system remains burdened and bogged down by cases that could be more meaningfully resolved out of court. However, earlier this year, the Dost Mohammad Khan Mediation Centre was established at the KP Judicial Academy to focus on ADR for civil and criminal cases pending in courts.

- **Frivolous litigation and a recalcitrant bar**: Especially after the Lawyers' Movement the judges of the lower courts in particular face additional challenges while ensuring that they maintain the discipline and decorum of their courts, weed out frivolous litigation and address delaying tactics by the less ethical sections of the lawyer community; the legal bars are more political than ever before and certain sections of lawyers leverage this to exploit the court system to their advantage and to the detriment of the litigating public.

- **Highly centralized decision-making:** The office of the Chief Justice dominates decision-making, like in the other provincial high courts, even though none of the applicable laws and rules envision and provide for this. As a result of this cultural drawback, all key decision-making depends on the personality and priorities of an individual; there is little delegation; and, decision-making is not always participatory and, therefore, does not benefit from multiple informed perspectives and critical introspection. Since the high courts are ultimately responsible for the overall administration of the justice in the entire province there is a real need to modernize and upgrade the decision-making culture and processes at this level – especially since they are largely immune to any external accountability in order to preserve their independence.

Regulatory Enforcement

Pakistan in general also fares poorly in terms of regulatory enforcement. The World Justice Report ranked Pakistan 88/97 in its global rankings in terms of regulatory enforcement.[50] The effectiveness of regulatory enforcement directly impacts the facility and cost of doing business in any country. Lower levels of regulatory enforcement invariably have a direct correlation with lower levels of consumer trust and confidence. The local milieu is characterized by serious regulatory gaps in nearly all sectors of the economy, and the enforcement frameworks are unclear and mostly reactive. The repeal of the system of executive magistracy – which undertook the bulk of regulatory enforcement in the past – has not been followed up by the formulation of a system capable of responding to this vital task. Social regulation continues to be weak and is often pursued through the courts that

[50] *See* The Rule of Law Index 2012-2013 Report, The World Justice Project.

are ill-equipped to deal with the same as the ethos, modus and imperatives of litigation are quite different from regulation; the courts are already burdened; and, court processes are slow and cumbersome.[51]

Legal Aid

Like elsewhere in the country there is no organized and comprehensive system of legal aid in KP to come to the rescue of indigent litigants and other deserving candidates for such aid. Certain lawyers and law firms occasionally provide *pro bono publico* legal services but there is a huge gap between those deserving of legal aid and available assistance which leads to such people either receiving no or poor legal representation or at times falling prey to unscrupulous and exploitative lawyers since they lack the capacity to gauge whether they are receiving fair and competent legal advice.[52] Past reform efforts made some transient attempts to provide litigants with simplified versions of laws available in Urdu; there are some nascent attempts to set up some legal aid clinics in Peshawar-based law schools; and the bar associations occasionally focus on this issue but nothing systematic and sustainable has emerged so far.

Legal Education and Training

The state of legal education in KP faces several issues and shortcomings like the rest of the country. At the same time, the entry barriers to the legal bars are very low with the result that the predominant majority of lawyers and subordinate court judges are ill-trained, which has a direct impact on the efficiency and quality of litigation. There are no mechanisms for 'continuing legal education' with the result that new members of the bar receive no practical training whatsoever for professionally operating in the courts and existing members of the bar have no structured mechanisms to hone and further upgrade their skills and also to develop expertise in specialized areas of practice. Actual lawyering, therefore, is neither formally taught at law school nor at the legal bar – it all boils down to any opportunities that an individual lawyer can create for herself to upgrade her skills through possible association with a senior mentor or law firm willing to impart such training in an informal capacity – and these are few and far between.

Despite massive donor-funded reform interventions in the justice sector over the past decade and a half, the legal education sector has been consistently neglected. Law schools and legal bars are increasingly embroiled in parochial politics that leaves little room for them to focus on their substantive tasks.[53] As a result legal education and training in KP, like elsewhere in Pakistan, faces multiple issues such as, *inter alia*: (a) Absence of a meaningful, enlightened and cohesive legal education and lawyer training policy; (b) Lack of full-time research oriented faculty in public sector law schools, absence of career incentives and institutional structures to attract full-time legal academics, and a plethora of poorly regulated private law schools relying on part-time teachers – and even though the predominant majority of these teachers have a vocational approach to teaching they are largely ill-equipped to impart quality practical training, ill-trained as they are themselves; (d) Outdated pedagogy and examination systems; (c) Near-absence of legal research and linkages between research and teaching; (f) Lax and conflicting regulation of legal education by the Pakistan Bar council and the Higher Education Commission with unresolved areas of overlap; (g) Outdated curricula and syllabi that omit important substantive and clinical subjects and also follow a narrow statute based teaching approach rather than a thematic/conceptual teaching approach with a multifarious coverage of doctrine, legislation, case law and policy; and, (h) historically low budgetary allocations and inadequate library and research facilities.[54]

The fundamental deficiencies in legal education at the law school level, therefore, persist after entry to the legal bars and with a progressively larger number of people entering the legal profession every year, the adverse impact on the quality of lawyering and adjudication as well as the efficiency of litigation is increasingly magnified. Quite

[51] *See* The Retrospective Report.

[52] The Sessions Judges can appoint counsels on state expense in serious cases. However, this mechanism also requires revisiting in order to gauge how effectively it is being employed, as well as the quality of the counsels so provided.

[53] *See*OsamaSiddique, *Legal Education in Pakistan: The Domination of Practitioners and the 'Critically Endangered' Academic,* Journal of Legal Education, Volume 63, Number 3 (February 2014).

[54] *See* Osama Siddique, *Martial Laws and Lawyers: The Crisis of Legal Education in Pakistan and Key Areas of Reform,* Regent Journal of International Law (5 **Regent** J. Int'l L. 95 (2007).

apart from this, lawyers, legal academics and legally trained individuals play a very significant role in adding greater rigor and robustness to the overall legislative, policy, governance, constitutional and human rights protection and democratic dialogues in a country – dimensions that are additionally missing in the local context.

Informal Justice System

The informal justice system comprises of various social mechanisms entrusted with or popularly looked upon for dispute resolution. More so than any other province in Pakistan, informal justice has great presence, traction and popular appeal in KP because of its particular local history, normative frameworks and cultural practices.[55] In KP, informal justice mechanisms essentially take the form of *jirgas* and such similar bodies. *Jirgas* deal with both civil and criminal cases (whether compoundable by law or not).

As things stand, the formal justice system in KP by and large recognizes the informal justice system through the following ways:

- Section 345 of the criminal code, which requires the court to record a verdict of acquittal in compoundable cases (where out of court compromises are legally possible),
- By allowing withdrawal of cases in civil matters without the right to re-file a case, and
- Through the filing for a compromise decree.

However, due to the fact that the formal legal system has not as yet visualized a comprehensive framework for utilizing the informal dispute resolution mechanisms like the *jirga*, its current employment by litigants can be fairly opportunistic. Litigators frequently seek recourse to such informal mechanisms before, during and even after litigation and such forum shopping is dictated at times by the imperative to create negotiating leverage rather than to actually resolve the dispute – this can further conflate litigation, create duplication, waste of court time and resources, conflicts and confusions and even thereby undermine the formal processes by impairing the implementation of their outcomes.

Since formal recognition of and linkages with the informal realm do not currently exist the acceptable decisions of informal mechanisms lack formal sanctity and the less than acceptable decisions perpetuate, escape the governmental scrutiny and conflate disputes, which continue to be agitated and re-agitated rather than coming to closure, as well as their adverse and unjust social outcomes. The disparities and inefficiencies of large tracts of social and economic engagement remaining in the unregulated sphere create various additional inefficiencies and rights vulnerabilities.

However, there are potential advantages to considering informal mechanisms as serious partners in the overall justice system. They may complement and supplement the formal legal system by being envisioned as the formally recognized and overseen forums of first instance in cases where it makes sense to keep certain disputes out of the court system. Given the latest legislation in KP on local governments, the abolition of the concurrent list and the general shift towards decentralization, there is even a greater case for systematic decentralization of dispute resolution from the clogged, expensive and time-consuming courts. Greater legislative autonomy under the 18th and 19th Amendments to the Constitution also facilitates any such initiatives. The following, therefore, are some of the main areas of judicial and administrative reform focus:

- exploration and formalization of greater linkages between formal and informal dispute resolution mechanisms
- more pronounced mapping, recognition and anointment of the latter by the former
- increased formalized court directions of suitable disputes to local ADR mechanisms in order to promote of more localized and hence cheaper, more intelligible and more accessible dispute resolution arrangements for ordinary citizens.

However, any policy decision to develop a framework of linkages needs to clearly define where the ascendency of

[55] *See* From the Case and the Court to the Dispute and the Disputant.

the formal law will be mandated – especially in areas of land and personal law where the rights and claims of the less empowered sections of society are concerned – and where formal law is willing to relinquish space to local dispensations.

4-E: E-Governance

A discussion on E-Governance (and Right to Information Act, which has an e-government angle) in the KP Vision 2025 Document is produced below:

E-Governance: The era we are passing through is one of rapid communication and flow of information. This innovative development can help bridge the information gap for citizens. E-governance initiatives can play a key role in ensuring this outcome. It will require the following actions by the Government:

- Restructuring of the Provincial Information Department to better manage modern communication tools for more effective government
- Setting up an autonomous and empowered Provincial IT Board
- Establishing an ICT-based Complaint Redressal System for the Province
- Computerizing government records and the process of issuing vital documents for citizens
- Automating Government systems such as: procurement processes, public college admissions, crime investigation, land records, and birth certificates etc.

Right to Information Act 2013: The Government will also enforce the Right to Information Act 2013, which complements its initiatives in e-governance. This Act enables citizens' access to information in all public matters. It covers all Public Sector institutions of the Province including subordinate Judiciary and the Provincial Assembly.

Under the legislation, web-based e-Publication and maintenance of official records / information of all Public bodies is mandatory. The law provides for a sound enforcement mechanism in the form of an independent "Information Commission".

Chapter 5: Inclusive Growth

5-A: Health and Education[56]

Context and Key Challenges

The health sector in KP is plagued by problems of low immunization coverage, stagnant mortality rates and low quality of curative health care. In education, significant gaps persist between access and outcomes between rural and urban areas, boys and girls, and rich and poor households. Access is constrained by both economic and cultural factors as well as by limited schooling inputs.

Several factors have contributed to the dire situation in health and education in recent years, and there are a number of sector-specific challenges that need to be addressed:

Violent conflict in FATA, parts of KP, and the areas bordering Afghanistan has affected education provision in two important ways. Firstly, direct attacks on schools in KP have persisted, with 734 schools attacked since 2009[57]. Many of these schools have remained closed or damaged for a long time. Secondly, internal displacement means pupil enrolment spills over to more stable areas, which have insufficient facilities to cater to the excess demand. Similarly, by mid-2009, 30% of health facilities in Malakand division and 16% in the two FATA agencies of Mohmand and Bajaur had been significantly damaged. Furthermore, access of health staff (especially lady health workers) was severely restricted, and medical supplies became scarce, particularly for internally displaced persons (IDPs).

The July 2010 floods also devastated education and health infrastructure, particularly in Nowshera and Charsadda.[58] According to a Rapid Damage Assessment conducted by UNICEF[59], 297 public schools in KP were destroyed and 671 were partially damaged. Thousands of children were put out of school, and flood-displaced families often remained unable to send their children to school afterwards. 11 % of health facilities were also affected. The Annual Development Plan of the government during 2010-11 was diverted towards floods compensation and rehabilitation, cutting down expenditure on social sectors and thus limiting spending on health and education.

Population dynamics: KP has a young demographic profile, with almost 72% of the population under 30 years of age and 47% under the age of 15.[60,61] Such population dynamics will lead to rapid growth in the demand for education and health in the next twenty years.

The 18th Amendment to the constitution has completely devolved education sector management, including policy formulation, planning and curriculum development, to the provinces, raising pressure on provincial governments. The health sector has also been devolved and the health department is facing severe delays in receiving funds from the federal government to implement its programme of strengthening Basic Health Units (BHUs) and paying salaries to Lady Health Workers (LHWs).

National Financial Commission Award: The most recent 7th National Finance Commission (NFC) award, a mechanism that allocates revenue among provinces and between provinces and the center, increased the provincial share from 48.75%to 56% as per the 5th NFC award. KP, along with Balochistan, benefited proportionally

[56]Yasir Khan and Hina Shaikh, International Growth Centre
[57] UNICEF Pakistan Update: Displacement in KP & FATA: Needs and Response (11 December 2012 – 15 January 2013)
[58] UNICEF, Analysis of School Damage in Flood Emergency KP, 2010.
[59] UNICEF, *KP Rapid Assessment Report*, September, 2010.
[60] National Institute of Population Studies (NIPS) Pakistan, and Macro International Inc. 2008. Pakistan Demographic and Health Survey 2006-07. Islamabad, Pakistan: National Institute of Population Studies and Macro International Inc
[61]Government of Khyber Pakhunkhwa. 'Comprehensive Development Strategy 2010-2017' April 2010

more from this arrangement as the overall revenue sharing criteria was also based on poverty levels and state of under development using a backwardness index. With more resources available, the provincial government should make efforts to enhance education and health expenditures and also improve the efficiency of spending.

Sectoral planning: The Education Sector Plan (ESP) formulated in 2008 and updated in 2012 sets three top priority objectives: universal primary education; gender equality at all education levels; and improved educational attainment by strengthened teaching-learning quality. In health, the National Health Policy of 2009 is no longer relevant post-18th amendment and at present, there is no national health policy to guide the province. The KP government has, however, developed a Health Sector Strategy 2010-2017.[62]

Local government: The KP government, through the Local Government Act, 2013, intends to re-devolve several departments to the districts in phases, including elementary and secondary education department, technical education, vocational education, special education, adult education and literacy, as well as mother and child health centers, BHUs, rural health centers, social welfare, community development, sports and culture, and revenue and estate. In addition, the government will allocate about 30% of Annual Development Programme (ADP) funds to local bodies[63].

State of Health in KP

Table 5.1 shows the performance of KP relative to the national average on a number of health indicators

TABLE 5.1: PERFORMANCE ON VARIOUS HEALTH INDICATORS, VARIOUS YEARS (%, RATIO)

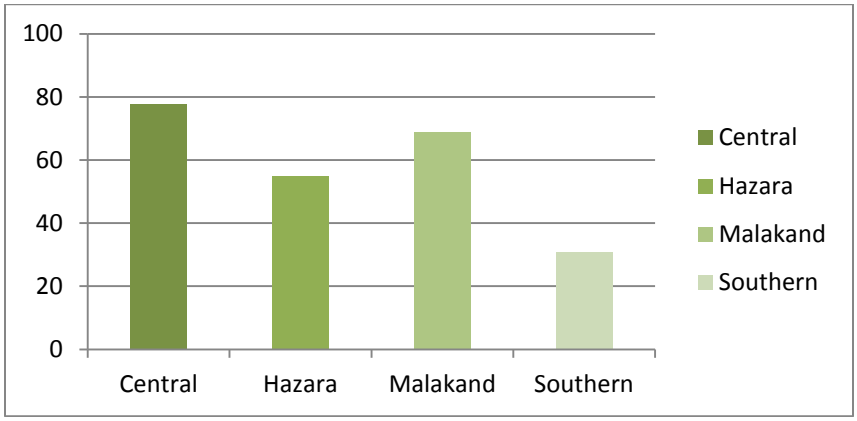
	KP	Pakistan
Immunization Coverage(%)*	52	53.8
Maternal Mortality Ratio**	275	276
Pre Natal Care (%)**	51	61
Post Natal care (%)**	27	43
Deliveries in a health facility (%)**	30	34
Deliveries by a skilled attendant (%)**	38	39

*Source: Pakistan DHS (2012-2013)
**Source: Pakistan DHS (2006-2007)

Preventive healthcare in the province has seen some improvement in various indicators but progress is slow. In immunizations, KP has been performing better than the national average, but the trend is stagnant, with only 52 % of children having received basic immunization in 2011, up slightly from 47 % in 2006. Furthermore, there are vast regional disparities in vaccine coverage within the province, with poor coverage in Hazara and Southern KP in particular. Figure 5.1 illustrates these disparities in the case of BCG vaccine coverage:

[62] Health Sector Strategy - Khyber Paktunkhwa
[63] KP Assembly passes Local Government Bill, finally, Express Tribune (Oct 31, 2013)

FIGURE 5.1: BCG VACCINE COVERAGE IN KP REGIONS



Source: Multiple Indicators Clusters Survey, 2008

The recent outbreak of measles in the Punjab has brought to the fore the vulnerability of the country's health system in dealing with disease outbreak and has emphasized once more the importance of immunization to save lives. The health department in KP has reasons to worry about the potential of a similar outbreak in the province; the available data suggests 49 % coverage of measles, which is well below the 79 % vaccination rate against measles for Pakistan. Even though the province has witnessed some improvement in immunization over the years it is still far away from the goal of achieving 90 % coverage for all vaccines to guard against outbreaks such as the one witnessed in the Punjab.

KP is also facing a catastrophe due to **failure in controlling polio** despite using all the available resources during eradication campaigns. Insecurity has been one reason that has added to the on-going complexity of running a polio vaccination campaign but it should not eclipse the deep-rooted problems that have been marring the efforts for some time. The campaigns suffer from minimum monitoring and supervision of the field workers especially in the rural and difficult to access areas. There are also issues with supply and cold chain, especially in the months of summer as prolonged power outages have added to the challenge of maintaining a cold chain[64]. The lack of ownership at the very local level has further complicated the matters, which is why the province has failed miserably to contain the spread of polio.

The **infant mortality rate** in KP remains worryingly stagnant. The infant mortality was recorded as 79 deaths per 1000 live births in 2001-02[65]. The number reduced only marginally to 76 deaths per 1000 live births in 2007-08.

Furthermore, the **maternal mortality rate** was 275 in 2006-07 in the province, which means for every 100,000 live births 275 mothers die in KP. This is higher than the national average and significantly higher than the rate in the Punjab.

A lack of access to quality care at pre and postal natal stages is the main reason for higher maternal mortality. Data suggests that nearly half of the expecting mothers are not provided any care. The situation becomes even more worrying after birth as the percentage of new mothers receiving post-natal care drastically reduces to 27 %.

In KP only 30 % of the deliveries take place at a health care facility (of any kind including BHU and RHC). This implies that in case of complications that can threaten the life of the mother, she may not receive timely treatment.

[64]World Bank Public Sector Expenditure Review
[65]Multiple Indicator Cluster Survey

In the absence of healthcare facilities the second best options for reducing the maternal mortality rate is to ensure presence of trained birth attendant at the time of delivery. But only 38 % of the births in KP are attended to by a skilled person. In other words six out of ten deliveries happen without the presence of a trained person, which increases the chance of harming lives of new mothers. Unlike the vaccination rates, the absence of skilled birth attendants is prevalent in all districts. Even in the best performing district Nowshehra, a trained attendant is present in only half of the deliveries whereas in Kohistan this number is only 17 %.

Poor performance of KP on these health indicators has a number of underlying trends apparent from Table 5.2:

TABLE 5.2: PERFORMANCE ON VARIOUS HEALTH INDICATORS, 2008 (%, RATIO)

	Immunization	Child Mortality Rate	Infant Mortality Rate
Urban	58	77	62
Rural	50	104	78
Lowest Income Quintile	39	109	81
Male	63	73	95
Female	59	79	105

Source: Multiple Indicators Cluster Survey 2008

Relationship between economic status, high mortality rates and low vaccination coverage: As per Pakistan Social and Living Standard measurement survey, children from poorest families are more likely to have missed vaccinations. Immunization coverage among the poorest families is only 39 % as opposed to 80 % for the families with most income[66]. Given that the poorest families live in environments that are more conducive to spread of disease this is worrying for health officials. Any efforts by the government to increase immunization rates should be focused first on the poorest segments of the society. A child born in families falling in the poorest income quintile is twice more likely to die as compared to the one born in a well off family. The child mortality rate for the poorest families is 81, which decrease as the family income increases.

Rural urban divide: The divide is especially relevant to KP since more than three fourth of population of the province lives in rural areas[67]. Rural areas fare worse on immunization rates, child mortality and infant mortality compared to urban areas of the province.

Gender disparity: female children are less likely to be immunized and have a higher infant mortality rate.

Curative health care in public sector is marred by problems of access and quality. Across the province there are 1616[68] health facilities of all kinds. These facilities serve a population of about three million, resulting in each facility serving a population of 18,000 on average. However there are only 173 hospitals[69] in KP that can provide specialized healthcare of some form serving to the needs of 173,000 people on average. Given the low population density it is no surprise that most of these facilities are harder to reach for patients. Taking the example of diarrhea, which is a common disease that can be treated at any health facility, only 50 % of the patients consult a public facility and a further half say that access is the main reason driving their decision to not consult a public facility.

The problem of access to public health facility is further confounded due to **non-availability of doctors.** The non-availability is driven by lack of doctors in the province in general and high absence rates. There is a shortage of doctors and medical staff in the province that has created gaps in the delivery of services. The shortage is not

[66] PSLM 2011-12
[67] http://www.khyberpakhtunkhwa.gov.pk/Departments/BOS/KP-in-Fingures.php
[68] http://www.healthkp.gov.pk/healthstatistics.asp
[69] Including Teaching Hospitals, DHQs, THQs and RHCs

limited to the public sector; rather there is a dearth of trained doctors in general. In KP one doctor is registered for every 1475 persons, which is a lower ratio than the Punjab[70]. In practice the situation is worse since not all the registered doctors practice in the province.

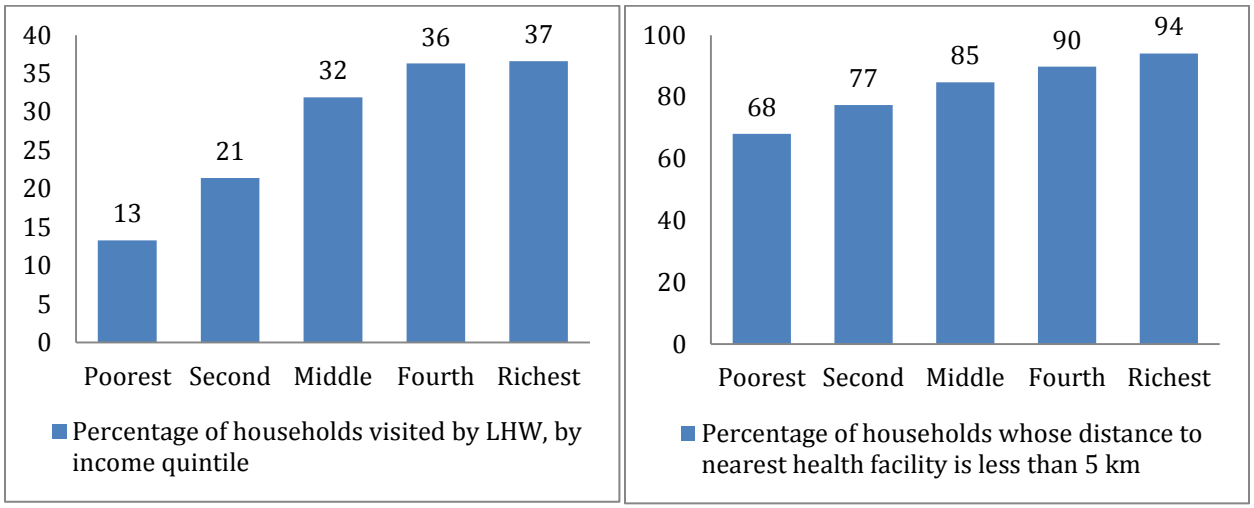
Absenteeism of public sector employees is a widespread problem, with claims of an absence rate of 30 % in KP BHUs[71]. In the presence of wide spread absenteeism the non-availability of doctors will remain an issue even if all the vacant posts are filled. Surety of presence of the doctor is the reason why 37 % of health seekers consult private clinics. It is pertinent to note that not all persons in private clinics examining patients are doctors. It is very likely that the absence of trained staff in the public facilities is pushing the patients towards quacks, which can have harmful results.

Access to the health facilities is limited in KP. On average a health facility is 9.4 km[72] away from the households. In predominantly rural KP this means traveling across villages to see a health service provider. The health facilities are disproportionally more accessible to the rich as compared to the poor: only 68 % of the poor households have a facility within 5 km distance as opposed to 94 % rich households.

To improve access, especially for dealing with MNCH, the government had launched a Lady Health Worker (LHW) programme in the 1990s. The purpose of the programme was to provide basic health services at the doorstep of the poor households. However even that programme is falling short of providing care to the poorest families. Firstly the LHWs visit roughly 27 % of the households in the province, whereas the coverage based on postings should be 58 %[73]. Secondly the LHWs are mostly providing services to the rich households as opposed to focusing on the poor families. Households falling in the poorest income quintile have been especially neglected as only 13 % of these families are visited by the LHW, whereas 37 % families in the richest income quintile are visited by the LHW[74]. This variation is primarily driven by income motivation of the LHWs since they charge the families for the services as private practitioners. Since the poorest families cannot pay the informal user charge, the LHWs do not seem to serve them.

[70] http://www.pmdc.org.pk/Statistics/tabid/103/Default.aspx
[71] FAFEN Health Institutions Monitor, Vol 4, Issue: 114/June 2012
[72] MICS 2008
[73] UNDP MDG Report
[74] MICS 2008

FIGURE 5.2: HOUSEHOLDS VISITED BY LHW BY INCOME QUINTILE AND HOUSEHOLD DISTANCE FROM HEALTH FACILITY, 2008 (%)



Source: World Bank Public Sector Expenditure Review 2012 based on MICS 2008

The gap in publically funded basic health services is being filled by the **private sector** in the province which is causing the population to spend a sizeable proportion of their income on access to health care. The average expense as percentage of total non-food consumption being spent on health care by residents of KP is higher than the national average. Households in the lowest income quintile devote a significant proportion of their spending to health care. In KP a poor household spent about 3.8% of total expenditure on healthcare in 2011. But in terms of non-food consumption, the proportion of health expenditure jumps to 10%, which is high by international standards. Despite highly subsidized public health services, the poor households are reporting 60% of payments going to "health service fee", indicating high formal and informal payments[75].

There is very little information on the private healthcare providers in the province. The KP Health Regulatory Authority was established in 2006 to regulate primarily the private health care providers including hospitals, clinics and doctors. The sector has been witnessing organic growth in the urban centers of the province especially in the Peshawar valley. There is high demand for quality care in the province especially from those who can afford to pay. The average household in high-income quintile spends PKR 3,533 per capita on the health care, which is higher than the national average of PKR 1,963. The willingness to spend more on healthcare, besides the low quality of service in public sector, is one of the main reasons behind a growth of large private hospitals in the province.

Key Issues and Recommendations

Management of the Health System: Managing health service delivery in all districts from primary to tertiary is over stretching the resources of the health department. The health managers in the provincial capital are also responsible for policymaking, oversight and implementation of new programmes, all within limited quality human resource. Addition of vertical programmes to the portfolio of provincial health managers will add an extra burden on the already thin resources. This calls for a delegation of duties from provincial to lower levels and sharing of responsibilities through public private management.

To date, the management of primary care in seventeen districts has been outsourced through public private partnership with handover of BHUs to Peoples Primary Health Initiative (PPHI). Third party evaluation of the PPHI-run districts suggests a better performance of the BHUs being run under this partnership. Though the overall performance is not stellar, it is still better compared to the BHUs under the management of the Health

[75] KP Public Sector Expenditure Review 2012, page 90

Department. For example the number of outpatients increased significantly over time in PPHI managed BHUs but there has not been much improvement in the number of ante and postnatal cases (when corrected for population).

> **Recommendation:** To reduce the burden on provincial and district health departments the government should expand the engagement with PPHI to remaining districts. But the hand over should be preceded by setting up standard terms of reference for running government facilities on public private partnership basis. The relationship should be defined in an institutional framework where the health department is a client of PPHI and hence has a system to monitor the quality of services delivered. The districts where the PPHI is in place should have a responsibility to monitor and evaluate the performance periodically. A mere improvement in performance over government-run BHUs should not be the only metric to gauge success of this partnership, rather tangible outputs and outcomes should be identified. Small and medium term goals of health indicators should be set for the areas under control of PPHI so that the organization can chalk out a clear strategy to achieve the goals.

> **Recommendation:** An additional option is to handover management responsibilities to local governments, again with clear targets and goals, in the medium run. The local governments should then have the authority to outsource the management of these hospitals on the model of PPHI to improve their performance. Learning from the last devolution experience, the government should ensure transfer of responsibility and resources to local governments. In the past the experiment of handing over public services to local bodies failed due to incomplete transfer of power, especially financial powers[76].

Monitoring and Supervision: Monitoring of health service providers is weak in the province. The political leadership can only visit a limited number of hospitals and health centers to ensure the presence of doctors and availability of medicine. There is a need for institutional mechanisms for monitoring the performance of service providers.

> **Recommendation:** The Punjab Government has experimented with using smartphones to improve monitoring of health facilities by making the senior health officers of the districts accountable[77]. A similar system can be pilot tested and adapted to the needs of the health department in KP. While designing the monitoring system there are a few principles that should be followed:
>
> - First, the system design should be well thought out; merely putting together a system of monitoring does not ensure usefulness. Any new system should take into account the lessons learned from similar experiences in the country and the region.
> - Second, timely flow of information is key to any monitoring system.
> - Lastly, a mechanism should be put in place that ensures action on the information gathered through the monitoring system.

Performance Measurement: The health department bureaucracy needs a performance measurement framework. The province is plagued by a number of problems and there is high probability of the health management falling in a never-ending cycle of fire-fighting as the problems increase.

> **Recommendation:** To avoid that situation it is required that performance measurement framework is developed for all cadres of the management. This framework should include clear and measureable performance indicators against which the annual performance of the personnel can be reviewed. This will lead the management to specialize and share the burden of management.

Immunization Rate (Demand): The province is facing a **major threat of disease outbreak** due to low immunization rates and increasing number of polio cases in Pashtun population. The immunization programme has been run at

[76] NWFP Economic Report 2005-06, the World Bank.
[77] Michael Callen, Saad Gulzar, Ali Hasanain and Yasir Khan.Political Economy of Public Employee Absence. IGC Working Paper

national level under the Extended Programme on Immunization. However with the passage of 18th amendment, the province now has the power to start its own initiatives.

> **Recommendation:** The first step to address the issue of low immunization rates is to think of a homegrown strategy that takes into account the cultural and socio economic status of the province into context. The international agencies should provide financial assistance but the planning and implementation on how to spend that money should come from the provincial government.
>
> There are a number of reasons for the flattening of immunization rate that relate to supply and demand side. On the demand side there are severe misconception about vaccinating the children and even little knowledge about the need to get the children and mothers vaccinated. This has to do with rising conspiracy theories about involvement of international powers. The government has done well to involve the religious leaders to address the misconceptions. But that has not been leading to any success as nearly 250,000 families denied their children polio vaccination in 2013 alone, about half of these families are in KP.
>
> **Recommendation:** If KP wants to improve the vaccine coverage, it has to come up with a communication strategy that is area specific, locally driven and imbedded in the existing institutions. Since there is huge variance in vaccine coverage across different regions of KP it is important to have a localized communication strategy.

Immunization Rate (Supply): The supply side issues are well entrenched, have been lingering in the background for some time but are increasingly obvious. There is limited human resource available with the government to undertake immunization campaigns. The main person responsible for carrying out the immunization activities is the vaccinator. Though exact numbers are not available but if one assumes that a BHU serves half a union council that means roughly one vaccinator for a population of 20,000. There is an added complexity of the vacant seats of vaccinators from across the province. If a vaccinator has no other duty, it is still impossible to get all the children vaccinated in a population of 20,000 in timely manner. These workers are further burdened by undertaking frequent diseases eradication campaigns, such as polio and measles, as well besides vaccinating children in the facility.

The routine immunization programme under EPI has suffered due to increased focus on polio eradication. The department of health staff has to plan and undertake roughly one polio campaign each month. With the added responsibility of running specialized campaigns against TB and Measles, there is no space to focus on the routine immunization, which is the first line of defense against preventable deadly diseases.

> **Recommendation:** It is high time the government sets aside a specialized unit along with necessary resources for running the polio campaigns and let the EPI cells focus only on routine immunization. The EPI cells should also be restructured to assign clearly defined targets of vaccinations for each area with robust monitoring system to verify the data.

Limited Primary Care in Urban Areas: Public primary healthcare is limited in the urban areas. Large hospitals in urban areas provide services to hundreds of thousands of patients. Many of these visitors to large hospitals are there for minor illnesses that can be easily treated by medical practitioners in smaller hospitals. In theory the primary level of a health care system should filter out these minor cases. However in KP the public primary health care is almost nonexistent in urban areas since most of the BHUs (the first pillar of primary health care) exist only in rural areas.

> **Recommendation:** As KP becomes urbanized, a trend that has already started, the government will need to add a layer of primary health that focuses exclusively on cities. Without the addition of this layer of services, the tertiary hospitals will continue to receive large number of patients for minor treatments.

Referral System: For efficient utilization of primary, secondary and tertiary levels of healthcare, there is a need for a strong referral system. At present the public health providers do keep a track of total referrals however little assistance is provided to the patients to actually visit the facilities to which they are referred. There is also no record on how many referrals actually went to the other facility.

> **Recommendation:** A specialized ambulance or transport system should be started in partnership with the private sector that can shuttle the patients between hospitals for a minimum user fee. The government can also provide some subsidy on per patient basis to reduce the burden on poor families. The provincial government has recently started an ambulance service aimed at improving pre natal care, which can also be expanded to include all kinds of referrals. In order to keep a track of the patients a ticket-based system that has linkages to all facilities in an area should be established. This will help in load management of the facilities, as it will provide information on which facility is receiving most referrals and can also be used as an objective means of verifying the performance of primary health facilities in terms of counting the actual number of referrals.

Ability to Pay and Financial Incentives: The provincial government should start a conditional cash transfer programme to improve the demand for preventive health care and ultimately improve the child and mother health indicators. It has recently rolled out two interventions that try to improve the coverage of immunization and care for expecting mothers. The programme on immunization will provide PKR 1000 to the parents of every child who has received all basic vaccinations. Similarly the programme on mother health will pay cash grants against pre and postnatal care visits to a health service provider. While these programmes are a step in the right direction, there is scope for improvement of design.

> **Recommendation:** The main area of improvement in these programmes is the targeting of the cash. At present anyone and everyone who can complete the requirements can claim the money. Since the resources of the province are limited, such programmes should be designed to target the poor households only. A well-targeted programme will achieve the goal of improving the health indicators by focusing on the segment of society that has lowest rates of coverage. It will also provide the most deserving families with an additional one time cash inflow. The poor families in KP have already been identified by Benazir Income Support Programme through door to door surveying by independent organizations. The provincial government should form a partnership with BISP to identify the families that can benefit from the transfer of additional cash if the vaccination and maternal health conditions are met.

Health Insurance: A successful health insurance programme will provide protection to poor households against large financial outlays on healthcare. In medium to long run, a viable health insurance system will help government redirect the expenditure from maintenance of health infrastructure to support health insurance of poor households.

> **Recommendation:** On a pilot basis, the government should partner with Benazir Income Support Programme to expand the Waseela-e-Sehat health insurance programme in the province. The provision of the health care, in an ideal environment, will be ensured by the private sector while the government will support the poor so that they are not left out of the system. It will also reduce the out of pocket expenditure that many poor families have to make as they access health care in the private sector despite the presence of publically funded facilities.

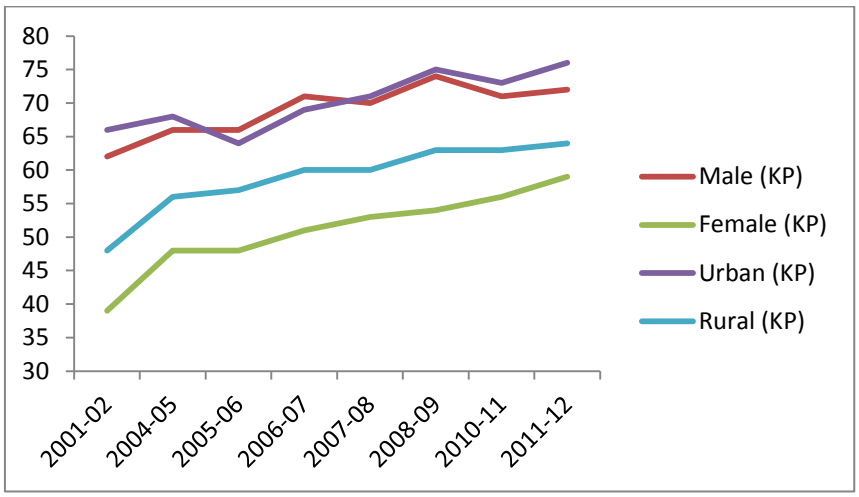
The State of Education in KP

In recent years, the sector has seen only modest success.

Net Enrolment and Dropout: The net enrolment rate (NER) of 6 to 10 year olds has risen since 2001-02 but at a low average growth rate of 1 % per annum. Furthermore, completion rates are extremely low that the investment of time and effort in primary education seems redundant. The one positive trend is that female NER is increasing.

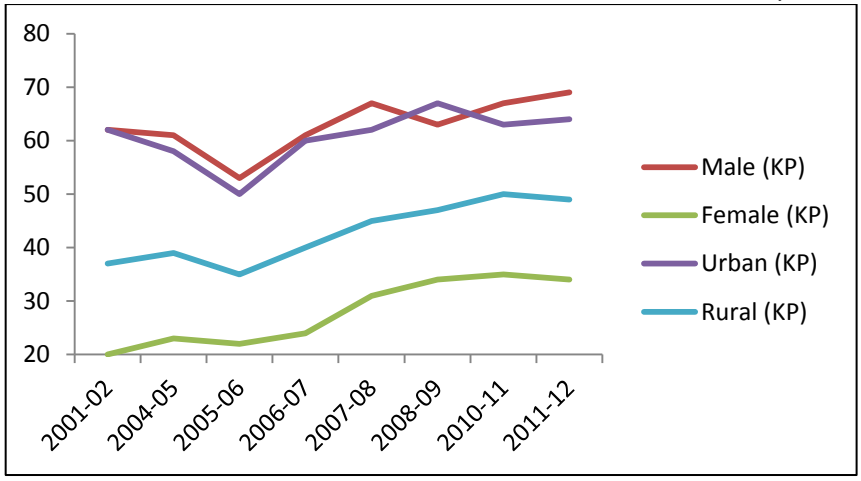
The growth in NER for male students in the last 10 years has remained low when compared to females. NER in rural areas has also risen quite sharply. However, to achieve the MDG target of gender parity particularly at secondary level, the figures need to improve more drastically.

FIGURE 5.3NET ENROLMENT RATES AT THE PRIMARY LEVEL FOR 6-10YR OLDS, 2011-2012 (%)



Source: PSLM 2011-12

FIGURE 5.4 NET ENROLMENT RATES AT THE MATRIC LEVEL FOR 14-15YR OLDS, 2011-2012 (%)



Source: PSLM 2011-12

Despite the reported progress in gross and net enrolment rates, overall enrolment rates are low with a very high-drop out ratio; one-third of the children leave school before completing primary education[78]. As per official estimates, the current stock of primary-aged out-of-school children (OOSC) is about 530,000, with 400,000 girls and more than 100,000 boys[79]. This is far worse in KP's rural areas than in the urban. The situation is worse at higher levels—UNICEF calculates the total number of out of school children in KP at primary level at over 1.0 million (37 %) at primary level and almost 500,000 (32 %) at lower secondary level[80].

[78]Calculated on the basis of KP EMIS (2011-12) and NIPS (2013) - Ministry of Education, Trainings and Standards in Higher Education, Government of Pakistan, National Plan of Action to Accelerate Education-Related MDGs 2013-16

[79] Calculated on the basis of KP EMIS (2011-12) and NIPS (2013)

[80] OOSC study based on a new CMF methodology – figures derived from last available data (PSLM 2007-08)

The trend of non-attendance in KP is similar to the one observed at national level. There is significant late enrolment and hence over age children at each level – for example, the official pre-primary age is four years old, but children up to the age 9 are attending this level. Furthermore, approximately 70 % of primary school age children who are out of school are involved in child labor. Most of these children belong to rural areas and poorer families.[81]

Low enrolment rates are generated by two groups of children: a) those who have never attended school and b) those which attended school but dropped out before completing primary school. PSLM data 2011-12 provides some insight into this: the most commonly cited reasons are parental permission (for girls), schooling costs, and unwillingness of children to go to school—which could suggest a variety of both supply- and demand-side constraints.

TABLE 5.3 REASONS FOR LEAVING OR NEVER ATTENDING SCHOOL, 2011-2012 (%)

	Reasons for leaving school before completing primary		Reasons for never attending school	
	Boys	**Girls**	**Boys**	**Girls**
Parents did not allow	0	25	0	55
Too expensive	20	15	37	7
Too far	0	7	1	4
Education not useful	5	0	0	0
Had to help at work	2	0	9	2
Had to help at home	0	1	2	4
Completed desired education	0	0		
Child not willing	55	43	32	15
Others[82]	18	9	20	13

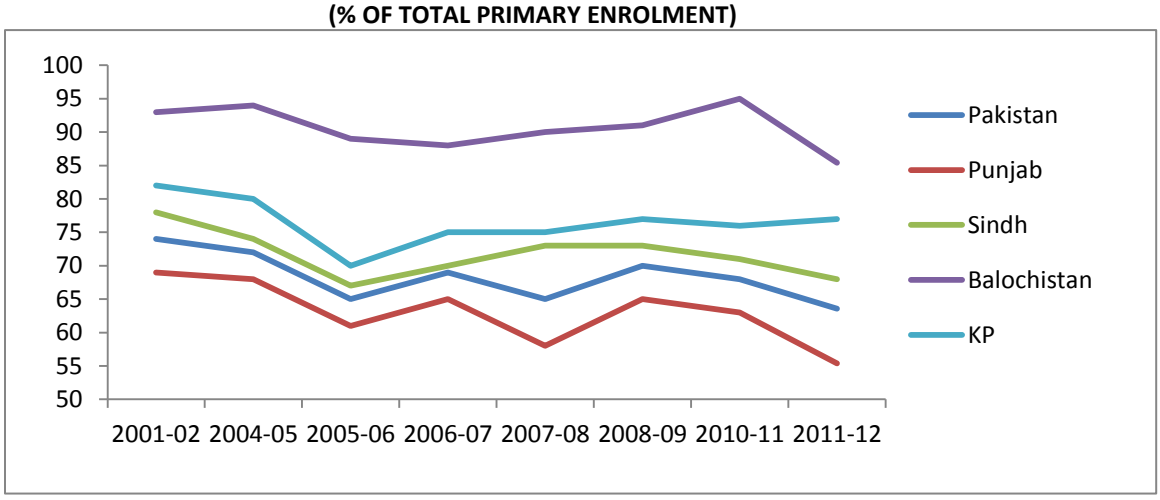
Source: PSLM 2011-12

Private vs. Public Schools: Majority of children in KP are enrolled in public sector schools. Primary school enrolment in the public sector schools of KP is second highest after Balochistan (see figure below). Of the students currently enrolled in academic institutions in KP, only 23 % are enrolled in private schools while 74 % are enrolled in public schools and only 1.4 % in *Madaris*. However, the KP EMIS calculates that the private sector is growing annually at 6 %, compared with 2 % growth in public sector enrollment. Students in private schools are also outperforming students in government schools in terms of learning outcomes.

[81] Unpublished

[82] "Other" includes 'Poor teaching/behavior', 'No female staff', 'No male staff', 'Child sick/handicapped', 'Child too young', 'Lack of documents', 'Marriage', 'Service', and 'Other'.

TABLE 5.4: PRIMARY ENROLMENT IN GOVERNMENT SCHOOLS, 2001-2012
(% OF TOTAL PRIMARY ENROLMENT)



Source: PSLM 2011-12

Availability of private schools across districts varies and the opportunity for private education remains low in some in relatively remote districts such as Kohistan, Upper Dir, lower Dir and Lakki.

According to the latest figures from the KP Higher Education Department, there are 178 colleges in the province and 80 of them are under-enrolled and 70 overcrowded at intermediate level[83]. The under-enrolled colleges for boys at intermediate level total 55 and the overenrolled ones are 46. Similarly, there are 23 overcrowded colleges for girls at intermediate level and 22 under-enrolled ones. At intermediate and graduation levels, the under-enrolled colleges for boys are 56 and the overcrowded ones are 32, while the overcrowded girls colleges total 29 and the under-enrolled ones 23.

Literacy: KP literacy figures are also substantially behind the national average – having stayed around 50 % since the last three years. Only 35 % of females in KP are literate – better than rural Sindh or Balochistan but much lower than Punjab and the national average.

Quality of Education and Learning Outcomes: According to the National Assessment System (NEAS) Report's findings of 2008, students in KP are lagging behind their counterparts in the Punjab. According to ASER, learning levels are low, boys outperform girls in all three subjects (English, Maths, and Urdu); and performance of private schools is better in English, Maths and Urdu.[84] The disparity in gender variations calls for policy action and prioritization. Moreover, KP has a teacher student ratio of 1:43 at primary level, which implies that all students will not receive equal or sufficient attention in a suitable learning environment.

Key Issues and Recommendations

Progress on MDGs: KP is quite unlikely to achieve the MDG target of 100 % primary enrolment by the 2015. Despite the fact the Government of Pakistan seems committed towards the achievement of the MDGs Goal 2 and Goal 3 which focus towards development of education, progress at the national and provincial level remains off track. The key indicator for attainment of the MDG goal on universal primary education is the NER, and KP, which has in fact experienced stagnation in NER growth rates in the last decade, is unlikely to meet the ambitious target of 80 % by 2015.

[83] http://www.dawn.com/news/1055330/kp-colleges-either-overcrowded-or-under-enrolled
[84] Annual Status of Education Report - ASER is a citizen-led household based assessment that complements education assessments conducted by the government.

TABLE 5.5: PROGRESS TOWARDS MDG 2 & 3, 2011-12 (VARIOUS INDICATORS)

Indicator	MDG Target 2015	National	KP
Net Primary Enrolment Rate (5-9 Years)	100	57	39
Completion/Survival rate 1 grade to 5	100	49*	-
Literacy Rate (%) 10 years and above	88	58	46
Primary Education (Age 5-9 Years)	1.00	0.9	0.81
Secondary Education (Age 14-15 Years)	0.94	0.78	0.58
Youth Literacy (Age 15 years and above)	1.00	0.81	0.60

*2010-11, Source: PSLM Survey 2011-12

While more funds are needed for education as a whole, KP is currently spending much more on secondary education, possibly even at the expense of primary education. At present, the enrolment levels at primary education seem to have plateaued while those for secondary education are still on the rise.

> **Recommendation:** The unmistakable trend of relative lack of emphasis on primary education as KP relative expenditures on primary education, both recurrent and development, are the lowest of any other province and falling, needs to be reversed. Keeping the trends identified in other provinces such as the Punjab, KP needs to re-evaluate its policy of higher levels of investment in secondary and tertiary subsectors. Primary education should be the focus of provincial investments to improve enrollment rates and learning outcomes.

Gender Disparity: Although the provincial government has made many commitments and prepared ambitious policy plans to counter gender disparity in education, gender gaps have not decreased substantially. The problem is much worse at the lower secondary level. Lack of basic facilities such as toilets, boundary walls, and drinking water discourages parents from sending their daughters to school. Parents feel insecure sending girls to school if the schools lack security.

Recommendations:

- Improve infrastructure and security provision: Lack of road networks, effective public transport, security guards, and boundary walls at schools, etc., all heighten security risks for sending girls to schools, especially in remote areas.
- Increase female teachers: One key intervention that the government can make is to increase the number of female teachers, since this hugely increases parents' confidence with respect to sending their daughters to school.

Improving Access: Proximity to school has been identified as a key determinant of primary school enrolment and retention: the further a child lives from a school, the less likely they are to attend. In rural areas, there are many children who have to travel for more than an hour to school. In many of these areas, public transport is nonexistent and, when options do exist, they are sometimes not secure. These problems are particularly severe for girls, because of the smaller number of girls schools[85]. In the case of KP however, most households have a primary school close by**.** Approximately 80 % of households take up to 14 minutes to reach a primary school. Likewise, almost 60 % of households take up to 14 minutes to reach a middle school and 45 % of households take up to 14 minutes to reach a high school. Time taken for girls is likely to be higher because of the relatively smaller number of females schools.

Recommendation: Reduce distance to school. School location has a significant and large impact on girls' enrolment

[85]Government of KP, Comprehensive Development Strategy 2009-2015, 2009.

but less so on boys' enrolment. A starting point would be to define a specific distance in which at least one school should exist across the whole province and schools should therefore be built in those areas where they do not exist in order to reduce travelling time.

School Infrastructure: The non-availability of basic facilities has resulted in low enrolment and high dropout ratios, and the low quality of education in KP is often reflected in the lack of physical state of school infrastructure. KP was ranked last (amongst all provinces) with only 32 % of all ASER-surveyed primary schools having useable facilities[86]. Expanding the number of schools to fill major gaps in coverage has been a strong focus of investment in recent decades. However, the emphasis on new building has led to a neglect of the maintenance of existing buildings and of the management of schools that do exist. Around one third of the schools don't have water, one half don't have electricity, and close to one quarter don't have boundary walls or latrine (see table below). The slow accretion of needed facilities reflects inadequacy of resources and lack of investment along with low development allocations. A significant proportion of schools have more than one missing facility, which highlights the fact that in many schools, the lack of facilities is not random but a systemic problem. As is expected, this diminishes the quality of the learning environment.

TABLE 5.6: MISSING FACILITIES IN SCHOOLS, 2011-2012 (% OF SCHOOL TYPE WITHOUT FACILITY)

Missing Facilities	Primary Schools	Middle Schools	Higher Secondary	High Schools
Without boundary wall	28%	21%	7%	15%
Without building	1%	0%	0%	0%
Needs repair	22%	15%	19%	15%
Electricity	50%	31%	6%	12%
Toilet block	26%	14%	3%	6%
Drinking water	36%	27%	8%	14%

Source: NEMIS 2011-12

Recommendation: Emphasize monitoring performance in the education sector by giving increased importance to the Education Management Information System (EMIS) so that the school infrastructure conditions can be appropriately reflected.

Economic Limits to Access: Poverty is a big factor in reducing access. 12% households say that education is too expensive. There is a 37 % difference between school participation of 6 to 10 year olds in schools between the first and the fifth asset quintile. The difference, predictably, grows further for 11-15 year olds.

[86] Annual Status of Education Report 2012

TABLE 5.7PRIVATE SECTOR PARTICIPATION ACROSS ASSET QUINTILES, 2011-2012 (%)

	Enrolment	
	6 to 10	**11 to 15**
First	46	43
Second	58	58
Third	66	66
Fourth	74	77
Fifth	81	87

Source: PSLM 2001-2011

A large percentage of Pakistan's population is living below the poverty line and, while this situation persists, social protection programmes will remain essential. Relatively poor participation of poorer quintiles in the public school system, despite relatively close availability of schools also indicates the need for demand side interventions to reduce the out of pocket and opportunity cost of schooling. School fees and the costs of books, stationary, uniforms and other school needs are often too much for poor families to bear. In an attempt to counter this, primary education was made compulsory in 2002 and also textbooks and tuition made free of charge to lessen the financial burden on parents. In spite of this, school enrolment as well as gender disparity in basic education does not seem to be improving.

Recommendations:

- **Ensure flexible hours:** especially for households where children are engaged in labor such as working in the field during harvest season or assist in sowing or alternatively looking after household chores. This will provide them an environment conducive to manage schooling given their daily routine and will also reduce the cost for parents to send their children to school.
- **Provide social safety nets:** like the Benazir Income Support Programme/vouchers that are specifically directed towards education, for the poorest 20 % to 30 % households. The Punjab Education Foundation (PEF) through its EVS programme is already doing this.
- **Link Social Protection Programmes to School Attendance:** By linking social protection programmes such as the Benazir Income Support Programme with school attendance levels and increasing the amounts provided for education, their impact could be enhanced.
- **Provide skill-based learning:** Parents' perception is that children are not learning any useful or income generating skill. Hence the government should provide opportunities for skill based learning to ensure they are trained as most appropriate for the local market.
- **Introduce schemes to incentivize:** Introduce schemes such as stipends programmes or provision of hot cooked meals during the day to attract parents into sending their children to school. Mid-day meals may be provided to attract children, especially from low-income groups, to enroll in school. Such schemes have been found to be a success in India. The school feeding programme in India is so vast that the Right to Education law has specific requirements for kitchens in schools to provide mid-day meals.
- **Schemes should focus on both girls and boys:** Currently, most stipend and cash transfer programmes focus on girls, given the status of female education. However, many boys are pulled out of school after the age of 10 years because of economic responsibilities. These boys also need to be targeted. It is also important to bring the many disparate education stipend programmes together to improve overall outreach and reduce duplication of effort.

Rural-Urban Disparities: A breakdown of data on multiple indicators reveals large and persisting rural-urban disparities, however

Recommendations:

- **Enhance budget:** Given the low budgetary allocations to the education sector, there is an acute shortage of public schools, especially within close proximity of communities and in far-flung remote areas of the country, particularly in mountainous and tribal regions.
- **School Mapping**: Proximity to school has been identified as a key determinant of primary school enrolment and retention: the further a child lives from a school, the less likely they are to attend. School Mapping should be done to ensure that enough schools are present in far-flung and remote areas and not just concentrated in certain regions. This will ensure accessibility. Lack of schools in nearby vicinity particularly hampers girls' access to schooling.
- **Increase spread of schools:** Schools need to be built in villages/neighborhoods where there are non-existing
- **Increase attendance of females in remote areas:** Attendance rates for female teachers can be enhanced through transport allowances. Currently, teachers posted in only urban areas receive a 'big city' allowance. This benefit should be expanded to female teachers posted in rural and remote areas to help reduce problems related to mobility. This would increase not only teacher supply but also the motivational levels of female teachers, especially in rural and remote areas.
- **Update definitions:** The rural-urban definition needs revision. Despite the fact that the increase in the number of teachers is higher in urban areas and concentrated in a few districts, the increase in enrolment is so high that it reduces the Student Teach Ratio (STR) for rural KP as a whole. The definition of urban and rural areas is antiquated. As urban settlements grew, they subsumed what is currently considered rural. As a result, what the Government considers to be rural would more appropriately be defined as peri-urban. Using GIS analysis and satellite imaging, an attempt has been made to divide the two categories of urban and rural into three categories of urban, peri-urban and rural for the district of Swabi.

Low Transition Rates: Transitioning from one level of education to the next is critical for reducing the number of children dropping out of school. This has to be addressed at two points: in early childhood education (ECE), by providing facilities and creating awareness among communities and households. This will ensure that pre-primary children move to primary school on time so that they are not overage as they progress through primary school. With the high dropout rates at the end of primary, targeted interventions for children aged over 10 years are required to help them transition from primary to lower secondary level

Recommendations:

- **School up-gradation:** Upgrade existing primary schools in all provinces to middle level so that children have opportunities to transit from primary to middle and then to secondary levels of education.
- **Reduce Mobility costs for girls:** Similarly, participation by girls in education beyond primary is hampered by high mobility costs to the few and distant lower secondary schools. The cash stipend provided for lower secondary school should be enhanced for girls from rural communities to enable them to meet travel costs.
- **Catch-up Programmes:** Children particularly belonging to the age group of 6-10 require well-designed catch-up programmes through non-formal methods in order to assist them reach par with school-going children of their age. Expansion of non-formal learning options can be critical for out of school children. They need to be provided with catch up programmes and mainstreamed to schools when ready.

Functionality: Most of the non-functional schools in KP are located in districts where security has been poor. However, even high attainment districts like Abbottabad have non-functional public schools, which is an indicator of poor governance[87]. The KP government has made an effort to identify such schools through the annual school census. According to the Annual Statistical Report, there are 28,472 government schools in KP of which 27,975 are functional while 397 are non-functional/temporarily closed and 100 are newly constructed. Majority (23,073 or 83

[87] KP MDG Report 2011

per cent) of the schools are government primary schools while government middle schools, high schools and higher secondary schools make up 9, 7 and 1 per cent of all the schools respectively. Most of the non-functional/temporary closed schools are girls' schools with 288 of them primary and 7 secondary schools.

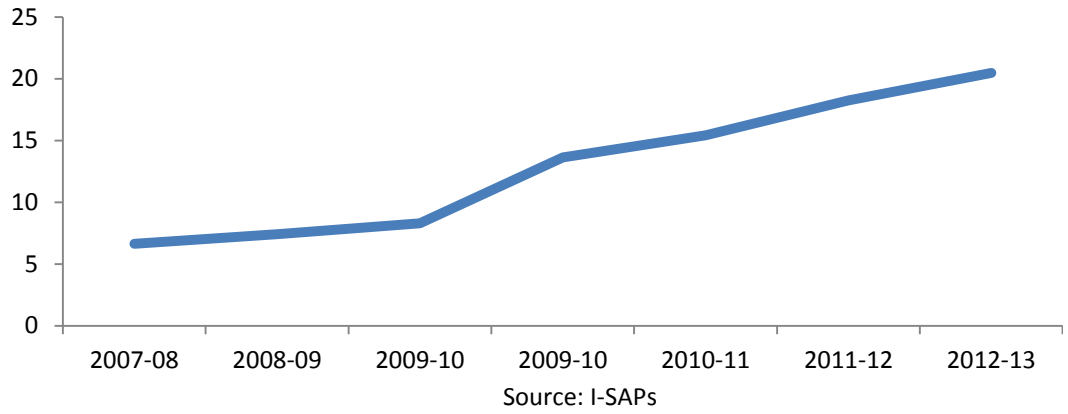
Low Pre Primary Enrolment: While pre-primary education has improved, there is still a large gap and too many children have little or no access to the first step for school *readiness.*

Recommendations:

- **Regularize Early Childhood Education:** Ensure through inclusion within the primary cycle or by creating separate budget lines for pre-primary education the early childhood education regularized across the public sector.
- **Pre-primary to become part of the education system:** Pre-primary education needs to have greater significance in the education cycle by making it a principal component of the primary education system. This can be achieved by hiring dedicated teachers for this level, preferably local females who have received specialized training in understanding the cognitive and social development needs of young children

Lack of resources: A major difficulty in achieving universal primary education in KP has been the lack of resources channeled towards education. While education does receive the bulk of the social development related budget in the province with increasing allocations, the overall proportion of funds allocated to the sector still quite low. From these funds, the bulk of expenditure is on teachers' salaries, rather than one expansion of on infrastructure and access and the improvement of quality, leading to stagnation in the level and quality of educational facilities available.

FIGURE 5.5: PROVINCIAL BUDGET ALLOCATION FOR EDUCATION, 2007-2013 (PKR BILLION)



Source: I-SAPs

While the lack of funds is a difficulty all provinces in Pakistan have faced, one of the biggest problems that KP has had to combat has been the destruction of schools and educational infrastructure, through the actions of armed insurgents who operate in the tribal areas and adjacent districts of the province; and the collateral damage caused to public and private property because of the subsequent military operation.

The militants' systematic eradication of secular schools, specifically girls' schools has been a major setback in areas where educational facilities are already scarce. The provincial government has been tasked with the widespread reconstruction of public infrastructure and new educational facilities, a heavy price to pay when combined with the demands of the MDG targets for education, which posit the expansion of what were once existing schools and teaching facilities.

Within the new governance set-up, having education as a devolved provincial subject, the pressure on provincial governments has increases manifold, and KP is no exception. Budgetary outlays have to be increased to not only meet the existing demands but also address the devastation resulting from the floods.

The actual public expenditure on primary education is stated to be PKR 24.57 billion for the province, which is spent on educating 2.8 million children at a cost PKR 8,630 per student per year. KP's expenditure per primary student in the public schools remains the lowest in the country. KP's spending per student is almost half of Punjab's expenditures.

TABLE 5.8: EDUCATION EXPENDITURE PER PRIMARY STUDENT & PER CHILD (PKR)

	Actual Education Expenditure- Pre & Primary (Million)	Education Expenditure per Student	Education Expenditure per Child age 5-9Y
Punjab	75,371	17,915	6,998
Sindh	25,205	11,468	5,019
KP	24,574	8,630	8,638
Balochistan	7,683	16,469	6,985
Federal	4,671	8,132	3,299
National	137,504	13,358	6,502

Source: Ministry of Education, Trainings and Standards in Higher Education, Government of Pakistan,

> **Recommendation:** Provision of education in emergencies, particularly floods, must become a core part of any education policy/strategy of the government of KP.

Non Salary Allocations: Extremely inadequate non-salary allocations need to be increased. Operational expenses for both primary and secondary education, already meager, are falling as a share of current expenditures and have also fallen in nominal terms over the last three to four years. Without running expenses for teaching learning materials and funds to pay utility bills, classroom environment is not conducive for learning and student attention. Poor school and classroom environment that fails to engage the attention of the student is, considered by many experts, to a very big contributor to drop out at the early level.

Private Sector Participation: Private sector participation is uneven but is growing and needs to be encouraged: It is currently limited, as only one-fourth of the population is enrolled in private schools. Isolated and insecure districts such as Kohistan rely heavily on public provision of education primarily because the availability of private schools in these districts is limited. The growing private sector in KP, though limited in its presence and possible role in the immediate future in many rural districts, also holds promise as a means for service delivery through public private partnerships that fund students based on agreed learning achievements.

> **Recommendation:** In particular, government may consider funding a new private sector school, if entrepreneurs and teachers are available, in areas that are currently not served by public sector schools with a defined radius.

ESP Implementation: Implementation of the Education Sector Plan (ESP) is constrained by an arbitrary planning process. The priorities reflected in the budget estimates, also outlined in the ESP have a short-term and medium-term perspective but do not propose interventions for long-term development of the sector. Government's planning process is yet to adapt to medium-long term imperatives. ESP interventions sound impressive, however, in practice their rollout has been ad-hoc. Another consequence of weak planning is that there is no system that guides interventions in the education sector. Distribution of resources has become more equitable but only marginally so. Enrolment has increased and over the last three years, the distribution of these resources has

become relatively more equitable. But there is no trend to this and it remains ad hoc. Public schools in remote districts such as Kohistan and Batagram have increased, which has improved enrolment in these districts. Availability of other facilities is skewed with four or five districts receiving a disproportionately higher share of resources.

Recommendation:

- Policies and interventions in the education should not only focus on increasing access to education, but should also kook at regional and gender disparities that are hidden behind aggregate statistics.
- It is important the resources over the next 5 to 10 years are spent in higher proportions in the most deprived districts. This will help reduce the stark disparities in the education sector of KP.
- In addition, the provision of education needs to be complemented with a policy that is oriented towards enhancing the quality of service delivery as well, measured in terms of learning outcomes, which has recently become an important indicator of education provision.

5-B: Skills Development[88]

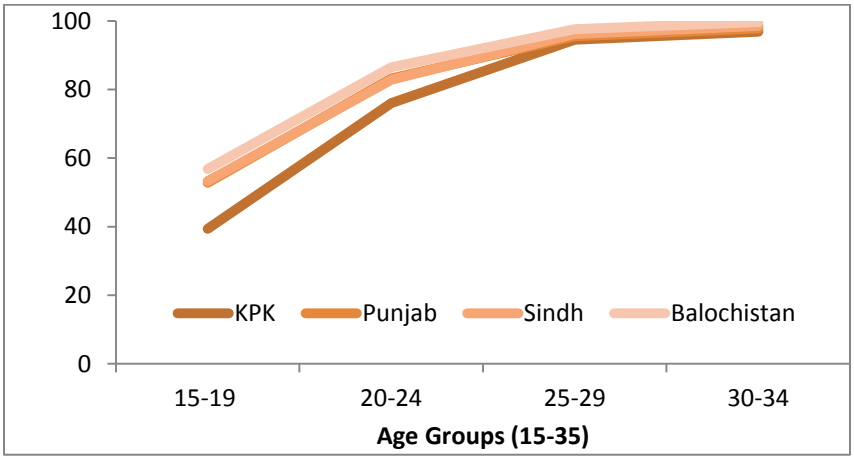
Overview

KP is home to 24 million people[89] with more than half of working age population (aged 15-64[90]). In coming years, the declining fertility rate will shrink the base of the population pyramid and younger cohorts will move to the middle, creating a "youth bulge" – a phenomenon considered to be a one-time window of opportunity for a country or region's economic development, as the lower dependency ratio, higher female labor force participation rates and higher savings rate boost the output per capita. The critical issue, however, is to ensure that the burgeoning working age population is gainfully employed and contributes to the provincial economy. In order to understand whether the youth bulge in Khyber Pakhtunkhwa is set to yield a dividend or present a burden, one must try and answer three critical questions:

1. Are the youth joining the provincial work force?

Looking into the first dimension, we find that the Labor Force Participation rate of the province (at 25.7%) is 22% lower than the national average[91]. This is due both to the low participation of women in the economy (Table 2) as well as the comparatively low participation rates of male youth (Figure 1). Convergence with national average and other provincesoccurs only at the 30-34age group.

FIGURE 5.6: AGE SPECIFIC LABOR FORCE PARTICIPATION RATES FOR YOUNG MALES, 2012-2013 (%)



Source: Labor Force Survey, 2012-13

2. Are they finding work?

The provincial economy is not creating enough jobs for the new labor force entrants, hurting the young to a greater extent than other age groups.[92] The unemployment rate of KP is the highest in Pakistan. Compared with the unemployment rate of age ten and above for Punjab at 6.4%, Sindh at 5.2% and Baluchistan at 3.9%, KP posts an exceptionally high rate at 8.6%.

[88] Sarah Saeed, Punjab Skills Development Fund
[89] Khyber Pakhtunkhwa in figures, 2011, Government of KP.
[90] Labor Force Survey, 2010-11
[91] According to the Labor Force Survey 2012-13, the Crude LFPR of Pakistan (all areas, both sexes) is 32.9.
[92] Labor Force Surveys, Government of Pakistan

TABLE 5.9: YOUTH UNEMPLOYMENT RATE FOR THE MALE POPULATION, 2012-2013 (%)

Male Unemployment by Age Group	Pakistan	Punjab	Sindh	KP	Baluchistan
15-19	11.20	14.03	6.29	12.11	5.80
20-24	8.86	8.55	8.38	11.26	9.55
25-29	5.42	4.24	6.14	8.31	8.00
30-34	2.40	2.23	2.23	4.10	1.51

Source: Labor Force Survey, 2012-13

3. Are women entering the labor force and helping reduce the dependency ratio?

While participation of women in the workforce has improved over time (from 9.8% in 2001-02 to 19.6% in 2011-12), the unemployment rate for females of all age groups is again the highest among all provinces.

Lower than average labor force participation rates and higher unemployment especially amongst the youth are factors that fuel feelings of despondency and social exclusion. In the context of KP, creating conditions to reap the demographic divided presents a dual challenge: one, providing a secure and productive economic environment that generates opportunities for the young looking for work; and second, bringing about conditions that will enable women to become productive members of the society.

TABLE 5.10: FEMALE UNEMPLOYMENT RATES FOR AGES 10 AND ABOVE, 2012-2013 (%)

	Unemployment Rate
Pakistan	9.03
Punjab	8.35
Sindh	8.16
KP	16.49
Baluchistan	7.26

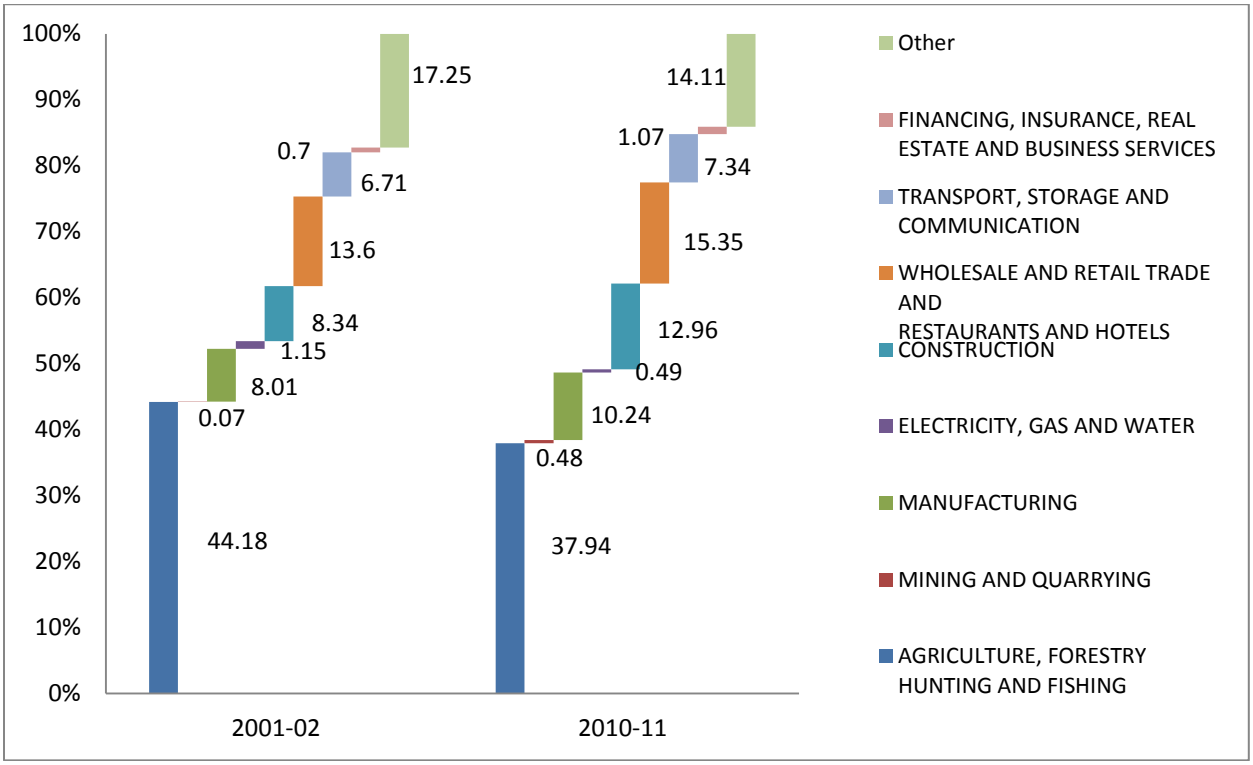
Source: Labor Force Survey, 2012-2013

The Transition to Jobs

New and prospective labor force entrants in KP have two choices in front of them: to join the provincial labor force or to seek employment aboard. Skills development efforts, therefore, have to respond to both the domestic and the overseas markets.

In the provincial labor market agriculture is the largest formal employer, albeit with declining importance. The declining share of the agriculture sector in the provincial labor force has not been replaced by manufacturing. There have been modest increases in the relative contribution of the construction sector followed by the wholesale and retail, manufacturing and transport sectors.

FIGURE 5.7: SHARE OF EMPLOYED LABOR FORCE BY SECTOR, 2001-02 AND 2010-11 (%)



Source: Labor Force Surveys, 2001- 02 & 2010-11

The informal sector provides jobs to 74%[93] of the employed non-agricultural labor force. Retail and wholesale trade, construction and transport account for nearly three-quarters of this. Employment opportunities for females in the informal sector are even more limited than in the formal sector, as 94% of informal workers are male.

Overseas markets offer an alternative option for employment for unskilled, semi-skilled and skilled men from KP. The mix is tilted towards low-skilled jobs – in 2010, 40% of Pakistan's total outgoing overseas labor was unskilled.[94] KP's skills development system has to take account of the above dynamics as well as grapple with an unconventional need from the Federally Administered Tribal Areas and some areas of the province of Khyber Pakhtunkhwa, which have experienced a protracted struggle against militancy. The post-conflict strategy of KP and FATA accords high priority to restoring livelihoods and generating employment,[95] which require stimulating local investment, encouraging entrepreneurship, and engaging skilled and semi-skilled labor in reconstruction efforts—interventions that all dictate an innovative approach towards training.

Skills Provision and Future Planning:

Historically, the Technical and Vocational Education and Training (TVET) sector in the province has been accorded a low priority. In OECD countries, TVET enrollment to the size of age group 10-16 (or 11-17 in some cases) lies between 25% and 60%. For fast developing East Asian countries, this percentage is between 10% and 20%. For the province of Khyber Pakhtunkhwa, the ratio of public sector TVET enrollment to the number of children between

[93] At the national level, the informal sector provides jobs to 73% of those employed in non-agricultural activities.
[94] Overseas Employment Corporation, Islamabad.
[95] Government of Khyber Pakhtunkhwa (2010); Post Crisis Needs Assessment, Khyber Pakhtunkhwa and Federally Administered Tribal Areas.

the ages 10 and 16 is a mere 0.8%; adding an estimate of private sector enrollment, the ratio climbs to slightly above 1%.

Skills planning and the sector's absorptive capacities are limited. The province does not have a skills policy articulating a *provincial* agenda. The National TVET Reform Programme has assisted the KP Province in developing a Skills Development Plan (an action plan) to implement the National Skills Strategy. The Plan proposes different measures to improve relevance ensure equity and access and enhance quality of TVET. It also envisages a Research Wing within the TEVTA Secretariat to support evidence-based interventions. Policy research and evaluation activities have been limited. No recent tracer study is available to inform policymakers about the employability of past graduates.

The total (current and development) budget allocated to technical education and vocational training in 2013-14 was PKR 3.064 billion (0.93% of total budget). Official budget documents of the province propose an ambitious jump of more than 40% in the recurrent allocations in three years' time from the original budget allocated to TVET in 2012-13 and a 54% enhancement in development allocations. But according to the available statistics, in May, 2013, a mere 62% of the releases had been utilized, signaling a low absorptive capacity[96].

The Annual Development Programme for 2013-14 plans 57 projects: 50 of these are infrastructure-related projects (including establishment of a technical university); only 7 are soft projects. (A study for needs assessment and improvement of TVET system in KP province is expected to diagnose existing systemic shortcomings in terms of quality and relevance of training). There is so far, no planned investment in developing a Labor Market Information System i.e. data and research that points towards skills needs in productive sectors, trends, wages and employability, to name a few aspects that are captured by it. A number of donor-assisted projects are being pursued in the province. USAID plans to launch a Youth Workforce Development Programme in Karachi, Southern Punjab and KP/FATA. The programmer targets unemployment through skills training and support for placement and self-employment. Though the programmer is in design phase, USAID hopes to address the weakest links in TVET: ensuring access for dropouts and the less literate and strengthening post training support.

Two projects funded by the European Union ("Improving access, quality and service delivery of the TVET sector to marginalized rural communities (covering Dir, Upper Dir and Swat as well as districts in other provinces)" and "Supporting the TVET sector for the uplift of marginalized rural communities (for KP and FATA)" amount to more than €5 million (PKR 725 million @ PKR 145 to a Euro)[97]. The latter project being implemented by TUSDEC has the target to train 12,000 individuals over four years. JICA is also an important donor and plans to invest in technical teachers training in the electrical and mechanical fields.

Situational Analysis

Preparedness of the current skills provision to respond to the challenges presented above can be assessed on the basis of four touchstones: the access it offers to the youth, its capacity, its relevance to the labor market and its quality.

Access:
Low education levels, gender and high opportunity costs of training all impede access of the less privileged to formal training. Almost all TVET courses require five to ten years of schooling for admission, but the primary schooling completion rate of population above ten years of age is 59% and 27% for males and females, respectively,[98] implying that a typical vocational course requiring primary completion not accessible to 41% of males and 73% of females. Similarly, technical education at the diploma level, which requires matriculation, would exclude roughly two-thirds of the population.

[96] Department of Finance (2013-14); Development Budget 2012-13 as on 14th May, 2013; accessed from www.financekpp.gov.pk
[97] European Union Document; Summary of EU- Pakistan Cooperation 2012.
[98] Government of Pakistan (2011-12), Pakistan Social and Living Standards Measurement Survey.

Women in the KP province form only 3.6% of total TVET enrollment. Their representation is the lowest in technical education; female enrollment is a mere 1.1% of total technical enrollment. Further, it is chiefly in traditional trades with low market value.

Financial constraints are another factor exacerbating the limited access to training. For regular vocational trainees of the province, no stipend is available to cover the opportunity cost of training. Only a limited number (1,335 trainees in 2011-12) availed a stipend of PKR 3,000 under a special scheme.

Capacity:
Public sector TVET enrollment in the province is reported as 34,067, in close to a hundred institutes, and growth has been stagnant over the last seven years. Enrollment in publicly-funded *vocational* training—the service accessed by those with the lowest educational and income status—is only 12% of the total enrollment in the three streams, and has been declining by 3% on average each year.[99] In 2011-12, there was no vocational enrollment in Battagram, Buner, Kohistan, Lakki, Lower Dir, Shangla and Upper Dir as these districts had no public sector vocational facility.

Interestingly, the declining or stagnant trajectory of TVET enrollment is not merely a demand side issue. Projects funded by the federal agency – the National Vocational and Technical Training Commission (NAVTTC) (covering only operational expenses) have been able to enhance TVET output in KP as well as other provinces significantly, partly by financing stipends and partly by pumping in operational funds for cash-starved TVET institutes. The existence of idle infrastructure is strengthened by the data shared by the Directorate General of Technical Education and Manpower Training (DTEMT) which shows that provincial enrollment figures for certain trades are lower than the minimum class size generally followed in the TVET sector e.g. only 3 students were found enrolled in a course of advanced welding, 3 were enrolled in carpentry and 4 in the trade of aluminum fabrication.

Apprenticeships in the province are governed by the Apprenticeship Ordinance of 1962. Apprentice-able trades are notified by the government from time to time. An employer who employs more than five persons in an apprentice-able trade is obliged to train as apprentices, a minimum of 20% of persons employed in that trade. Figures provided by the DGTE&MT show that the apprenticeship system in the province is very weak. Against 91 firms notified as eligible for offering apprenticeships, only 27 have such programmes operational[100]. In 2007, the number of registered apprentices was 100. Five years later, in 2012, the figure was only 150. In comparison, the number of enrolled apprentices in Punjab is more than 10,000[101].

The case for enhanced budgetary allocations for publicly delivered TVET cannot be advanced without a relook at the utilization levels of existing institutes. A mix of demand and supply side interventions is required to bring the existing institutes to their full utilization and to increase the enrollment capacity by setting up new institutes. Even though 5 districts do not have a technical institute and 46 Tehsils are without a vocational center, the logical sequence for reforming publicly delivered TVET would be to ensure utilization of existing training infrastructure and address access constraints of potential trainees before setting up new institutes.

Quality Framework:
Although no national benchmarks exist to compare TVET provision across provinces, employers' perception of the system can serve as a subjective assessment of quality. A recent study by TUSDEC[102] mentions that according to firms, the quality of TVET institutes [in KP] is not monitored and that the *"curricula provides a set of syllabus guidelines rather than a complete package of learning."* In FATA, 36% of the employers regarded the quality of

[99] Khyber Pakhtunkhwa, Technical Education and Vocational Training Agency, Annual Report 2011-12
[100] TUSDEC (2013); Baseline Study Report; TVET Needs Assessment in KP and FATA
[101] Vital Data (apprentices) as of March 31, 2013; Punjab TEVTA.
[102] TUSDEC (2013); Baseline Study Report; TVET Needs Assessment in KP and FATA

TVET as poor[103]. Reasons cited for this include teacher and student absenteeism, lack of funds and unreliable energy supply.

The archaic training content is being revised by the federal agency- the National Vocational and Technical Training Commission (NAVTTC)- and subsequently being adopted by the KP Board of Technical Education (KPBTE). At the institute level, however, the ability to implement the new national curricula is limited. The federal government offers little in the area of teaching and learning materials as well as teacher training. The province has a teacher training institute at Hayatabad, which needs to upgrade its ability to train teacher in accordance with the revised curricula.

Testing and certification is not regulated by a single, credible quality framework resulting in multiple agencies with overlapping mandates. The KPBTE affiliates both public and private providers delivering technical training. Currently, it has 565 affiliated institutes[104]. Two other bodies are carrying out affiliations of private institutes in parallel. The Trade Testing Board has registered and affiliated 400 institutes out of which 320 are operational. A Skills Development Council established under the National Training Ordinance of 1980 has affiliated an additional 223 institutes.

Unfortunately, work on accreditation of awarding bodies has not progressed at a desired pace at the federal level and national and international equivalence of TVET qualifications remains a moot question. As a province for which remittances from abroad and other parts of the country are of significance, raising the demand for nationally accredited TVET qualifications should be a relevant priority.

Efficiency:
Evidence on the less-than optimal operational efficiency of public sector TVET institutes is convincing. According to a JICA-commissioned study of 2007[105], efficiency levels in TVET institutes of the province were generally low and lower still for women's institutes and for vocational training institutes compared to technical ones. In the same year, a "Rapid Assessment of Selected Training Institutes" conducted by the International Labor Organization (ILO)[106] studied twelve (12) selected KP TVET institutes. All except one were assessed to be working at less than optimal training capacity. Five institutes were well-equipped in terms of machinery, building and trainers and could easily add 2500 individuals with operational funding. The remaining institutes were found deficient in terms of machinery, trainers or building structures.

Budgetary constraints contribute to capacity under-utilization to a significant extent. On average, the provincial government spends PKR 273 per TVET trainee per month (excluding salaries)[107] which cannot support essential expenditure for practicals, such as purchase of consumables, training resources and repair and maintenance of machinery. For consumables, the DTE&MT reports an allocation of PKR 60-70 per trainee which is often released late and hence even this amount cannot be utilized.

Due to unstable security situation in FATA, it will be unfair to comment on the underutilization of technical institutes there. A survey commissioned by TUSDEC in 2010 reported that GTTI, KharBajaur Agency which previously offered six technical and vocational courses was at the time running only one. Another technical institute in Mohmand Agency was offering only two out of its eight approved courses. Similarly, only 40 out of the 70 Women Development Centres were functioning[108]. Understandably, therefore, FATA Development Authority has pursued a strategy of outsourcing training services to institutes located outside the region.

[103]TUSDEC (2010); FATA Job Market Survey.
[104]www.kpbte.edu.pk
[105] JICA (2007); Revitalizing TVET Institutions, An Assessment of Training Needs; conducted by Semiotics Islamabad.
[106]Rapid Assessment of Selected TVET Institutes in Pakistan, ILO.
[107]Calculated from current non-salary budget for the Technical Education and Manpower Department and enrollment figures of KPTEVTA.
[108] TUSDEC (2012), FATA Job Market Survey

Labor Market Linkages and the Relevance of TVET:
The limited choice of course options available to trainees in the province points towards the lack of attention paid to introduction of new trades and technologies and diversification. There are only 31 vocational trades offered in public TVET institutes in KP against more than 100 trades offered in Punjab and more than 300 being offered under the BBSYDP in Sindh. Stone cutting and furniture making are two important industrial sectors in KP province yet there is not a single vocational or technical course dedicated to the former and only two vocational courses (woodwork and carpentry) serving the latter sector with a combined enrollment of 16 individuals.

Civil, electrical and mechanical technologies together account for 79% of total public sector technical enrollment. Eleven other technologies offer less than 3000 training places; which is equivalent to less than 1000 admissions a year since the diploma courses run for three years.

Dominant production sectors such as marble and granite, gems and jewelry, furniture making, food processing, agriculture and livestock are under-represented in the skills menu. TVET enrollment catering to these four important sectors is less than 1% of total technical and vocational enrollment in the province. Most conspicuous also is the urban bias of TVET; the agriculture sector which provides employment to 38% of the labor force is under-served.

TABLE 5.11: OFFERED COURSES AND ENROLLMENT IN SELECTED SECTORS IN KP PROVINCE, 2011-2012

Sector	Vocational or Technical Courses (Public Sector)	Enrollment in 2011-12
Furniture	Certificate in Woodwork Certificate in Carpentry	13 3
Food Processing	Diploma in Food Technology	84
Agriculture & Livestock	Diploma in Auto and Farm Machinery	49
Transport (Driving)	No course exists	

Source: Annual Report KP TEVTA, 2012

Despite the existence of three sector development companies (for marble and granite, hunting and sporting arms and gems and jewelry), vocational training packages for related trades have not been developed.

In successful TVET systems, the industry feeds into the design of the TVET system starting from policy formulation, to devising skills standards and delivery of courses. In KP, efforts have been made at the institute level in the past to set up structures supporting linkages with industry. Centre Management Committee (at vocational institutes) and Institute Management Committees (at technical institutes) were established with donor support and had representation from the local industry. Unfortunately, these Committees were unable to receive the sustained interest of the private sector as the latter saw little relevance of the TVET certificate holders for their businesses.

Placement efforts which are dependent on strong industry-institute are largely ineffective; in the case of FATA, eight surveyed institutes reported performing no placement function, either though job search assistance, job fairs or even through tracking employment of their trainees[109].

Skills Development in Conflict Zones:
International evidence shows that training can be an effective tool for rehabilitation of conflict-affected areas but mere job-specific training efforts do not suffice. In Sri Lanka, ILO's "Restoration of a Lost Childhood Programme"

[109] TUSDEC (2010)

had elements of psycho-social support, familial involvement, life skills and vocational training[110]. In Sierra Leone, vocational training was delivered along with investments in local rebuilding efforts and youth employment schemes[111]. In Mozambique, training both in the formal and informal sector was financed through a training fund. Side by side, an employment fund disbursed grants for small, technologically simple and labor-intensive micro-projects with strong community involvement. The project was implemented in phases with initial interventions focusing on severance from combat activities, training and immediate engagement in productive activities and later phases working for long term rehabilitation including access to micro-credit for business start ups.[112].

Areas such as Swat, Mingora, Buner, Malakand and Dir are affected by militancy, which is fueled by poverty, illiteracy and unemployment[113]. Thousands have been displaced and many others are in need of rehabilitation. In Swat, small scale vocational training interventions have been part of a rehabilitation strategy integrated with education, counseling and family participation.

In FATA, the security situation has led to dysfunctional labor markets. It is reported that the light engineering cluster in Darra Adamkhel engages a considerable number of skilled workers from Sialkot. Paradoxically, good technicians, produced by the local TVET system, prefer to emigrate to other prosperous regions.

A much more serious, sustained and large scale effort is needed along with effective coordination between different players especially donors who have shown interest in reconstruction and rehabilitation work in the province. In affected areas, it will not be enough to expand training supply; job creation through reconstruction investments will have to be strongly pegged with TVET supply integrated with wider social and individual support interventions. Lessons learnt from other countries in similar situations point towards the need to use the capacities of NGOs, community organizations and the private sector while local government institutions gear up to perform the required roles.

Entrepreneurship Development and Skills:
There is little evidence that the vocational system promotes small business development. Extending small loans for the establishment of micro enterprises aims to create an enabling environment where skills acquired can be put to work. In KP, five programmes with a collective budget of PKR 4 billion are currently offering loans for micro and small businesses. A project titled “Hunarmand Rozgar Scheme” plans to disburse PKR 1.3 billion to TVET graduates as soft term loans, with a 30% quota for women. The programmes are in early stages of implementation and are yet to be evaluated for their effectiveness.

The Way Forward

Skills priorities must be aligned with present employment opportunities as well as with future growth plans. The skills system in KP must be realigned to this, and made accessible to large cohorts of youth – by increasing its size, improving its coverage, and easing the financial constraints of potential trainees. The proposed provincial agenda for skills, therefore envisages moving towards inclusive, relevant and efficient skills delivery with the help of fit-for-purpose coordination mechanisms and strong implementation machinery.

Six pillars for a provincial TVET strategy are proposed as below:

Developing and Streamlining Policy and Coordination Mechanisms:

[110] Ministry of Disaster Management and Human Rights, Government of Sri Lanka (2009); National Framework Proposal: Reintegration of Ex-combatants into Civilian Life in Sri Lanka.
[111] Jakob Engel (2012); Review of Policies to Strengthen Skills-Employment linkages for Marginalised Young People;.UNESCO
[112] World Bank (1997); War to Peace Transition in Mozambique:The Provincial Reintegration Support Programme.
[113] Dr Salman Bangash (2012); Socio-Economic Conditions of Post-Conflict Swat; TIGAH- Journal of Peace and Development , Volume II, December, 2012

The KP Government must place job creation at the heart of its economic strategy and seek to align skills delivery with new jobs.

The first step towards developing a coherent policy environment that links better skills with better economic and social outcomes is developing a high level Policy and Advisory Committee with representation from the business community, leading and supporting departments, skills experts and private providers. In KP, this role may be played by the TVET Board formulated in 2010. The Committee must have the ability to bring job creation to the forefront of government priorities and the mandate to articulate a provincial policy for skills development aligned with growth priorities, set medium to long term targets and monitor progress on the agenda. It may also offer representation to the agriculture and livestock sectors to remove the urban bias in areas covered by formal training. The Board's litmus test would be based on its ability to lead, based on an agreed vision for the skills sector with defined milestones and to have teeth to recommend new allocations or curtailment of budgetary resources.

The TVET Board may also take over the task of better donor coordination, by mapping and aligning donor activity since skills has assumed a high priority in the post-conflict scenario for the province. Donor coordination must avoid geographical overlap of projects and discordant strategies such as attracting trainees by offering them different levels of stipend, divergent price signals in the private skills provision market etc. It should endeavor to steer international investments towards permanent capacity and systems development. In this manner, coordination may enable TVET graduates to be linked with reconstruction efforts in the conflict-affected areas.

Building Efficiency and Making the Case for More Funds:

Perhaps the lowest hanging fruit for reforming the skills sector is to improve institutional governance by identifying idle capacity (also including institutes affected by the security situation), providing missing facilities, setting performance standards and monitoring outputs of the system with the help of simple monitoring tools. To this end, the government is contemplating improving the efficiency of KP-TEVTA by introducing a corporate model in the organisation and by hiring experts from the private sector. It is expected that results-based monitoring methods could be adopted by the authority to improve the performance of individual TVET institutes.

Unfortunately, absence of data collection- the pre-requisite for effective planning- plagues the TVET sector more than others. An important step forward in KP has been the recent publication of the KP-TEVTA Annual Enrollment Report which compiles public sector statistics on the number of institutes, stream wise enrollment, results and training staff. The publication should become an annual feature. An important addition would be to enrich its information by adding enrollment and completion statistics of those being trained by the private sector. Key performance indicators should be set starting from the institution level right up to the overarching authority (KP-TEVTA) and effectively monitored. But before this, better financial resource planning would be required to ensure that the institutes have a recommended level of budgetary and physical resources to produce the desired outputs.

As a priority, the provincial government must look into the causes of declining TVET enrollment. If analysis support a supply failure (which is possible due to infrastructure damage, lack of equipment and consumables, etc), a coherent strategy to develop the TVET sector must start by supporting delivery in the public sector. It does without saying, however, that the case for additional funds for building new TVET capacity can only be based on demonstrable evidence of efficient use of existing resources.

Taking Strides Toward Demand-Driven TVET:

Ensuring that skills development is demand-driven is the most oft-repeated prescription yet one that is the hardest to implement. Ensuring relevance with the world of work starts from a functional Labor Market Information System (LMIS), which feeds into the development of industry-led competency standards and qualification packages. Dearth of objective evidence of skills shortages and gaps is patently felt at the national as well as at the provincial level. The KP TEVTA can fill this important gap by commissioning research on skills in demand. Effective

planning should target scaling down less relevant trades and technologies and creating new capacities for qualifications demanded by the provincial economy and for the overseas labor markets. Simple instruments such as vacancy surveys can help fill the evidence gap for the formal sector skills needs. More in-depth research will be required to understand the skills needs of the informal sector, address the urban bias in formal skills development and to identify promising areas for spurring youth entrepreneurship.

A research cell within KP-TEVTA Secretariat may develop in-house capacity to carry out tracer studies. Simple instruments are available off-the-shelf to conduct tracers. Innovative mobile-based technologies also are being piloted elsewhere in the country. The provincial government must make use of such low cost methods to understand and improve the relevance and employability of its TVET trainees.

It is recommended that at the delivery level, KP-TEVTA may develop an Industry Linkage policy. Important elements of this policy can be establishment of effective local industry representation in management committees, signing MOUs with industry for teacher/trainer attachments and modalities for on-job training for graduates. Institutes must arrange on-job training opportunities to all TVET graduates (at the technical and vocational level) which can be linked with incentives offered to principals or institute heads. Arranging internships in the informal sector must be a key element of the new practices to be adopted by skills providers. Job search assistance for TVET graduates must be introduced as a specialized function either through the revitalizing employment exchanges or alternatively incentivizing individual institutions.

Quality:

The two major inputs for the TVET sector are trainers and training and learning materials. The province currently plans to invest in three new teacher training institutes with foreign assistance. A new policy is being adopted mandating six months' in-service training for trainers for promotion to the next grade. It is suggested that classroom-based professional development may be supplemented with industrial attachments to update trainers about new technologies and industry practices.

The area of teaching and learning resources (TLR) is particularly weak both at the provincial and federal levels. A TLR Centre may be set up under KP TEVTA to develop teaching resources for TVET delivery and thus standardize and improve its quality.

In the areas of testing and certification,

Punjab Skills Development Fund

Training Funds are known for their success in expanding publicly funded training capacity in an efficient, less capital intensive manner and for improving access for the less privileged. In 2010, a training fund (Punjab Skills Development Fund – PSDF) was set up by the Government of the Punjab jointly with Department for International Development, UK. It functions as a section 42 (not-for-profit) company and has an independent board of directors with majority representation from the academia, private sector and the civil society.

The Fund follows an evidence-led strategy making use of skills demand identified by extensive employers and household surveys conducted by Centre for Economic Research Pakistan. Since its inception in 2010, PSDF has financed training for close to 40,000 individuals (of which more than a third are women) tapping existing training capacity in relevant trades and as well as stimulating expansion, without funding infrastructure. Its output-based payment method and stringent business rules linked observable quality variables have promoted efficiency in private as well as public institutes. Access of the residents of residents of four underserved districts (Bahawalnagar, Bahawalpur, Muzaffargarh and Lodhran) to publicly-sponsored vocational training expanded more than threefold. A discerning feature of PSDF is its ability to respond to market needs by designing more inclusive training schemes e.g. a special scheme targeting rural women combines core skills i.e. literacy and numeracy, with vocational training and overcomes their access constraints by setting up village centers.

The Government of Khyber Pakhtunkhwa may consider setting upon a training fund which could be piloted in selected districts. Indicative costs for the Fund (targeting vocational training) are:

Coverage: 3 to 5 districts
Period of Implementation: Two to three years
Target Trainees: 10,000
Technical Support for Skills Demand Surveys: PKR 50 million
Training Costs: PKR 450 million @ PKR 45,000 per trainee
Monitoring and Administrative Costs: PKR 70 million @ 15% of training costs
Impact Evaluation: PKR 30 million
Total Project Budget (approximately):PKR 600 million

the province must be a strong demander of a national accreditation system based on sound principles of fairness, transparency, informed consumer choice, accountability and accessibility. An inclusive approach can enable specialized bodies such as trade associations to act as awarding and certification bodies.

Since the KP province is an important source for export of manpower especially in the construction sector, special attention must be paid to enhancing the quality of TVET qualifications held by expatriate labor. While steps are taken to improve the standard and international recognition of provincial qualifications, selected public sector institutes can be encouraged to introduce internationally accredited courses on a self-finance basis.

Taking a sectoral approach to skills development, Centers of Excellence can be set up catering for training needs in growing sectors. Possible institutes could be for furniture-making, metal working, driving/transport, hospitality and construction/heavy machinery operations. Such institutes may preferably deliver all levels of TVET in the selected sector, lead innovations in training design and be the trend setters for others institutes, including private ones. Looking at the example of National Skills Academies in the UK could be useful in this context. Attracting private providers' interest in setting up such centers under suitable PPP modalities may be the way forward to modernize the sector in line with international standards.

Harnessing the potential of the private sector:

TVET sector in the province suffers not only from demand-side but also supply side constraints. Training funds have been established elsewhere to pool financial resources for TVET and to alleviate supply bottlenecks. Such funds generally follow competitive, market based models to procure training services. In Punjab, the Punjab Skills Development Fund has adopted an output-based payment system linked with outsourced monitoring. The risk however, is that encouraging private sector supply without a strong evidence of demand for skills and a credible certification and accreditation framework often leads to low quality and irrelevant capacity expansion. It would, therefore, be prudent for the provincial policymakers to pursue private sector development in a sequential manner. A training fund may be piloted in the province after strengthening the evidence base for TVET interventions and the quality assurance system. An employers' led training fund which espouses demand-driven TVET based on evidence and adopts sound competitive and quality assurance principles could be a potent intervention for responding to the skills needs of the province.

Private firms' ability to train can be capitalized through a functioning apprenticeship system in which the government and firms are seen as partners rather than as adversaries. Incentivizing apprenticeship training is possible by introducing schemes that share the financial burden of enterprises and enables them to use the system to their advantage. The public sector (in countries such as the UK and Australia) contributes to apprenticeship training in number of ways, such as through payments for recruiting new apprentices, completion payments and subsidies for purchasing tools of the trade. Reform of the apprenticeship system is currently underway at the federal level. At the provincial level, the government must design and introduce schemes for cost-sharing and can set realistic annual targets for the numbers trained through the revamped system.

A better linkage between small loans programmes targeting the youth and skills training should be aspired for. This could be achieved through effective information campaigns at TVET institutes, imparting entrepreneurial skills training and extending individual support for business plan development at the institute level. The approach may be piloted first at the institute level in selected sectors and occupations.

Providing access to the less privileged:

It is dangerous to assume that expenditure on TVET in the province reaches out to the underprivileged, unless the barriers to accessing training are addressed. An outreach policy for the TVET sector must target financial constraints of potential beneficiaries through a comprehensive stipend and scholarship programmer. It is

recommended that a uniform stipend must be offered to vocational trainees while a merit-based scholarship programmer must be introduced for technical trainees pursuing technician level courses.

For the less literate, vocational pedagogy must be reformed to deliver skills to the illiterate and school drop-outs. It may be worthwhile to adopt an integrated approach towards literacy and vocational training in coordination with the Education Department. There is much room for a home-grown approach here, as successful examples of integration of vocational and core skills are scarce at least in the developing world. A comprehensive coverage policy will be needed to give adequate consideration to women, especially in the rural areas. Learning trades such as food preservation and vegetable growing can help generate income for home-based women workers, as local markets can likely support sales for products produced by them. Removing the urban bias in the existing menu of vocational and technical courses could be an effective strategy supportive of inclusive growth.

Chapter 6: Fiscal Space

Over the last two years, KP's provincial finances have improved markedly, mainly due to increased revenue transfers from the federal government in the form of arrears payments from hydro-electric profits and a new NFC Award which includes 1% of undivided divisible pool as compensation against war on terror. This has raised the province's share of federal revenue sharply, from about 7% to 8 % of provincial GDP to 8.7 % in 2009-10 and 11.3 % in 2010-11. As a result, KP registered a fiscal surplus of 0.7% of provincial GDP in 2010-11 and realized a 3.5% of provincial GDP increase in fiscal space between 2006-07 and 2010-11 over that of the previous five years. Three channels—federal transfers, revenue collection and savings from spending efficiency—have contributed to the expansion of fiscal space, prompting the provincial government to sharply increase both current and development spending, especially the latter.

The mix could have been better but for structural rigidities in pay and pensions expenditures. Large pay and pension raises in the last two fiscal years have consumed significant resources. Such constraints have led to inadequate spending on operation and maintenance (a decline by 2% to 8% of expenditures in 2010-11 from previous year), with adverse consequences for assets maintenance.

Thus, additional fiscal space is required in order to finance the development of the province. Presently, less than 2.1% of KP government's expenditures are financed through provincial revenues and as such expenditure levels are exposed to changes in federal tax policy and its collection. The situation is further exasperated by a provincial fiscal policy that gives little importance to incidence, equity or efficiency of taxes. A fragmented civil administration, where different administrative sets and different rules govern the areas—government and tribal, and an inappropriate and complex tax structure, where tax becomes disincentive to expansion and growth of economic activities, serve as constraints. Buoyant components of tax base are largely exempted and no concerted efforts are underway to increase effective rate of tax collection.

On the expenditure side, to date, expenditure management does not foster linkages of inputs to outputs; and procedural and structural rigidities continue to affect development outcomes. Artificial bifurcation of current and development expenditure budgets perpetuates compartmentalization of budget formulation undermining efficiencies of a more integrated budget making. The bias in favor of wage expenditure (protecting the existing labor force) continues, as does the emphasis on inputs rather than outputs.

KP adopted a comprehensive fiscal reform programme in 2001-02 based on four pillars, namely: (i) enhancing resources; (ii) strengthening ex-ante and ex-post Public Financial Management (PFM) reforms; (iii) fiscal decentralization; and, (iv) instituting an output-based accountability mechanism. In terms of strategy, the reforms have focused on the following four key areas of public finance: (i) enhancing revenue; (ii) reprioritizing expenditures and improving expenditure management; (iii) improving budget preparation, execution and oversight; and, (iv) strengthening the bounds of fiscal decentralization. During last few years, with active support from DFID, the reform has accelerated with government displaying strong ownership of the process. Some of the more recent initiatives are 'The Integrated Public Financial Management Reforms Strategy', Medium Term Budget Framework (MTBF), and District Output Based Budgeting (OBB). The next stage of reforms includes steps in expenditure management, as well as revenue mobilization.

6-A: Expenditure Management[114]

The following are a set of recommendations for expenditure management reforms that the KP government may consider going forward:

- Developing a well-designed debt-management strategy. Given the borrowing powers conferred to provinces in 18th Constitutional Amendment, KP may consider revisiting its debt recording and management system in collaboration with the Economic Affairs Division at federal level (as Punjab is doing). This would help further manage the debt at provincial level and allow policy makers to make informed decisions

- Given the huge expected pension liability, province may consider improving the pension fund management, which would also help in reducing the claim on the budget of pension payments.

- Strengthening the process, already in place, of implementing output-based budget allocation for all new schemes. This would move away from the current practice of artificially splitting the current and development budget allocation. It would start by initiating a process of consultative agreement between the FD, P&DD and the line agency to achieve measurable output indicators.

- Improving the effectiveness of public expenditure by providing a better balance between the development and O&M budgets.

- Payroll and pension budget is increasing at a rapid rate. This has significantly impacted the budget credibility due to substantial variations between estimated payroll budget and actual payroll expenditure. There is a need to comprehensively tackle the issue of payroll. Finance Department may commission a study on the sustainability of salary budget and analyze the relevance of salary budget with service delivery.

- Release procedures need to be revised to ensure smooth implementation of the budget. It may be appropriate to adapt and adopt the Federal Government's 'New System of Financial Control and Budgeting' to streamline releases for recurrent and development budget.

- Project design of new activities needs to be strengthened by empowering P&DD in such a way that no new large activity can be budgeted for implementation without an approved feasibility study.

- Demand side of good governance needs to be strengthened by expanding the current partnership with local stakeholders to monitor the progress made on budget output indicators of important projects and programmes.

[114] This sectiondraws from "Pakistan Khyberpukhtunkhwa Public Expenditure Review" by the World Bank

6-B: Revenue Mobilization[115]

Financing Requirements

The high growth targets set by the KP growth strategy will have implications for revenue mobilization by the province.

Assuming that KP sets the same growth and investment targets as the federal government's national targets[116], this report estimates that KP's total expenditure will rise from PKR 283 billion in 2013 to PKR 340billion in 2015 and PKR 504.09 billion in 2020 even with conservative projections of current expenditure relative to its growth in the recent past. Table 6.1 shows the revenue requirement to meet development expenditure and current revenue expenditure for 2013 and the forecast period; Annex E details the methodology used for this calculation.

TABLE 6.1: DEVELOPMENT EXPENDITURE AND CURRENT EXPENDITURE 2013 PRICES, FORECAST PERIOD (PKR BILLION)

Row #		2013	2015	2020
1	Development Expenditure	88.13	112.6	169.9
2	Current Revenue Expenditure	195.00	227.45	334.20
3	Total Development and Current Expenditure or Revenue Requirement (row 1 + row 2)	283.13	340	504.09

Source: Budget White Paper, Finance Department, Government of Khyber Pakhtunkhawa 2013-14 and author's calculations.

Furthermore, this report estimates that KP's total revenue will increase from PKR 244 billion in 2013 to PKR 453 billion in 2020 based on simulated increases in the federal tax to GDP ratio and the provincial tax to GDP ratio as well as assumptions about the GDP growth based on national targets, allocations from the divisible pool of taxes, KP's non-tax revenue to GDP ratio, arrears from hydel profits and straight transfers on account of oil and gas royalty. Table 6.2 shows the projected revenues for the forecast period; Annex D details the methodology used for this calculation.

TABLE 6.2PROJECTED KP REVENUES AT 2013 PRICES, FORECAST PERIOD (PKR BILLION)

Row #		2013	2015	2020
1	Federal tax transfers	179*	229	390
2	Other federal transfers/grants	19	19	19
3	KP's own tax receipts	8.165	13.281	27.694
4	KP's non-tax revenue	6.235	7.010	9.735
5	Profit from hydel generation plus arrears on hydel profit	31.000	31.000	6.000
6	KP revenues (sum of row 1 to row 5)	244.065	299.573	453.166

*This is an estimate based on GDP of Rs21747 billion and includes transfers on account of 'war against terror'.

[115] Anjum Nasim, Institute of Development and Economic Alternatives

[116] Federal government's Vision 2025 sets average GDP growth at 4.1% in 2013-15 and 6.8% in 2015-20. This implies that investments as share of GDP will double from the current 12.6% to nearly 24% in 2020. Private investment is expected to constitute the bulk of the investment needs and is projected to rise from the current 8.6% of GDP to 16.2 in 2015 and 19% in 2020.

Source: Budget White Paper, Finance Department, Government of Khyber Pakhtunkhawa 2013-14 and author's calculations.

According to these forecasts, KP will have a budget deficit of PKR 40.4billion in 2015, and a deficit of PKR 50.9billion in 2020. In addition to meeting the deficits, the provincial government would have to meet any deficits in the capital account. In 2013 KP had a deficit in the capital budget of about PKR 13.7 billion.[117]

Potential from Tax Revenue

KP tax revenue was PKR 8.16 billion in 2012-13, which was about 0.36% of the provincial GDP. In comparison, provincial tax revenues as a percentage of provincial GDPs in Punjab, Sindh and Balochistan were 0.76%, 1.26% and 0.07% respectively. Non-tax revenue in KP was PKR 6.235 billion in 2012-13, which was 0.27% of provincial GDP. The comparative percentages in Punjab, Sindh and Balochistan were 0.28%, 0.47% and 0.24% respectively. Hydel profits for KP constituted 36% of its non-tax revenues.

The general revenue receipts consisted of: (1) federal tax assignment, (2) federal straight transfers, (3) transfers of 1% of divisible pool for war on terror, (4) provincial tax revenues (including GST on services), (5) provincial non-tax revenues including revenue from hydel power own generation, and (6) profits (including arrears) on hydel generation.

KP's share in the provincial share of divisible pool of tax revenues is 14.62%. In 2012-13, KP's revenues of PKR 246 billion were dominated by federal tax assignment (PKR 160 billion), straight transfers (PKR 20 billion), 1% of divisible pool on account of war on terror (PKR 19 billion) and arrears on hydel profits (PKR 25 billion).

The provincial government, therefore, relies very heavily on revenues, which are collected by the federal government and then shared or transferred to the provincial government. In 2012-13 the own-tax and non-tax revenues were 5.85% of the total revenue receipts. In the last few years the KP government has enjoyed the benefit of arrears from hydel power profits amounting to PKR 25 billion per annum, which the federal government would pay up by 2014. However, there is another set of arrears which amount to over PKR 100 billion whose annual payments are still being worked out after adjustment against PEPCO receivables. After KP has received all its arrears, it will find itself short of a very substantial annual flow of funds. The provincial government would therefore have to make a major effort to increase its own-source revenues.

The major sources of tax revenue for KP are: (1) land revenue (PKR 1061 million), (2) GST on services (PKR 4290 million), (3) motor and vehicle tax (PKR 964 million), (4) stamp duty (PKR 570 million) and (5) electricity duty (PKR 457 million) (see Table 6.3).

Land revenue (PKR 1061 million) is mostly a tax on registration of change of ownership of land or mutation fee (PKR 857 million). It is a relatively easy tax to collect because of the need of the buyer to establish ownership. The merit of taxing transactions is questionable because it hinders transfer of assets to their most efficient use.

[117]Capital expenditure (ignoring expenditure in Account No. II), which consist of principal repayment of domestic and foreign debt and loan and advances to corporate bodies of the KP government, amounted to PKR13.9 billion. Capital receipts (again ignoring receipts in Account No. II), which consist of money raised through loans, budgetary support programme of multilaterals, recoveries of principal amount of loans advanced by the Government to its employees and autonomous bodies, amounted to PKR0.25 billion.

Until 2012-13, GST on services was collected by the federal government on behalf of the provincial government. A large part of these revenues was GST on telecom services. In 2013-14, KP has followed Sindh and Punjab and set up a Revenue Authority to collect the tax at the provincial level.

Motor vehicle tax has two components, registration duty at the time of purchase of vehicle and an annual tax known as token tax. The tax base is mobile, and raising taxe rates above other provinces runs the risk of shifting the tax base from one province to another.

Stamp duty is a tax on property transactions and on registration and exchange of documents. To the extent that there are costs involved in recording and storing documents to meet legal requirements, stamp duty can be treated as a service charge. Beyond the service charge, stamp duty is a tax on transactions and is undesirable.

Electricity duty is a provincial tax on electricity collected by WAPDA on behalf of the provincial government. Thus, tax collection is contracted out, and is an easy tax to collect. At a time when electricity prices have escalated because of international oil prices increase; the scope of provincial governments raising greater revenue from this source is limited.

Other taxes, relatively minor in terms of current revenue collection, include (1) taxes from agriculture (agricultural income/land tax), (2) taxes on transfer of property, (3) UIPT, (4) taxes on profession, trades and calling, (5) urban CVT provincial, (6) provincial excises, (7) entertainment tax, (8) Other/hotel tax/real estate dealer/electronic media/TDC/KDF.

Taxes from agriculture are collected mostly a per acre land tax, but the relevant act allows for the tax to be collected as an income tax. Another potentially important source of revenue is GST on services. The share of services in value added was estimated to be about 58.5% of provincial GDP in 2010-11. At present only a very small part of the services sector is being fully taxed.

TABLE 6.3: DIRECT AND INDIRECT TAXES IN KHYBER PAKHTUNKHWA, 2009-2014 (PKR MILLION)

Tax	Actual				Budget	Revised	Budget
Direct Taxes	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2012/13**	**2013/14**
Taxes from agriculture	17.3	15.7	17.5	20.1	22.0	22.0	22.0
UIPT (Net)	41.6	84.6	77.6	86.4	98.1	92.7	107.9
Tax on transfer of property (Reg)	56.1	45.6	58.0	80.2	72.0	76.0	80.0
Land revenue	572.7	571.6	770.9	1271.7	920.0	1060.7	1111.2
Tax on profession and calling	92.4	89.0	98.2	131.4	150.0	130.0	165.0
Urban CVT provincial			247.6	240.3	200.0	200.0	210.0
Total Direct Taxes	780.1	806.7	1269.8	1830.0	1462.1	1581.3	1696.1
Indirect Taxes							
GST on services					9886.4	4289.6	6000.0
Provincial excises	28.3	23.6	23.4	26.4	30.0	15.0	30.0
Motor vehicle tax + R. permit + fitness	699.1	833.9	874.8	865.2	957.0	964.0	1072.0
Stamp duty	358.4	357.4	408.6	588.6	600.0	570.0	600.0
Entertainment tax	3.1	0.7	0.0	0.0			
Other/hotel tax/real estate dealer/electronic media/TDC/KDF	248.4	229.6	262.9	278.3	377.0	288.0	382.0
Electricity duty/fee on account of electricity rules	34.3	38.8	584.1	41.7	550.0	457.0	507.5
Total Indirect Taxes	1371.6	1484.1	2153.9	1800.3	12400.4	6583.6	8591.5
Total Provincial Taxes	2151.7	2290.7	3423.7	3630.3	13862.5	8164.9	10287.6

Source: Budget White Paper, Finance Department, Government of Khyber Pakhtunkhawa 2013-14.

Agricultural Income Tax (AIT)

In the financial year 2012-13, the agriculture sector's share in GDP was about 21% and the revenue from agricultural income and land tax was less than PKR 1 billion. Income tax revenue from the non-agriculture sector, with a share of about 79% of GDP, was over PKR 760 billion. This contrast between the relative contribution to income tax by the two sectors stems from a constitutional provision that empowers Parliament to tax all sources of income barring agricultural income, which is the exclusive preserve of the

provincial assemblies. Additionally, agricultural income and land tax rates, which were low to begin with, have not been revised periodically to reflect changes in the nominal income of farmers and landowners. Cropped area in KP accounts for 10% of the country's cropped area. Agricultural land and incomes are taxable under the NWFP Land Tax and Agricultural Income Tax (Amendment) Ordinance 2001. The tax rates on agricultural land have remained frozen at the 2000 level and that of the income tax at the 2001 level.[118]

This section estimates the potential revenue that can be raised by taxing income from crop farming in KP, applying the same tax rates as those applicable to similar incomes in other sectors of the economy (under the Income Tax Ordinance 2001) for the tax years 2010 to 2014. For tax purposes, we treat farm income as the business income of an *individual*. Where we can distinguish between farm income and rental income, the tax rates used for rental income are those relevant to *income from property*. The methodology is based on Nasim, (2013)[119] for calculating AIT in Punjab. Estimates of these potential tax revenues are given in Table 6.4 and Annex F details the data and methodology used.

TABLE 6.4: REVENUE ESTIMATES FROM AIT IN PUNJAB, 2010–14 (PKR BILLION)

Category	2009/10	2010/11	2011/12	2012/13	2013/14
Owner farmers	2.05	3.1	1.7	1.1	1.3
Owner-cum-tenants	0.15	0.19	0.07	0.029	0.039
Tenants	0.04	0.04	0.04	0.02	0.03
Land rental	0.15	0.3	0.2	0.3	0.5
Total	2.4	3.58	2.06	1.39	1.93

Source: Author's calculations.

The tax estimates are based on the assumption that the supply of agricultural output is inelastic in the presence of higher taxes on farm incomes. While this may hold in the short run, famers' long-run responses in the form of a shift in labour supply from farm to nonfarm activities, a lower level of capital investment in farming, substitution between equity capital and debt capital, and the parcelling of landholdings among family members can have implications for both agricultural output as well as for the revenue potential of agricultural taxation.

The potential tax revenue between 2009-10 and 2013-14 varies considerably. This is for two reasons: first, agricultural growth has been quite variable over this period and, second, the federal income tax rates have undergone major changes since 2012-13.[120]

The NWFP Land Tax and Agricultural Income Tax (Amendment) Ordinance 2001 allows the taxation of agricultural incomes but it also allows for tax to be collected as a land tax if the tax assessed as AIT is less

[118] The tax on total cultivated land, computed as irrigated land, by treating one irrigated acre as equal to two unirrigated acres excluding orchards is as follows: PKR50 per acre for cultivated land not exceeding 5 acres, PKR72 per acre for cultivated land exceeding 5 acres but not exceeding 12.5 acres, and PKR100 per acre for cultivated land exceeding 12.5 acres. Orchards are taxed at the rate of PKR300 per acre. The income tax payable is 5% of total income where total income does not exceed PKR100,000; PKR5,000 + 7.5% of the income exceeding PKR100,000 but less than PKR200,000; PKR12,500 + 10% of the income exceeding PKR200,000 but not exceeding PKR300,000; and PKR22,500 + 15% for income exceeding PKR300,000. No tax is payable on the first PKR80,000 of the income.

[119] Nasim, A, *Agricultural Income Taxation: Estimates of Revenue Potential in Punjab*, Working Paper No. 02-13, Institute of Development and Economic Alternatives, Lahore, 2013, available at http://www.ideaspak.org

[120] During FY2009/10 to FY2011/12, as taxable income increased from one tax bracket to the next, higher tax rates became applicable to all income rather than marginal income. FY2012/13 onwards, the income tax schedule resembles a step function with higher tax rates applicable only to marginal incomes.

than the tax calculated as land tax. However, the tax is collected largely as a land tax. The tax rates have not been revised for many years and tax collection is miniscule.

Changing the current form of tax collection from a land tax to an income tax will require building modern income tax machinery. This could take a number of years but in the interim, land tax rates could be revised in a way that the tax collection from land (as a proxy for income tax) is comparable with income tax collection in other sectors of the economy.[121] These measures will not only hold an important symbolic value in terms of fairness and equity but will also add another PKR 2 billion to the provincial government finances, which is over 19% of the provincial government's budgeted tax revenue in 2013-14.

Urban Immovable Property Tax (UIPT)

Tax collection from Urban Immovable Property Tax (UIPT) in KP in 2012-13 was PKR 93 million. This is 1.2% of provincial tax revenues. UIPT as a share of provincial GDP was 0.0043%. In comparison, Punjab's UIPT, as a percentage of provincial tax revenue and provincial GDP, was 5.4% and 0.04% respectively. UIPT as a share of GDP in countries with similar level of development is about 0.5%.[122] To achieve international benchmark, tax revenue from UIPT in KP must increase from its present level of PKR 93 million to about PKR 11.4 billion at 2012-13 prices. To reach the level in Punjab (Pakistan), UIPT must increase to over PKR 0.9 billion or over 10 times the present level of collection in KP.

Property taxation in KP has been area-based since 1997[123] unlike Punjab and Sindh where UIPT is based on the rental values of properties. With the number of residential and commercial properties estimated by the E&T Department to be about 470,000 and total collection of UIPT of PKR 93 million, the average UIPT collection per property was only about PKR 200 per annum in 2012-13.[124] Considering that the average income per household per annum in KP in 2010-11 was PKR 92500, the tax per household is very small. However, the average tax rate can be very misleading because not only are there large number of exemptions for various categories of properties (e.g., residential properties of up to 5 *marlas* that are self-occupied are exempt from taxation and so are owner-occupied properties of widows) but tax varies from as little as PKR 150 for 5 marla property in some places to as much as PKR 10,600 for properties of above 40 marlas in others.

A number of authors have studied UIPT in the context of KP and other provinces and there is plenty of advice on how revenues can be enhanced. These recommendations include[125]: (1) Separating valuation from rate setting; the former is a technical matter and the latter a political decision. The valuation tables, which report tax liability per unit of property and are implicitly a product of property value and tax rate, should distinguish between the tax base and the tax rate. (2) Developing a system of periodic revaluation of properties. (3) Broad basing the tax by eliminating tax exemptions, taxing vacant plots and removing tax preference for owner-occupiers. (4) Allowing natural growth in the property tax base by indexing the tax rate to the rate of inflation. (5) Upgrading the skills and size of the staff that assess and collect UIPT. (6) Addressing intergovernmental issues of assignment of property tax policy and administration to local governments.

---

[121] See Nasim, A, *Agricultural Income Taxation: Estimates of Revenue Potential in Punjab*, Working Paper No. 02-13, Institute of Development and Economic Alternatives, Lahore, 2013, available at http://www.ideaspak.org

[122] R. Bahl, S. Wallace and M. Cyan, Pakistan: Provincial Government Taxation, International Studies Programme, Working Paper 08-07, Andrew Young School of Policy Studies, Georgia State University, December 2008.

[123] *Ibid*.

[124] We do not have information on the breakup of properties by area (up to 5 marla, 5-10 marla etc.) or by categories (A, B or C) nor a break up of UIPT collected from residential and commercial properties. Therefore, it is not possible to simulate tax potential by varying tax rates.

[125] Bahl et al (2008). *Ibid*.

Sales Tax on Services

Until 2012-13 sales tax on services for KP was collected by the federal government on behalf of the provincial government and consisted of GST on telecom services. Following Sindh and Punjab, the provincial government has now established a KP Revenue Authority (KPRA), which has started collecting sales tax on services since June 2013. As of now, the KPRA is being run by personnel of the excise department but dedicated staff is being hired by KPRA.

Sales tax collection on services was PKR 4.3 billion in 2012-13 out of its total tax collection of PKR 8.16 billion, and budgeted at PKR 6 billion for 2013-14. Punjab raised PKR 37 billion in sales tax on services in 2012-13, which is 41% of its tax revenues.

The valued added by the services sector in KP is estimated to be PKR 1336 billion in 2012-13.[126] If a value added tax at the rate of 16% is applied to all services, the potential tax revenue is PKR 214 billion. The C-efficiency ratio (the ratio of VAT revenue relative to the full potential at the standard VAT rate), which can be theoretically 100% (and averages 50% for advanced and emerging economies), is 26% for Pakistan. If KP were to achieve 26% C-efficiency ratio, the tax collection would be PKR 56 billion if VAT were 16%. The current tax collection is effectively targeting only 2% of the full potential. If the KP economy were to grow at the same rate as the average projected in the Vision 2025 document then the potential tax revenue from the services sector at different C-efficiency ratios is given in the following table.

TABLE 6.5: TAX POTENTIAL OF VAT ON SERVICES IN KP 2013 TO 2015

	2013	2015	2020
GDP at 2013 prices	21747	23547	32701
GDP-KP at 2013 prices	2283	2472	3434
Value added by services sector in KP	1336	1446	2009
Potential revenue from VAT on services in KP at C-efficiency ratio of 100%(assuming standard VAT of 16%)	214	231	321
VAT on services at C-efficiency ratio of 26% (assuming standard VAT of 16%)	56	60	83
VAT on services at the current C-efficiency ratio of 2% in KP (assuming standard VAT of 16%)	4.3	4.62	6.42
VAT on services at C-efficiency ratio of 5% (assuming standard VAT of 16%)	10.7	11.6	16

Source: Authors calculations.

One of the issues in the context of sales tax on services is the VAT mode of collection of the tax. Since federal government levies sales tax on goods and the provincial government taxes sales tax on services, there is every possibility of tax cascading in the absence of coordination between the FBR and the provincial revenue authorities working out a clearing-house arrangement. This is one of the challenges that the federal and provincial tax administrators have to address.

The Way Forward

The current and development expenditures of the Government of KP exceeded its general revenue receipts by PKR 39 billion in 2012-13. The order of magnitude of this deficit is likely to be in the region of Rs40 billion to Rs51 billion in the next 5-7 years (at 2013 prices) if public sector investments are consistent with the

[126] The services sector in FY2010/11 was estimated to be 58.5% of the provincial GDP. The size of the provincial GDP in 2013 is estimated to be PKR2283 billion. The estimate of value added by the services sector is based on the assumption that the share of services sector in provincial GDP to be the same as in FY2010/11.

targets set in the Vision 2025 document. This will be so even if the provincial government restrains the growth of its current expenditures growth to 8% and makes effort to increase its tax revenues from the current PKR 8 billion to PKR 13 billion in 2015 (at 2013 prices) and to PKR 27 billion by 2020 (at 2013 prices).

KP has suffered in the recent past from ravages of insurgency and nature. For many years it was denied its fair share of hydel profits that were agreed under an NFC award. The wrong has been partially redressed and arrears have been paid but other claims of arrears and revision of hydel profit rates are under negotiations. The settlement of these arrears can keep the flow of substantial funds to KP for the next few years and the revision of hydel profit rates can be a significant source of additional revenue for KP. However, even if the hydel profit double from its level in 2013, it will add another PKR 6 billion to the provincial revenues whereas its additional revenue requirement, to bridge the gap between expenditure and revenue, is of the order of PKR 40 billion to PKR 50 billion. Furthermore, if the past is anything to go by, a cash strapped federal government can stall payments of provincial governments' due share of revenues. Even if the federal government eventually concedes, the damage to provincial finances and economies cannot be undone. To deal with the unpredictability of such revenue transfers, the KP government must strengthen its own-source revenues.

Based on the analysis of this section, we make the following recommendations to the KP government:

- In the negotiations leading up to the 8th NFC award, make a strong case for payment of arrears of net hydel profit to KP and revision of the profit rate.
- Curtail substantially the real growth rate of current expenditure, which was 16% over the last 5 years.
- Rely more on own source revenues by strengthening agricultural income tax, UIPT and tax on services.
- Move towards a system of agricultural income taxation, which brings about equity of income taxation between the farm and non-farm sectors. In the short-term, work with a variation of land taxation with a revised rate structure, but move towards proper income taxation in the long term. The revenue potential from this source is about PKR 2 billion compared with the current collection of PKR 22 million.
- Exploit the potential of sales tax on services, which even at fairly low level of collection efficiency (5% compared with the actual 2%), can raise revenue from this source to PKR 10 billion compared with the total own-source tax revenue of PKR 8 billion in 2012-13.
- Strengthen UIPT by: (1) separating valuation from rate setting; (2) developing a system of periodic revaluation of properties; (3) broad basing the tax, e.g., by eliminating tax exemptions and removing tax preference for owner occupiers; (4) allowing natural growth in the property tax base by indexing the tax rate to the rate of inflation; (5) upgrading the skills and size of the staff that assess and collect UIPT; (6) addressing intergovernmental issues of assignment of property tax policy and administration to local governments.
- Focus on good governance to attract businesses, investment, jobs and prosperity to the province. A buoyant economy would help the provincial government realize greater tax and non-tax revenues and set its financial house in order.

Annexures

Annex A: Note on Urban Agglomeration[127]

The objective of this note is to provide a broad perspective on the pattern of the emerging urban agglomerations in KP, within the overall context of the spatial distribution and concentration of population in the province. It is expected that this note will be followed by further research to identify the emerging regions and provide an initial regional economic and social perspective on one priority region/agglomeration.

The note analyses the urbanization and agglomeration pattern in the province using its key determinants based on data from the latest (1998) census:

(i) Population density.
(ii) Urban Core.
(iii) Proximity and distance to city.

Key Determinants[*]

The key features of the urban context that reflect the degree of urban agglomeration have been defined as proximity, density, diversity, dynamics and complexity. Population density, an urban core, and, proximity to city can be considered the key indicators that define the conceptual framework of agglomeration economies and rent. These critical factors adequately capture human settlement concentration and avoid the ad-hoc and non-comparable definitions that, because of their implied urban/rural dichotomy, may not adequately reflect the degree of urbanization.

Population density

Population density is an important criterion for economic behavior – to have a thick market, there must be a certain mass of people. Density is a proxy for market thickness. Dense proximity of a diverse pool of skills provides agglomeration benefits: drives agglomeration economies that are a defining feature of cities - transport, infrastructure, amenities - also bear on these economies. Density also affects unit cost of investment - fixed facility costs or higher mean travel cost to facility. Low-density areas may be too small to support competition in product and service markets, leading to capture by local monopolies

Urban Core and Proximity – distance to city

The existence of an urban core and its proximity (or distance) captures important determinants of economic opportunities and constraints – a proxy for market access and lower transport costs. Areas with ease of access or within commuting radius of a city may not be considered rural even if they are agricultural farms; and, towns outside the radius may be considered rural. Economic activities change systematically with distance to city: proximity and remoteness. Lack of an urban core and low overall population density impacts ability to diversify economic base compared to cities The most extensively researched source of evidence for the claim that proximity is good for productivity is from studies of areas of dense economic activity: doubling of size increases productivity from 3-8 per cent - from a town of 50,000 to one of 5 million means a 50 per cent productivity increase. Further, this effect is larger in higher technology sectors.

[127] This Note has been prepared by (Ms) Najm-ul-Sahr Ata-ullah and Ibrahim Murtaza, Research Associates at R. Ali Development Consultant.
[*] This section is based on Reza Ali *"Estimating Urbanization"*, October 2013.

Urban Agglomeration in Khyber-Pakthunkhwa

In this section we examine what Pakistan and the province of Khyber-Pakthunkhwa look in terms of the critical factors that determine the urban and rural:

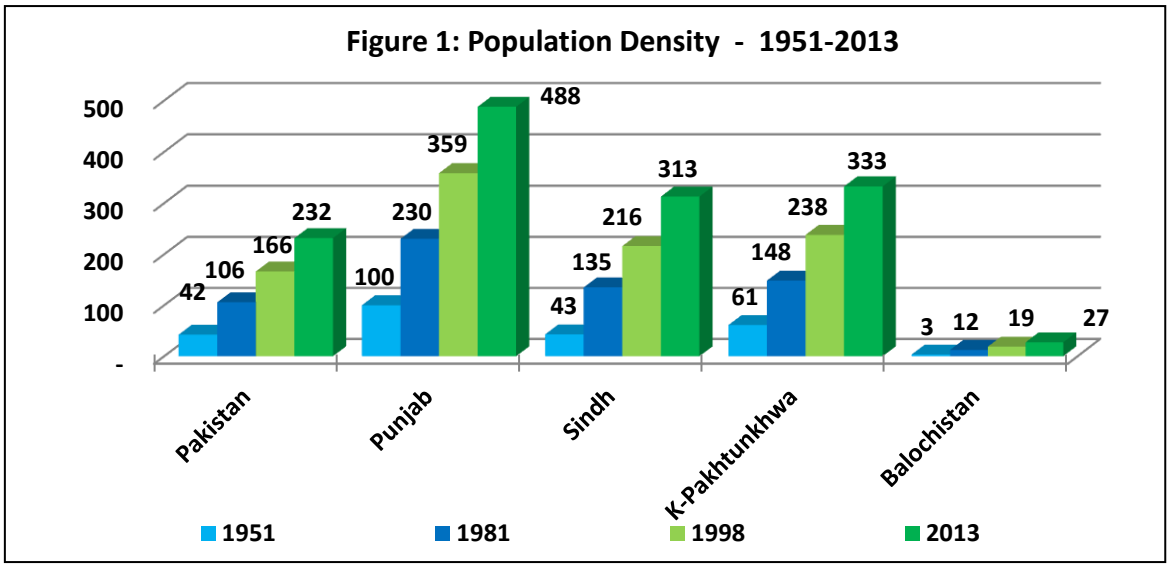
- population density, and
- urban core and proximity.

Map 2 shows the urban places in the province according to the 1998 census.

Population Density

Pakistan

Figure 1 presents the population density recorded in the censuses 1951 to 1998 with estimates for 2013.



Overall population density in Pakistan has increased from 42.4 persons/skm in 1951 to an estimated 231.6 persons/skm in 2013 - with the highest density in the Punjab (488 persons/skm, 2013 estimate) and the lowest in Balochistan (27.4 persons/skm, 2013 estimate). The largest increase is in Balochistan (from 3 to 27 persons/skm); there are also significant increases are in Khyber-Pakhtunkhwa (61 to 313 persons/skm) and in Sindh (43 to 313 persons/skm). The 1998 census population living in the various density bands in the four provinces is shown in Figure 2. Balochistan, Pakistan's largest province in terms of area (43.6% of the country's area), stands in sharp contrast to the other provinces: 70% of Balochistan's population lives at densities below 50 persons/skm compared to only 1% in the Punjab and 3% each in both Sindh and Khyber-Pakhtunkhwa; and, there is no population living at densities above 500 persons/skm compared to 51% of the population of Punjab, 41% of Sindh and 38% of Khyber-Pakhtunkhwa.

Khyber-Pakthunkwa

In Khyber-Pakhtunkhwa, the overall density increased by over 60% from 148.4 persons/sq.km in 1981 to 238 persons/sq.km in 1998. Figure 2 shows the 1998 population density for the province by area, and Figure 3 by shows 1998 population density by population.

Figure 2: **Population Density** - *by area 1998*

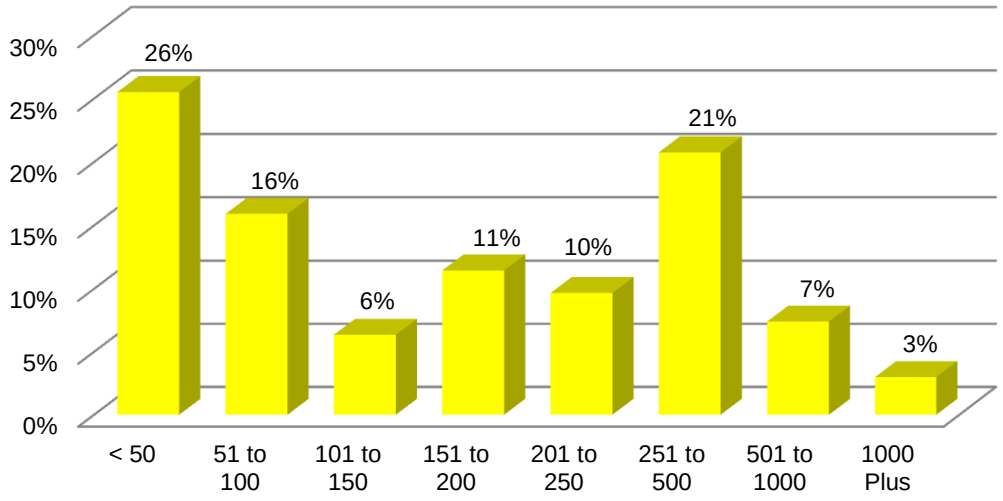
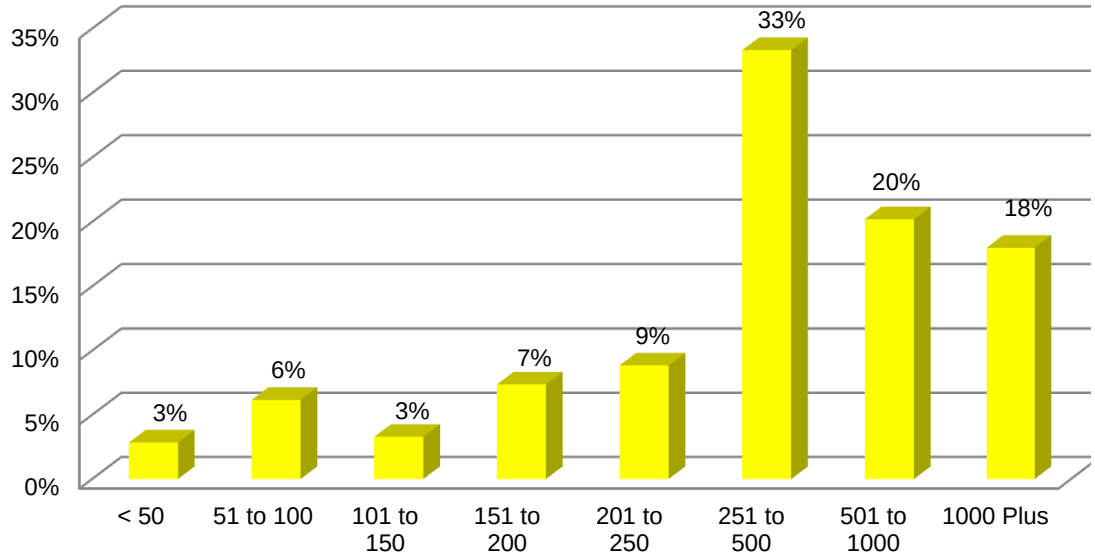


Figure 3: **Population Density** - *by population 1998*



The districts with high population concentration have the highest population densities. According to the 1998 census, Peshawar district has the highest density of 1,606.3 persons/sq.km and along with Charsadda these are the only districts of the province that have a density of more than 1,000 persons/sq.km. Their combined population is 3 million, they cover 17.5% of the province's area and the combined density of these two districts is 1,350 persons/sq.km. There are six other districts that have densities of over 500 persons/sq.km. The population of these six districts is 7.1 million i.e. 40% of the province's population; together the six cover 11.3% of the province's area; and, their combined density is 842 persons/sq.km. The largest district of the province in terms of area, Chitral, covering 20% of the area,

has the lowest population density at 21.5 persons/sq.km. Kohistan district at 63 persons/sq.km is the only other district of the province with a density of less than 100 persons/sq.km.

Table 8 gives the area and population densities of all Khyber-Pakhtunkhwa districts for the census years 1981 and 1998 and the inter-census density change.

Map 3 shows the population density of the province from the 1998 census.

The highest inter-census increase in density has been in Peshawar (increase of 720.6 persons/sq.km). There are six districts with an inter-census increase of more than 200 persons/sq.km. Battagram is the only district of the province that recorded a decrease in population density (-24.5 persons/sq.km) and there were small increases of 1 and 7.4 persons/sq.km in Kohistan and Chitral districts respectively.

If the population densities are projected to 2013 on the basis of the population growth rates of 1981-98, Mardan, Charsada, Peshawar and Swabi districts will have population density of over 1,000 persons/sq.km. Peshawar will have a density of 2,716 persons/sq.km and continue to be the highest density district; Kohistan and Chitral districts respectively with 64 and 31.2 persons/sq.km will have the lowest densities. Of the 24 districts of the province, 12 districts are projected to continue to have densities of less than 500 persons/sq.km. Map 4 shows the projected densities (by districts) for the year 2013 on the basis of the 1981-98 population growth rates.

Of the 42 *tehsils* in the province, there are only three *tehsils* - Peshawar, TakhtBhai and Charsada that have a population density of more than 1,000 persons/sq.km. These three *tehsils* with a combined 1998 population of 3.2 million cover 3% of the area of the province, with18% of the population. There are another five *tehsils* (Mardan, Nowshera, Tangi, Swabi and Bannu)with a population density of 500-999 persons/sq.km. Together these eight these *tehsils* cover 10.4% of the area and contain 38% of the population. Data Table 9 and Map 5 give the population densities of the province (by *tehsils*) from the 1998 census.

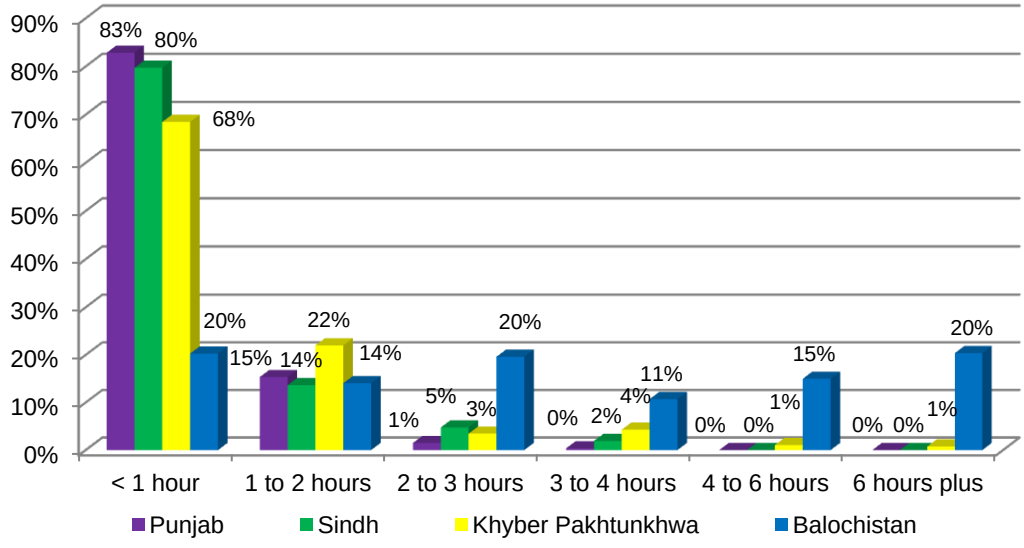
Urban Core and Proximity

Pakistan

Figure 4shows population in relation to proximity (expressed as travel time, primarily a function of distance) to city (i.e. urban core, assuming the core to be a single Pakistan census defined urban place of 100,000 or more).

Generally speaking, in Pakistan, other than the Balochistan province, the majority of the population lives

Figure 4: **Urban Core and Proximity** – *% population 1998*



within one-hour from a city (83%, 80% and 68% in Punjab, Sindh and Khyber-Pakhtunkhwa respectively); with only a small proportion living more than two-hours away (the respective figures being 1%, 7%, and 9%). Balochistan presents a different picture with only 20% of the population living less than one-hour and 20% living more than 6 hours away from a city.

Khyber-Pakthunkhwa

Figure 5 shows population in relation to proximity to city for the Khyber-Pakthunkwa province. As in

Figure 5: **Urban Core and Proximity** – *% population 1998*

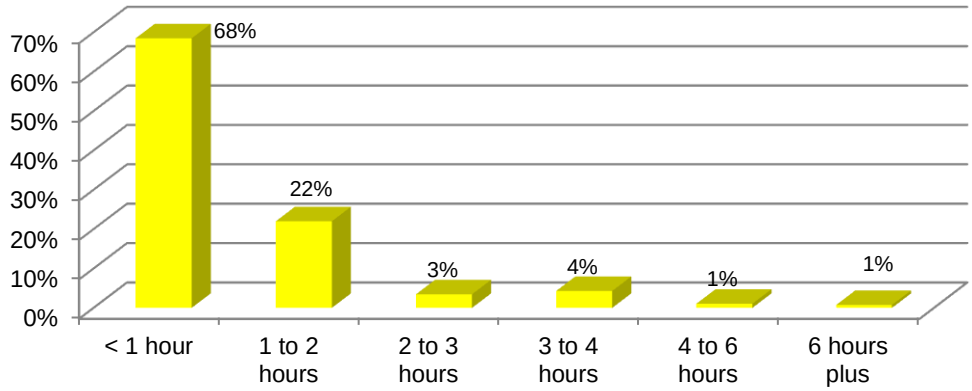


Figure 4, proximity to city is expressed as travel time, primarily a function of distance, and, urban core refers to a single urban area of 100,000 or more.

It will be seen that just over two-thirds of the population of the province lives within a travel time of one hour of a city, and, almost a quarter within 1-2 hours from a city. Thus, 90% of the population of the province lives within a travel time of two hours from a city. Nearly 7% of the population lives within a travel time of 2-4 hours from a city.

Map 6 shows urban core and proximity for the province based on the 1998 census data. It will be seen that the 2% of the population that lives at a travel time of more than four hours from a city is in the district of Chitral, which is the largest district of the province in terms of area. Half of the 2% (i.e. 1%), lives at a distance of more than six hours.

Urban Agglomeration and Emerging Urban Regions

Population Concentrations

The population of the province is concentrated in the fertile plains and less mountainous areas where the major cities and towns also flourish. In the North are the higher mountains with their harsh climate and living conditions and sparse population.

The main population concentrations of the province according to the 1998 census are:

- The districts of Peshawar, Charsada, Mardan, Swabi and Nowshera. These districts cover 9.6% of the area of the province and contain 36.1% of the population.
- The districts of Haripur, Abbottabad and Mansehra, with an area of 11.09% of the province, contain 15% of the provincial population.

- Three relatively smaller but significant concentrations of population are in the districts of Swat with 7% of the provincial population, Dera Ismail Khan with 5% and Kohat with 3%.

Data Table 10 gives the spatial distribution of population in the various districts of the province from the 1998 census. Map 7 shows the major population concentrations from the 1998 census and Map 8 shows the 1981-98 inter-census change in population concentration. Data Table 11 gives the urban population concentration in the province as recorded in the various census between 1941 and 1998 and data Table 12 provides further details by size. In terms of the latest census (1998), Map 9 shows the city and town population concentration census and Map 10 the inter-census change in urban population concentration.

City Expansion and Spatial Growth

The pattern of the spatial growth of urban areas has been discussed at some length over the years. Ali (2002)[1] summarizes the various related phenomena leading up to the emergence of significant urban agglomerations:

- Following, and parallel to infill within the developed areas of the city and densification, city populations have extended outside the administrative boundaries of the municipalities. This growth is not just the spontaneous settlements – the so-called 'informal' sector – but in fact a number of public sector and 'formal' private sector developments lie outside the city boundary.
- The phenomenon of peri-urban areas has gained significance. Settlements peripheral to the cities, capitalizing upon their proximity, transport links, employment opportunities and access to urban services, have grown substantially and even acquired some 'urban characteristics', though they do not have any institutional arrangement for providing basic civic services.
- Ribbons of development along the highways, between major urban centers and industrial satellite areas, have developed largely due to accessibility to transport links, availability of skills and services as well as tax and tariff incentives. This kind of development can be seen along the highways and roads connecting other major cities throughout the country. A review of occupational structures shows that people residing in the rural areas of these districts have a strong occupational interface with the urban areas.
- A separate, but related, phenomenon is also apparent in the more rural areas, where the population settlement pattern that has emerged shows higher densities of population along the major road corridors. This has enabled easier access by these rural areas to the higher-level services in the cities and towns and will possibly play a significant role in the transformation of the rural areas into urban areas.

The cumulative effect of these factors is evident in certain urban districts intense urbanization, connectivity and integration of services and industries across city boundaries and contiguity of city boundaries have resulted in the emergence of clearly identifiable urban agglomerations.

Urban Agglomerations

[1]Ali, Reza (2002).*'Underestimating Urbanisation'* in Economic and Political Weekly, Vol.XXXVII, Nos.44-45, Nov. 2-9, 2002; *'Underestimating Urbanisation'* in Zaidi, S Akbar (ed.), Continuity and Change: Socio-Political and Institutional Dynamics in Pakistan, City Press, Karachi, 2003; reproduced in Zaidi, S. Akbar, Issues in Pakistan's Economy, Second Edition (Karachi, Oxford University Press, 2006), and Bajwa, Khalid (ed.) Urban Pakistan - Imagining and Reading Urbanism, (Karachi, Oxford University Press, 2013).

The three agglomerations identified in 4.1 above (Central Pakthunkwa, Hazara and Southern) have a total area of 11,989 square kilometers, 30.7% of the area of the province. Their combined population in 1981 was 6.4 million, almost 58% of the provincial population. In 1998, the population was recorded as 10.3 million, growing at 2.85% p.a. - at this rate the projected 2013 population is around 16 million. The combined urban population of the three agglomerations increased to 2.5 million from 1.4 million, growing at 3.2% p.a.

Data Table 13 gives the population data on these three agglomerations for 1981 and 1998 and the 1981-98 inter-census change.

The pattern of population and spatial growth in the three agglomerations identified are briefly discussed below.

Central Pakthunkwa

The *tehsils* (sub-districts) of Peshawar, Charsada, Tangi, TakhtBhai, Mardan, Lahore and Swabi form an agglomeration with an area of 5,428 square kilometers, 7.28% of the area of the province. The land is fertile for agriculture and there is easy inter-city access. In the 1981 census the population of this area was 3.25 million, 34.3% of the provincial population. By 1998, the population rose to 5.53 million, 36% of the provincial population. If projected at the 1981-98 inter-census growth rate, the 2013 population will be over 10 million.

In the Central Pakthunkhwa agglomeration, the population is concentrated in and around the four cities of Peshawar, Charsada, Nowshera and Mardan.

The city of Peshawar has had the highest population growth. However as the city expansion overspills in to the rural hinterland, the 1998 census figures do not capture the full magnitude of the growth of the city. The expansion has been along the main road corridors: in the East it has expanded up to river Kabul; in the North it is expanding towards Warsak and Charsada especially along and near the roads to Warsak and Charsadda; in the South, the city has grown on and in the vicinity of the National Highway to Kohat; in the West, Peshawar is expanding towards Nowshera along the N-5 national highway.

The expansion of Charsada has also followed a similar pattern. The major expansion has been towards Uthmanzai along Tangi road in the North; towards Mardan in the West; towards JindiKhwar and along the highway to Nowshera in the East; and in the South towards the Kabul river and along the highway to Peshawar.

The overspill of Mardan, the home of the famous Punjab Regiment, follows the same pattern. The main expansion is towards Risalpur Cantonment and beyond to Nowshera, both along and beyond the highway (N-45) and road corridors, linking the area to the country through the M-1 motorway and the N-5 highway.

The fourth city of this agglomeration, Nowshera, which is an important military centre, is expanding rapidly as lies on the main national highway route (N-5) connecting three provincial capitals with the federal capital Islamabad – thus growth along the N-5 both towards Peshawar and in the opposite direction has been marked. Nowshera has attracted considerable small industry along the Kabul river and to the confluence with the Indus, onwards across the river towards Risalpur and beyond to Mardan.

The rural areas of the agglomeration have considerable advantage in terms of access to employment opportunities, municipal, social and business services and appear to have been influenced by their proximity and exposure.

Map 11 based on satellite imagery illustrates the cumulative effects in Central Pakthunkwa of the phenomena described in 4.1 – overspill beyond city boundary (most significant in Peshawar); peri-urban growth; and ribbons along major road corridors (significantly along N-5 and N-45 highways and the Peshawar-Charsadda -Mardan road).

Map 12 shows the Central Pakthunkhwa agglomeration.

Hazara

The second agglomeration consists of Haripur, Ghazi, Abbottabad, Mansehra and Oghi*tehsils*, with and area of 5,441 square kilometers, 7.3% of the total province's area. In the 1981 census the population was 1.66 million, 15% of the provincial population, which by 1998 rose to 2.34 million, 13.17% of the provincial population. If projected at the 1981-98 rate of inter-census growth, the 2013 population will be 3.16 million.

In the Hazara agglomeration, the population is concentrated in and around the city of Abbottabad and main medium and small towns of the area – Mansehra, Haripur, Havelian and Khalabat.

Map 13 shows the Hazara agglomeration.

Southern

The third agglomeration consists of Hangu, Kohat, and Bannu*tehsils* with a total area of 4,869 sq.kms, 6.53% of the area of the province. While this is a low population density area unlike the first two agglomerations, the population is growing at a faster pace of 3%p.a. In the 1981 census, the population was 0.93 million, 8.4% of the provincial population. In 1998 census, the population was recorded as 1.56 million, 8.7% of the population of the province. Projected at this rate, the 2013 population will be 2.45 million.

In the extreme South, Dera Ismail Khan is not being considered as part of the Southern agglomeration as it is separate, stand-alone area; this city has declined in significance in the post-Independence period. The main city of the Southern agglomeration is Kohat, with Bannu and Hangu being the other main towns

Major Urban Agglomerations – Prosperity and Poverty

General

The major agglomerations – Central Pakthunkwa and Hazara – appear as the more prosperous and developed areas of the province, regardless of the differences between them or the intra-agglomeration disparities. To examine their level of prosperity and poverty, as well as to bring out intra-agglomeration disparities on a district basis, the level of social and economic deprivation and the incidence of poverty are examined.

Social and Economic Deprivation

The district representative Pakistan Social and Living Standards Measurement Survey (PSLM) 2010-11 is used by Jamal (2012)[2] to prepare inter-temporal indices of multiple deprivation. [See Jamal (2012)[3], pages 6-7 for discussion on methodology].

[2]Jamal, Haroon (2012). Districts' Indices of Multiple Deprivations for Pakistan, 2011, Research Report No.82, Table A.3, page 22. Karachi, Social Policy and Development Centre, June 2012.

The multiple social deprivation indices cover a range of deprivations:

- Education, represented by current and future level of deprivation – adult literacy and children out-of-school, incorporating gender disparity by taking both these measures separately.
- Health, taking input indicators as proxy for output measures (which are not available in the data set) – pregnant women with no pre-natal care, no post-natal care and no tetanus toxoid injection during pregnancy; and, lack of child (under 5 years) immunization.
- Housing – quality represented by use of non-permanent materials in walls and roof of the house; congestion represented by one-room houses; and, households lacking toilet facilities.
- Municipal Services, represented by lack of electricity, use of unsafe water supplies, absence of telephone (landline or mobile), and, use of inadequate cooking fuel.

The economic deprivation index is represented through below average household wealth reflected in household assets, home ownership and housing quality. Jamal (2012)[4] uses "categorical principal component technique of factor analysis to combine these assets and utilities to develop an asset score (weighted factor score) for each household" [Jamal (2012)[5], Appendix B]. Economically deprived households are those households that have asset score less than 50% of the median score.

Data Table 14 and Map 14 give the social and economic deprivation estimates for 2011 for Central Pakthunkwa and Hazara agglomerations based on the district estimates prepared by Jamal (2012)[6]. The estimates (Data Table 14) highlight a number of features for Khyber-Pakthunkwa that is discussed below.

Social Deprivation

Central Pakthunkwa:

- Education – the three districts of Mardan, Charsadda and Peshawarare moderately deprived in terms of education indicies, with index values ranging from a high of 36.37 in Mardan, ranked as the 13th, most deprived district in the province and Charsadda (35.49, ranked 14th) to a low of 34.13 in Peshawar (ranked 16th). Swabi and Nowshera districts have the best education indicators in the agglomeration (29.79 and 30.59 respectively, ranked 22 and 21 in the province),
- Health – except for Swabi district with an index value of 24.17 and ranked 13th in terms of deprivation, the other four districts are less deprived, and, Mardan (20.68, ranked 18th) is amongst the less deprived districts.
- Housing – there is a wider intra-agglomeration variation in the indices for housing quality: Peshawar (17.23) ranks as the best in the province and Nowshera (20.92) amongst those with better indicators; Swabi (27.69), Charsadda (28.01) and Mardan (34.93) ranked 15, 13, and 8 are amongst the most deprived.
- Municipal Services: four of the five districts are amongst those with the best municipal infrastructure and services in the province; only Swabi, ranked 11^{th,} is amongst the deprived.

Hazara:

- Education – the agglomeration consists of the best performing districts in the province: Haripur is the top performer in the province, Abbottabad, the next best and Mansehra is ranked the fourth best.

---

[3] ibid.
[4] ibid.
[5] ibid.
[6] ibid.

- Health – two of the three districts of the agglomeration, Haripur and Abbottabad, are the best and next best districts in the province in health indicators; Mansehra however is a deprived district, ranked 11th in terms of health deprivation.
- Housing – Haripur district (24.72) has better indicators of housing quality while Abbottababd (34.05) and Mansehra (36.66) rank amongst the most deprived districts (ranked 9th and 7th).
- Municipal Services – Haripur (8.31) is well endowed with municipal infrastructure and services; Abbottabad (16.93) is moderately deprived (ranked 15th) and Mansehra (27.76) is amongst the most deprived districts in the province (ranked 5th).

Economic Deprivation

*Central Pakthunkwa:*Three of the five districts of the agglomeration rank amongst the least economically deprived districts amongst the 24 districts of the province – Peshawar (23rd), Nowshera (22nd), Charsadda (19th); Mardan is ranked 17th while Swabi, ranked 11th, is the only deprived district of the agglomeration.

Hazara: Haripur (index value 17.87) is the least economically deprived district of the province while Abbottabad (ranked 22) also ranks amongst the least deprived. Mansehra, with a economic deprivation index value twice that of Haripur and ranked 9th is amongst the economically most deprived districts of the province.

Poverty Incidence

The Household Income and Expenditure Survey (HIES) 2010-11 and the district representative PSLM 2010-11 is used by Jamal (2013)[7] to estimate a model of per capita consumption as a function of the non-monetary variables that are available in HIES and PSLM, and the resulting parameter estimates are then simulated to predict consumption for each household in PSLM 2010-11.The predicted cut-off points are used to calculate poverty measures for the districts. [See Jamal (2013)[8], pages 3-7 for discussion on methodology].

Data Table 15 and Map 15 give the poverty estimates for 2011 for Central Pakthunkwa and Hazara agglomerations based on the district estimates prepared by Jamal (2013)[9]. The estimates (Data Table 13) highlight a number of features for Khyber-Pakthunkwa that is discussed below.

First, on a province-basis, the incidence of rural poverty (39.58%) is lower than that for the urban areas (48.31%).

Second, within the urban areas of the province, the incidence is lower in the largest city of the province, Peshawar (45.03%), compared with the overall urban poverty incidence (48.31), and, for all other cities and towns (excluding Peshawar) taken together (50.15%). This is line with earlier findings as well as the estimates for the districts in other provinces of Pakistan prepared by Jamal (2013, p.10)[10]and is highlighted by him as an important finding from this exercise.

In the districts of the two agglomerations, the situation appears as follows:

Central Pakthunkwa: The poverty incidence in the districts of the agglomeration is higher (ranging from 48.59 in Mardan to 44.24 in Peshawar) than that for the overall provincial average (41.06%).

[7]Jamal, Haroon (2013).Predicting Sub-National Poverty Incidence for Pakistan, Research Report No.85, Table A.3, page 16. Karachi, Social Policy and Development Centre, September 2013.
[8] ibid.
[9] ibid.
[10] ibid.

- In terms of poverty incidence for urban areas of the district, except for Peshawar, all other districts have a significantly higher percentage of population living below the poverty line. While the provincial average for all urban areas is 48.31% and for cities and towns of the province excluding Peshawar it is 50.15%, in the districts of the agglomeration (barring Peshawar) the urban incidence varies from a high of 64.13% in Swabi to a low of 54.78% in Mardan.
- In rural areas of the districts of the agglomeration, the percentage of the population living below the poverty line is higher than the rural average of the province (39.58%). Rural poverty incidence is low in Swabi (42.025%) and Charsadda (42.79%) districts, and the highest in Mardan district (46.95%).

Hazara: The poverty incidence in the agglomeration is the lowest in the province. In two of the three districts of the agglomeration (Haripur – 20.28%, Abbottababd – 21.80%) it is almost one-half of the provincial average of 41.06%; in the third district, Mansehra, it is 25.52%. In terms of ranking amongst the twenty-four districts of the province, Haripur ranks 24th, Abbottabad ranks 23rd, and Mansehra is 22nd.

- Urban poverty incidence in two of the three districts (Mansehra – 15.71% and Abbottabad – 17.14%) is almost one-third of the average for urban areas of the province (including Peshawar city, 48.31%, and for all cities and towns excluding Peshawar, 50.15%). In the third district, Haripur, it is 25.31%, almost one-half of the urban average for province.
- In rural areas of one district of the agglomeration, Haripur (19.51%), poverty incidence is nearly one-half of the rural average for the province (39.58%) while in the other two districts - Abbottabad and Mansehra it is 22.6% and 26.22% respectively.

Data Table 1

Population - Pakistan and Khyber Pakhtunkhwa
1941-98 and 2013

	CENSUS						*Estimated*
	1941	1951	1961	1972	1981	1998	*2013*
PAKISTAN	25,904,465	33,740,167	42,880,378	65,309,340	84,253,644	132,352,279	*184 million*
KHYBER-PAKHTUNKHWA	3,038,067	4,556,545	5,730,991	8,388,551	11,061,328	17,743,645	*27 million*
Khyber Pakhtunkhwa as %age of Pakistan	*11.73%*	*13.50%*	*13.37%*	*12.84%*	*13.13%*	*13.41%*	-

Source: Census population for census years 1951 to 1998 from *Census of Pakistan 1998*. Population estimates for 1998: for Pakistan from *Economic Survey 2012-13,* Government of Pakistan; and, for Khyber-Pakhtunkhwa from *Development Statistics of Khyber*- Pakhtunkhwa *2012*, Government of Khyber-Pakhtunkhwa.

Data Table 2

Population Growth Rate - Pakistan and Khyber-Pakhtunkhwa 1941-98

	CENSUS					
	1931-41	1941-51	1951-61	1961-72	1972-81	1981-98
	% per annum					
Pakistan	1.98	2.68	2.43	3.68	3.06	2.69
Khyber Pakhtunkhwa	2.28	4.14	2.32	3.33	3.32	2.82
Difference in Growth Rate: Pakistan and Khyber Pakhtunkhwa	*(0.30)*	*(1.46)*	*0.11*	*0.35*	*(0.26)*	*(0.13)*

Data Table 3

Population and Growth Rate – Pakistan: Urban and Rural 1941-98

Census Year		Total	Urban	Rural
1941	Population 1941	25,904,465	4,030,154	21,017,334
	Growth Rate 1931-41 % p.a.	*1.98*	*3.71*	*1.70*
1951	Population 1951	33,740,167	5,985,497	25,162,153
	Growth Rate 1941-51 % p.a.	*2.68*	*4.03*	*2.41*
1961	Population 1961	42,880,378	9,654,572	29,910,776
	Growth Rate 1951-61 % p.a.	*2.43*	*4.90*	*1.82*
1972	Population 1972	65,309,340	16,593,651	43,563,389
	Growth Rate 1961-72 % p.a.	*3.68*	*4.77*	*3.35*
1981	Population 1981	84,253,644	23,841,471	53,547,835
	Growth Rate 1972-81 % p.a.	*3.06*	*4.38*	*2.58*
1998	Population 1998	132,352,279	43,036,376	78,776,141
	Growth Rate 1981-98 %p.a.	*2.69*	3.54	2.33

Data Table 4

Population and Growth Rate – Khyber Pakhtunkhwa: Urban and Rural 1941-98

Census Year		Total	Urban	Rural
1941	Population 1941	3,038,067	546,876	2,491,191
	Growth Rate 1931-41 % p.a.	*2.28*	*3.54*	*2.02*
1951	Population 1951	4,556,545	504,745	4,051,800
	Growth Rate 1941-51 % p.a.	*4.14*	*-0.80*	*4.98*
1961	Population 1961	5,730,991	758,516	4,972,475
	Growth Rate 1951-61 % p.a.	*2.32*	*4.16*	*2.07*
1972	Population 1972	8,388,551	1,195,655	7,192,896
	Growth Rate 1961-72 % p.a.	*3.33*	*3.99*	*3.23*
1981	Population 1981	11,061,328	1,665,653	9,395,675
	Growth Rate 1972-81 % p.a.	*3.32*	*4.00*	*3.21*
1998	Population 1998	17,743,645	2,994,084	14,749,561
	Growth Rate 1981-98 % p.a.	2.82	3.51	2.69

Data Table 5

Spatial Distribution of Population – Pakistan 1951-98

		Pakistan	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Islamabad Capital Territory	FATA
1951	Population	33,740,167	20,540,762	6,047,748	4,556,545	1,167,167	95,940	1,332,005
	%age of Pakistan	*100%*	*60.88%*	*17.92%*	*13.50%*	*3.46%*	*0.28%*	*3.95%*
1961	Population	42,880,378	25,463,974	8,367,065	5,730,991	1,353,484	117,669	1,847,195
	%age of Pakistan	*100%*	*59.38%*	*19.51%*	*13.37%*	*3.16%*	*0.27%*	*4.31%*
	Change 1951-61	-	-1.50%	1.59%	-0.14%	-0.30%	-0.01%	0.36%
1972	Population	65,309,340	37,607,423	14,155,909	8,388,551	2,428,678	237,549	2,491,230
	%age of Pakistan	*100%*	*57.58%*	*21.68%*	*12.84%*	*3.72%*	*0.36%*	*3.81%*
	Change 1961-72	-	-1.80%	2.16%	-0.52%	0.56%	0.09%	-0.49%
1981	Population	84,253,644	47,292,441	19,028,666	11,061,328	4,332,376	340,286	2,198,547
	%age of Pakistan	*100%*	*56.13%*	*22.58%*	*13.13%*	*5.14%*	*0.40%*	*2.61%*
	Change 1972-81	-	-1.45%	0.91%	0.28%	1.42%	0.04%	-1.21%
1998	Population	132,352,279	73,621,290	30,439,893	17,743,645	6,565,885	805,235	3,176,331
	%age of Pakistan	*100%*	*55.63%*	*23.00%*	*13.41%*	*4.96%*	*0.61%*	*2.40%*
	Change 1981-98	-	-0.51%	0.41%	0.28%	-0.18%	0.20%	-0.21%

Data Table 6

Spatial Distribution of Population – Khyber-Pakhtunkhwa1981-98 and 2013

			1981	1998		*Projected 2013*
S. No.	District	Area (Sq. Km)	Population	Population	Change 1981-98 (%)	
	KHYBER-PAKHTUNKWA	**74,521**	**11,061,328**	**17,735,912**	**89.6**	***27,317,082***
1	D. I. Khan	7,326	494,432	852,995	48.9	*1,380,139*
2	Kohat	2,545	326,617	562,644	92.7	*909,161*
3	Kohistan	7,492	465,237	472,570	1.0	*479,136*
4	Mansehra	4,579	770,235	1,152,839	83.6	*1,645,541*
5	Buner	1,865	265,517	506,048	129.0	*894,001*
6	Chitral	14,850	208,560	318,689	7.4	*463,276*
7	Lower Dir	1,582	404,844	717,649	197.7	*1,189,287*
8	Upper Dir	3,699	362,565	575,858	57.7	*866,176*
9	Shangla	1,586	251,546	434,563	115.4	*703,971*
10	Mardan	1,632	881,465	1,460,100	354.6	*2,279,159*
11	Tank	1,679	141,062	238,216	57.9	*378,233*
12	Hangu	1,097	182,474	314,529	120.4	*508,512*
13	Peshawar	1,257	1,113,303	2,019,118	720.6	*3,414,228*
14	Abbottabad	1,967	647,635	880,666	118.5	*1,155,017*
15	Bannu	1,227	422,027	675,667	206.7	*1,023,479*
16	Nowshera	1,748	537,638	874,373	192.6	*1,342,937*
17	LakkiMarwat	3,164	288,759	490,025	63.6	*781,411*
18	Swat	5,337	715,938	1,257,602	101.5	*2,067,410*
19	Karak	3,372	249,681	430,796	53.7	*697,090*
20	Charsadda	996	630,811	1,022,364	393.1	*1,565,455*
21	Battagram	1,301	339,119	307,278	(24.5)	*281,675*
22	Swabi	1,543	625,035	1,026,804	260.4	*1,591,139*
23	Haripur	1,725	479,031	692,228	123.6	*957,910*
24	Malakand	952	257,797	452,291	204.3	*742,738*

Source: Population for 1981 and 1998 - *Census of Pakistan 1998;* projections for 2013 using1981-98 inter-census growth rates.

Data Table 7

Population Density – Pakistan 1951-98

Province/ Region	1951	1961		1972		1981		1998	
	Density	Density	%age Change 1951-61	Density	%age Change 1961-72	Density	%age Change 1972-81	Density	%age Change 1981-98
Pakistan	42.38	53.86	27.09%	82.04	52.31%	105.83	29.01%	166.25	57.09%
Punjab	100.03	124.01	23.97%	183.14	47.69%	230.31	25.75%	358.53	55.67%
Sindh	42.92	59.38	38.35%	100.46	69.19%	135.04	34.42%	216.02	59.97%
Khyber Pakhtunkhwa	61.14	76.90	25.77%	112.57	46.37%	148.43	31.86%	238.10	60.41%
Balochistan	3.36	3.90	15.96%	7.00	79.44%	12.48	78.38%	18.91	51.55%
FATA	48.93	67.86	36.69%	91.52	34.87%	80.77	-11.75%	116.69	44.47%
Islamabad Capital Territory	105.89	129.88	22.65%	262.20	101.88%	375.59	43.25%	888.78	136.63%

Data Table 8

Population Density – Khyber-Pakhtunkhwa 1981-98 - *district*

			1981 Census		1998 Census			
S. No.	District	Area (Sq. Km)	Total Population	Density/ Sq. Km 1981	Total Population	%age of Change in Population 1981-98	Density/ Sq. Km 1998	%age of Change in Density 1981-98
	Khyber Pakhtunkhwa	**74,521**	**11,061,328**	**148.4**	**17,735,912**	**60.34%**	**238.0**	**60.34%**
1	D. I. Khan	7,326	494,432	67.5	852,995	72.52%	116.4	72.52%
2	Kohat	2,545	326,617	128.3	562,644	72.26%	221.1	72.26%
3	Kohistan	7,492	465,237	62.1	472,570	1.58%	63.1	1.58%
4	Mansehra	4,579	770,235	168.2	1,152,839	49.67%	251.8	49.67%
5	Buner	1,865	265,517	142.4	506,048	90.59%	271.3	90.59%
6	Chitral	14,850	208,560	14.0	318,689	52.80%	21.5	52.80%
7	Lower Dir	1,582	404,844	255.9	717,649	77.27%	453.6	77.27%
8	Upper Dir	3,699	362,565	98.0	575,858	58.83%	155.7	58.83%
9	Shangla	1,586	251,546	158.6	434,563	72.76%	274.0	72.76%
10	Mardan	1,632	881,465	540.1	1,460,100	65.64%	894.7	65.64%
11	Tank	1,679	141,062	84.0	238,216	68.87%	141.9	68.87%
12	Hangu	1,097	182,474	166.3	314,529	72.37%	286.7	72.37%
13	Peshawar	1,257	1,113,303	885.7	2,019,118	81.36%	1,606.3	81.36%
14	Abbottabad	1,967	647,635	329.3	880,666	35.98%	447.7	35.98%
15	Bannu	1,227	422,027	344.0	675,667	60.10%	550.7	60.10%
16	Nowshera	1,748	537,638	307.6	874,373	62.63%	500.2	62.63%
17	LakkiMarwat	3,164	288,759	91.3	490,025	69.70%	154.9	69.70%
18	Swat	5,337	715,938	134.1	1,257,602	75.66%	235.6	75.66%
19	Karak	3,372	249,681	74.0	430,796	72.54%	127.8	72.54%
20	Charsadda	996	630,811	633.3	1,022,364	62.07%	1,026.5	62.07%
21	Battagram	1,301	339,119	260.7	307,278	-9.39%	236.2	-9.39%
22	Swabi	1,543	625,035	405.1	1,026,804	64.28%	665.5	64.28%
23	Haripur	1,725	479,031	277.7	692,228	44.51%	401.3	44.51%
24	Malakand	952	257,797	270.8	452,291	75.44%	475.1	75.44%

Data Table 9

Population, Density and Change 1981-98 - *tehsils*

	District	*Tehsil*	Area (Sq. Km)	Total Population 1981	Total Population 1998	% Population Change 1981-98	*Projected Population 2013*	Density /Sq. Km 1981	Density /Sq. Km 1998
1	D. I. Khan	D. I. Khan+Paharpur	4,557	396,209	693,901	75.14%	*1,136,664*	86.9	152.3
2	D. I. Khan	Kulachi	2,769	98,223	159,094	61.97%	*243,475*	35.5	57.5
3	Kohat	Kohat	2,545	326,617	562,644	72.26%	*909,161*	128.3	221.1
4	Kohistan	Dassu	4,158	180,124	184,746	2.57%	*188,923*	43.3	44.4
5	Kohistan	Palas + Pattan	3,334	285,113	287,824	0.95%	*290,214*	85.5	86.3
6	Mansehra	Balakot	2,376	152,319	214,630	40.91%	*290,472*	64.1	90.3
7	Mansehra	F.R. Kala Dhaka	454	83,927	174,682	108.14%	*333,536*	184.9	384.8
8	Mansehra	Mansehra	1,340	394,766	574,975	45.65%	*775,125*	294.6	429.1
9	Mansehra	Oghi	409	139,223	188,552	35.43%	*246,408*	340.4	461.0
10	Buner	Buner/ Daggar	1,865	265,517	506,048	90.59%	*894,001*	142.4	271.3
11	Chitral	Chitral Sub Div	6,458	121,641	184,874	51.98%	*267,460*	18.8	28.6
12	Chitral	Mastuj Sub Div	8,392	86,919	133,815	53.95%	*195,816*	10.4	15.9
13	Lower Dir	Jandool Sub Div	421	106,877	189,357	77.17%	*313,657*	253.9	449.8
14	Lower Dir	Temergara Sub Div	1,162	297,967	528,292	77.30%	*875,630*	256.4	454.6
15	Upper Dir	Dir Sub Div	3,050	222,271	343,464	54.52%	*503,412*	72.9	112.6
16	Upper Dir	Wari Sub Div	649	140,294	232,394	65.65%	*362,764*	216.2	358.1
17	Shangla	Alpurai	663	102,742	172,960	68.34%	*273,262*	155.0	260.9
18	Shangla	Bisham	184	31,022	57,739	86.12%	*99,891*	168.6	313.8
19	Shangla	Chakisan	227	38,806	67,317	73.47%	*109,448*	171.0	296.6
20	Shangla	Martoong	215	33,544	57,441	71.24%	*92,331*	156.0	267.2
21	Shangla	Puran	297	45,432	79,106	74.12%	*129,039*	153.0	266.4
22	Mardan	Mardan	1,311	640,260	1,057,394	65.15%	*1,646,207*	488.4	806.6
23	Mardan	TakhtBhai	321	241,205	402,706	66.96%	*632,952*	751.4	1,254.5
24	Tank	Tank	1,679	141,062	238,216	68.87%	*378,233*	84.0	141.9
25	Hangu	Hangu	1,097	182,474	314,529	72.37%	*508,512*	166.3	286.7
26	Peshawar	Peshawar	1,257	1,113,303	2,019,118	81.36%	*3,414,228*	885.7	1,606.3
27	Abbottabad	Abbottabad	1,967	647,635	880,666	35.98%	*1,155,017*	329.3	447.7
28	Bannu	Bannu	1,227	422,027	675,667	60.10%	*1,023,479*	344.0	550.7
29	Nowshera	Nowshera	1,748	537,638	874,373	62.63%	*1,342,937*	307.6	500.2
30	LakkiMarwat	LakkiMarwat	3,164	288,759	490,025	69.70%	*781,411*	91.3	154.9
31	Swat	Matta	683	146,251	251,368	71.87%	*405,163*	214.1	368.0
32	Swat	Swat (Mingora)	4,654	569,687	1,006,234	76.63%	*1,662,247*	122.4	216.2
33	Karak	Karak + Takht	1,906	190,509	332,170	74.36%	*542,500*	100.0	174.3
34	Karak	BundaDaud Shah	1,466	59,172	98,626	66.68%	*154,590*	40.4	67.3
35	Charsadda	Charsadda	649	481,119	767,903	59.61%	*1,160,036*	741.3	1,183.2
36	Charsadda	Tangi	347	149,692	254,461	69.99%	*405,419*	431.4	733.3
37	Battagram	Battagram	497	204,164	185,666	-9.06%	*170,736*	410.8	373.6

38	Battagram	Allai	804	134,955	121,612	-9.89%	*110,939*	167.9	151.3
39	Swabi	Swabi	881	438,388	722,001	64.69%	*1,121,289*	497.6	819.5
40	Swabi	Lahore	662	186,647	304,803	63.30%	*469,850*	281.9	460.4
41	Haripur	Haripur + Ghazi	1,725	479,031	692,228	44.51%	*957,910*	277.7	401.3
42	Malakand	Malakand	952	257,797	452,291	75.44%	*742,738*	270.8	475.1

Data Table 10

Spatial Distribution of Population – Khyber-Pakhtunkhwa1981-98 and 2013

			1981	1998		*Projected 2013*
S. No.	District	Area (Sq. Km)	Population	Population	Change 1981-98 (%)	
	KHYBER-PAKHTUNKWA	**74,521**	**11,061,328**	**17,735,912**	**89.6**	***27,317,082***
1	D. I. Khan	7,326	494,432	852,995	48.9	*1,380,139*
2	Kohat	2,545	326,617	562,644	92.7	*909,161*
3	Kohistan	7,492	465,237	472,570	1.0	*479,136*
4	Mansehra	4,579	770,235	1,152,839	83.6	*1,645,541*
5	Buner	1,865	265,517	506,048	129.0	*894,001*
6	Chitral	14,850	208,560	318,689	7.4	*463,276*
7	Lower Dir	1,582	404,844	717,649	197.7	*1,189,287*
8	Upper Dir	3,699	362,565	575,858	57.7	*866,176*
9	Shangla	1,586	251,546	434,563	115.4	*703,971*
10	Mardan	1,632	881,465	1,460,100	354.6	*2,279,159*
11	Tank	1,679	141,062	238,216	57.9	*378,233*
12	Hangu	1,097	182,474	314,529	120.4	*508,512*
13	Peshawar	1,257	1,113,303	2,019,118	720.6	*3,414,228*
14	Abbottabad	1,967	647,635	880,666	118.5	*1,155,017*
15	Bannu	1,227	422,027	675,667	206.7	*1,023,479*
16	Nowshera	1,748	537,638	874,373	192.6	*1,342,937*
17	LakkiMarwat	3,164	288,759	490,025	63.6	*781,411*
18	Swat	5,337	715,938	1,257,602	101.5	*2,067,410*
19	Karak	3,372	249,681	430,796	53.7	*697,090*
20	Charsadda	996	630,811	1,022,364	393.1	*1,565,455*
21	Battagram	1,301	339,119	307,278	(24.5)	*281,675*
22	Swabi	1,543	625,035	1,026,804	260.4	*1,591,139*

23	Haripur	1,725	479,031	692,228	123.6	*957,910*
24	Malakand	952	257,797	452,291	204.3	*742,738*

Source: Population for 1981 and 1998 - *Census of Pakistan 1998;* projections for 2013 using1981-98 inter-census growth rates.

Data Table 11 Khyber Pakhtunkhwa: Urban Population Concentration 1941-98

S. No	Item	Census year					
		1941	1951	1961	1972	1981	1998
1	Total Urban Population	546,866	504,755	758,516	1,195,655	1,665,653	2,994,084
	%age	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
2	Primary City - Peshawar	173,420	151,435	218,691	272,697	566,248	982,816
	%age	*32%*	*30%*	*28%*	*22%*	*34%*	*32%*
3	Million- Plus Cities	-	-	-	-	-	-
	Nos	-	-	-	-	-	-
	%age	-	-	-	-	-	-
4	Ten Largest Cities	475,609	427,946	569,891	779,609	1,241,045	2,040,079
	%age	*87%*	*85%*	*74%*	*64%*	*74%*	*68%*
5	100,000 + Urban Places	130,967	109,510	166,273	324,719	648,738	1,323,304
	Nos	*1*	*1*	*1*	*2*	*2*	*3*
	%age	24%	22%	22%	27%	39%	45%
6	Other Urban Places	415,909	395,245	592,243	870,936	1,016,915	1,670,202
	Nos	*25*	*28*	*42*	*52*	*41*	*52*
	%age	*76%*	*78%*	*78%*	*73%*	*61%*	*55%*

Data Table 12: City and Town Population – *by size1941-98*

Sr. No	Size	Item	Census Year					
			1941	1951	1961	1972	1981	1998
1	Under 10,000	No	10	15	20	17	8	8
		Population	61,653	88,138	102,396	100,988	46,878	45,469
		%	*11.27*	*17.46*	*13.50*	*8.45*	*2.81*	*1.52*
2	10,000	No	8	8	17	25	18	14
	to	Population	96,967	121,549	251,945	378,398	302,620	258,619
	24,999	*%*	*17.73*	*24.08*	*33.22*	*31.65*	*18.17*	*8.64*
3	25,000	No	7	5	4	9	10	22
	to	Population	257,289	185,558	164,656	334,254	337,267	776,660
	49,999	*%*	*47.05*	*36.76*	*21.71*	*27.96*	*20.25*	*25.94*
4	50,000	No			1	1	5	8
	to	Population			73,246	57,296	330,150	589,454
	99,999	*%*			*9.66*	*4.79*	*19.82*	*19.69*
5	100,000	No	1	1	1	2	1	2
	to	Population	130,967	109,510	166,273	324,719	141,842	412,497
	499,999	*%*	*23.95*	*21.70*	*21.92*	*27.16*	*8.52*	*13.78*
6	500,000	No					1	1
	to	Population					506,896	910,807
	999,999	*%*					*30.43*	*30.43*
7	1,000,000 and Above	No						
		Population						
		%						
	TOTAL	No	26	29	43	54	43	55
		Population	546,876	504,755	758,516	1,195,655	1,665,653	2,993,506
		%	*100*	*100*	*100*	*100*	*100*	*100*

Data Table 13Khyber-Pakhtunkhwa - Population Agglomerations

	Khyber Pakhtunkhwa	**Central**	**Hazara**	**South**
Area	74,521	7,176	5,441	11,989
1981 Population	11,061,328	3,788,252	1,660,655	1,072,180
1981 Population as %age of Province	100%	34.2%	15.0%	9.7%
1981 Urban Population as %age of population of province	15.06%	9.71%	1.71%	1.72%
1981 Density Persons/Sq. Km	148.4	527.9	305.2	89.4
1998 Population	17,735,912	6,402,759	2,336,421	1,791,056
1998 Population as %age of Province	100%	36.1%	13.2%	10.1%
1998 Urban Population as %age of population of province	16.88%	10.58%	1.70%	1.69%
1998 Density Persons/Sq. Km	238.0	892.2	429.4	149.4
1981-98 Population Growth Rate % p.a.	2.82%	3.14%	2.03%	3.06%
1981-98 Change in %age of Population of province	60.3%	69.0%	40.7%	67.0%
1981-98 Change in Population as %age of Urban Population of province	79.8%	74.8%	59.4%	57.3%
1981-98 Change in Density (%)	60.3%	69.0%	40.7%	67.0%

Data Table 14Khyber-Pakhtunkhwa Agglomerations – Social and Economic Deprivation 2011

Districts	Social Deprivation								Economic Deprivation		Overall District Ranking in Province (24 Districts) *1 = Highest 24 = Lowest*
	Education *Index and Rank*		Health *Index and Rank*		Housing *Index and Rank*		Municipal Services *Index and Rank*		*Index and Rank*		
Central Pakhtunkhwa											
Peshawar	34.73	16	20.15	19	17.23	24	5.86	24	17.87	24	23
Charsadda	35.49	14	18.01	20	28.01	13	9.74	20	23.86	19	19
Mardan	36.37	13	20.68	18	34.93	8	13.65	18	28.11	16	17
Swabi	29.79	22	24.17	13	27.69	15	24.08	11	29.88	14	11
Nowshera	30.59	21	16.82	22	20.92	21	10.55	19	21.63	20	22
Hazara											
Haripur	16.92	24	9.94	24	24.72	18	8.31	21	16.60	23	24
Abbottabad	20.09	23	16.04	23	34.05	9	16.93	15	23.47	22	20
Mansehra	30.79	20	27.33	11	36.66	7	27.76	5	33.97	11	9

Source: Jamal, Haroon. Districts' Indices of Multiple Deprivations for Pakistan, 2011, Research Report No.82, Table A.3, page 22. Karachi, Social Policy and Development Centre, June 2012.

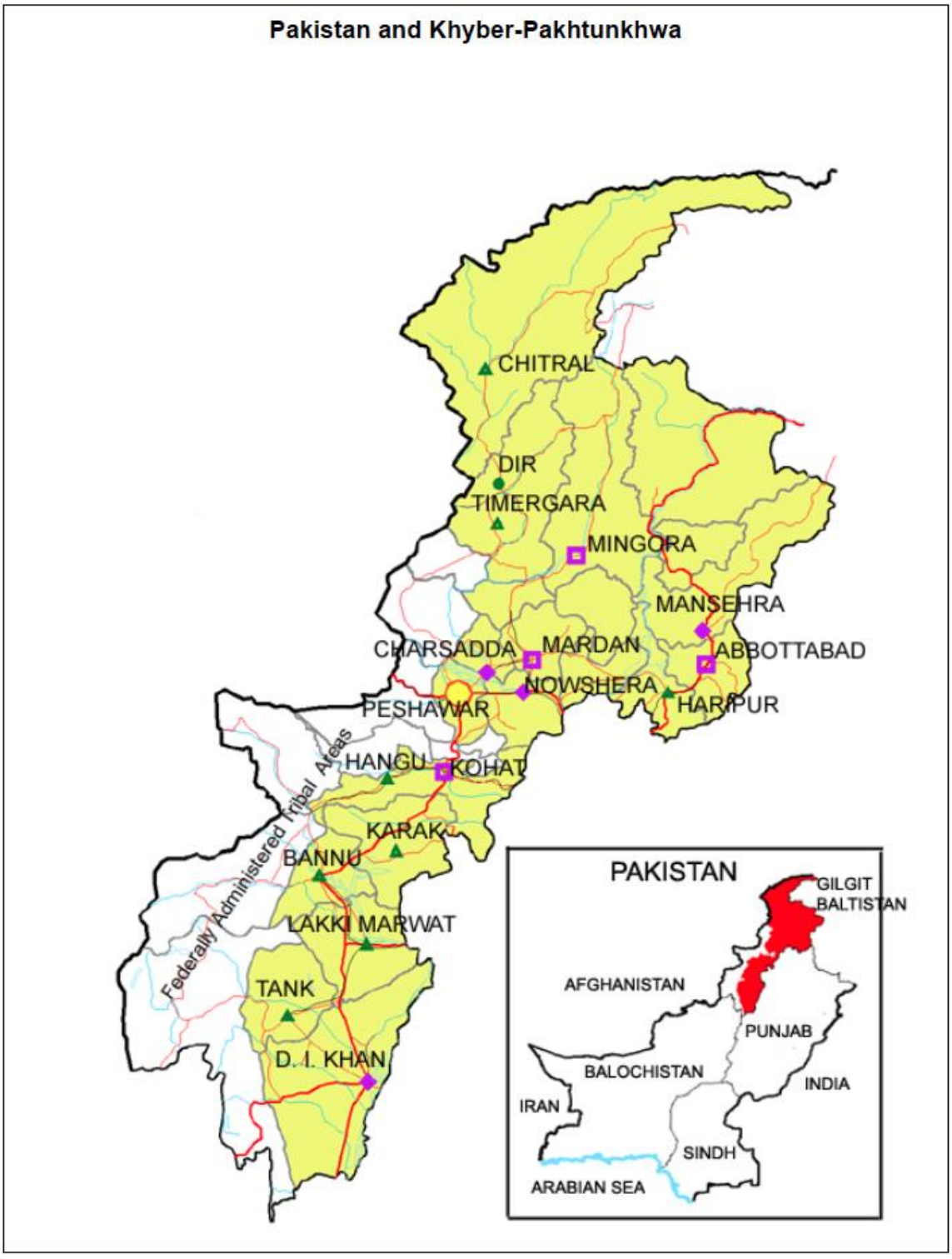
Data Table15Khyber Pakhtunkhwa Agglomerations – Poverty 2011

Districts	**Poverty Incidence 2011** *percent of population below poverty line*			Overall District Ranking in Province (24 Districts)
	Overall	Urban	Rural	
Khyber-Pakhtunkhwa	41.06	48.31∗	39.58	*1 = Highest 24 = Lowest*
Central Pakhtunkhwa				
Peshawar	44.24	45.03	43.36	11
Charsadda	44.92	55.18	42.79	9
Mardan	48.59	54.78	46.95	6
Swabi	44.43	64.13	40.02	10
Nowshera	48.55	63.61	43.68	7
Hazara				
Haripur	20.28	25.31	19.51	24
Abbottabad	21.80	17.14	22.6	23
Mansehra	25.52	15.71	26.22	22

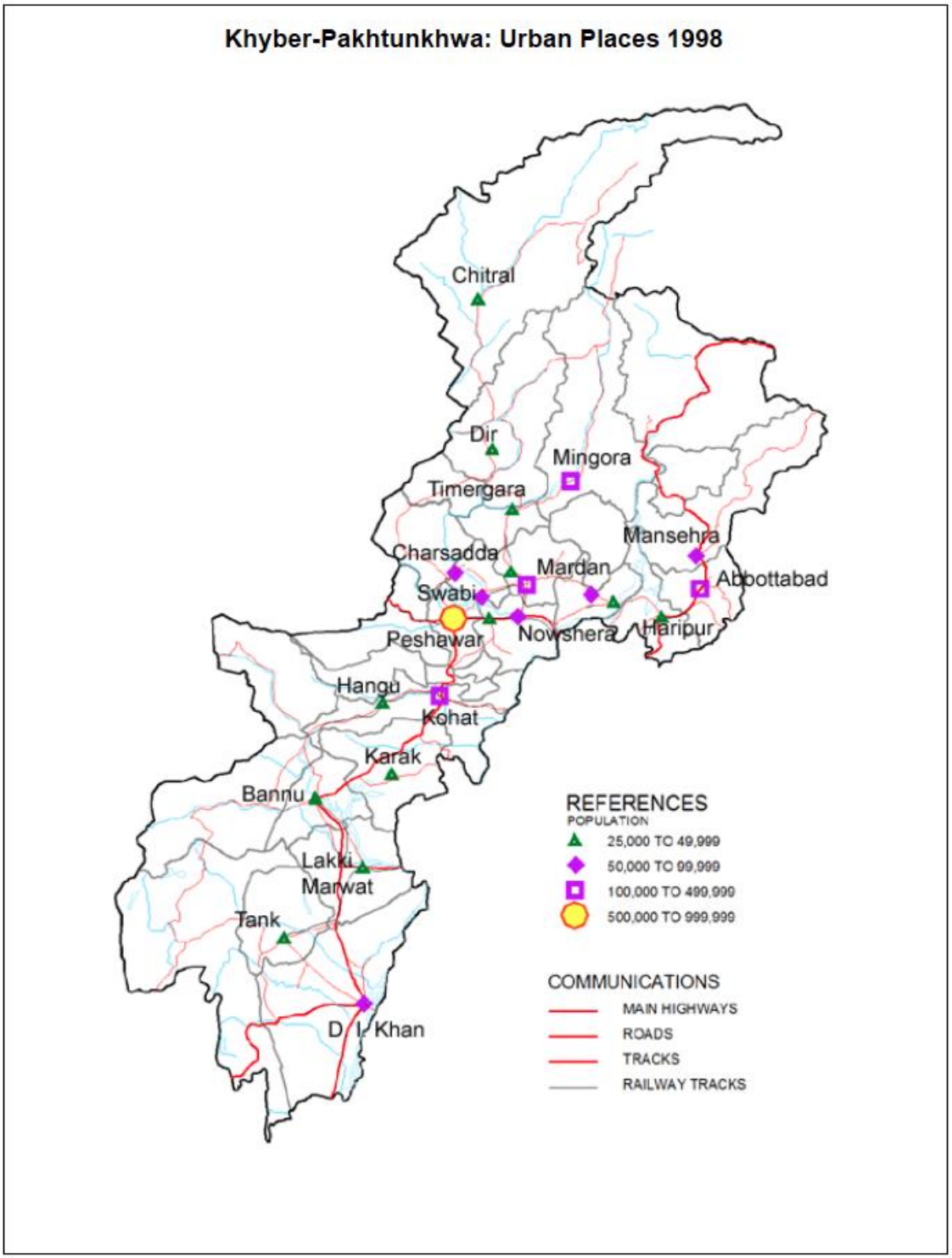
∗ The estimate of %age of population below the poverty line for urban areas in the province is 48.31; however this can be disaggregated between the largest city, Peshawar, where it is 45.03, and, for all other cities and towns of the province, where it is 50.15.

Source: Jamal, Haroon. Predicting Sub-National Poverty Incidence for Pakistan, Research Report No.85, Table A.3, page 16. Karachi, Social Policy and Development Centre, September 2013.

Map 1.

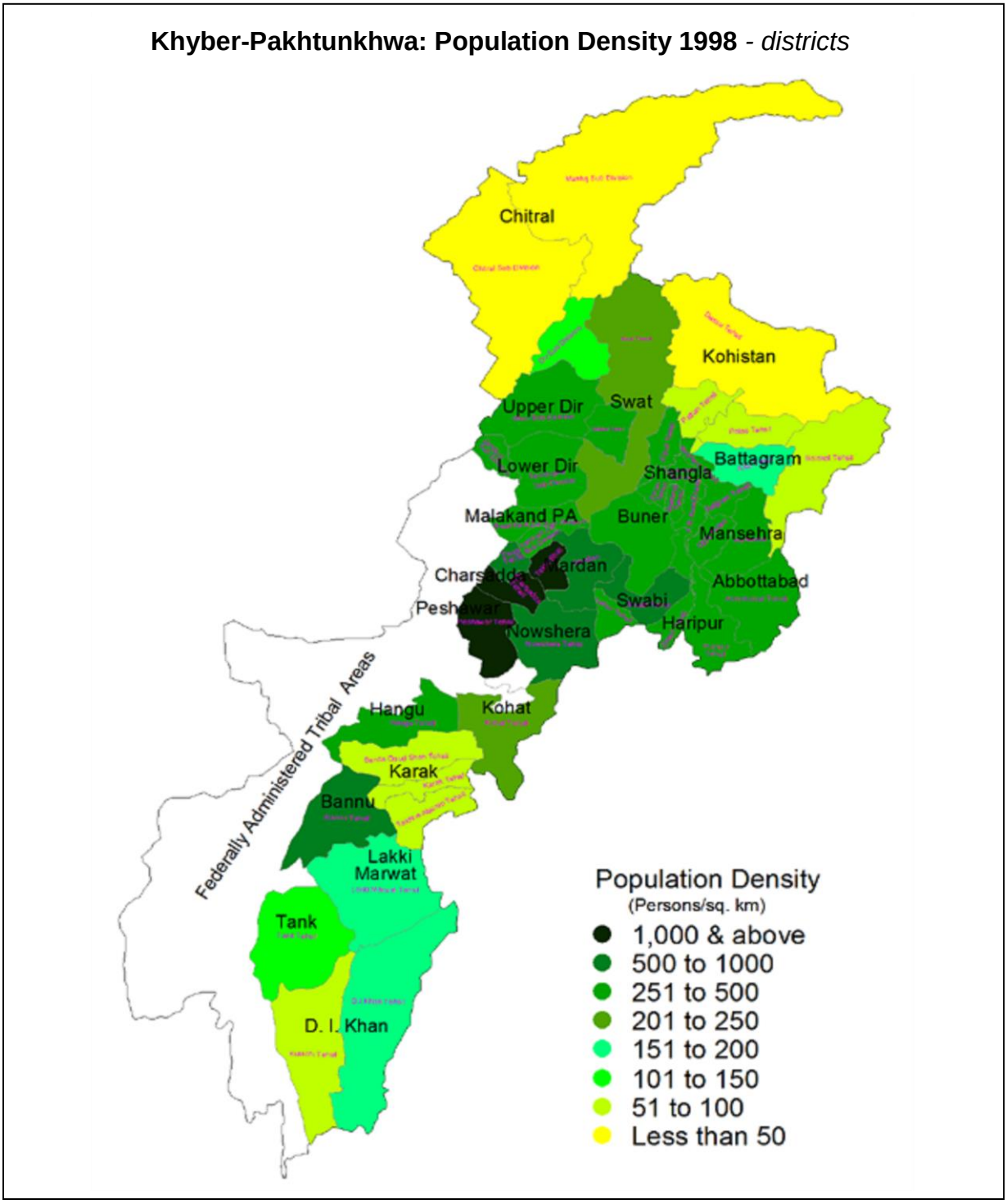

Pakistan and Khyber-Pakhtunkhwa
CHITRAL
DIR
TIMERGARA
MINGORA
MANSEHRA
CHARSADDA
MARDAN
ABBOTTABAD
NOWSHERA
PESHAWAR
HARIPUR
HANGU
KOHAT
KARAK
BANNU
LAKKI MARWAT
TANK
D. I. KHAN
Federally Administered Tribal Areas
PAKISTAN
GILGIT BALTISTAN
AFGHANISTAN
PUNJAB
BALOCHISTAN
INDIA
IRAN
SINDH
ARABIAN SEA

Map 2.

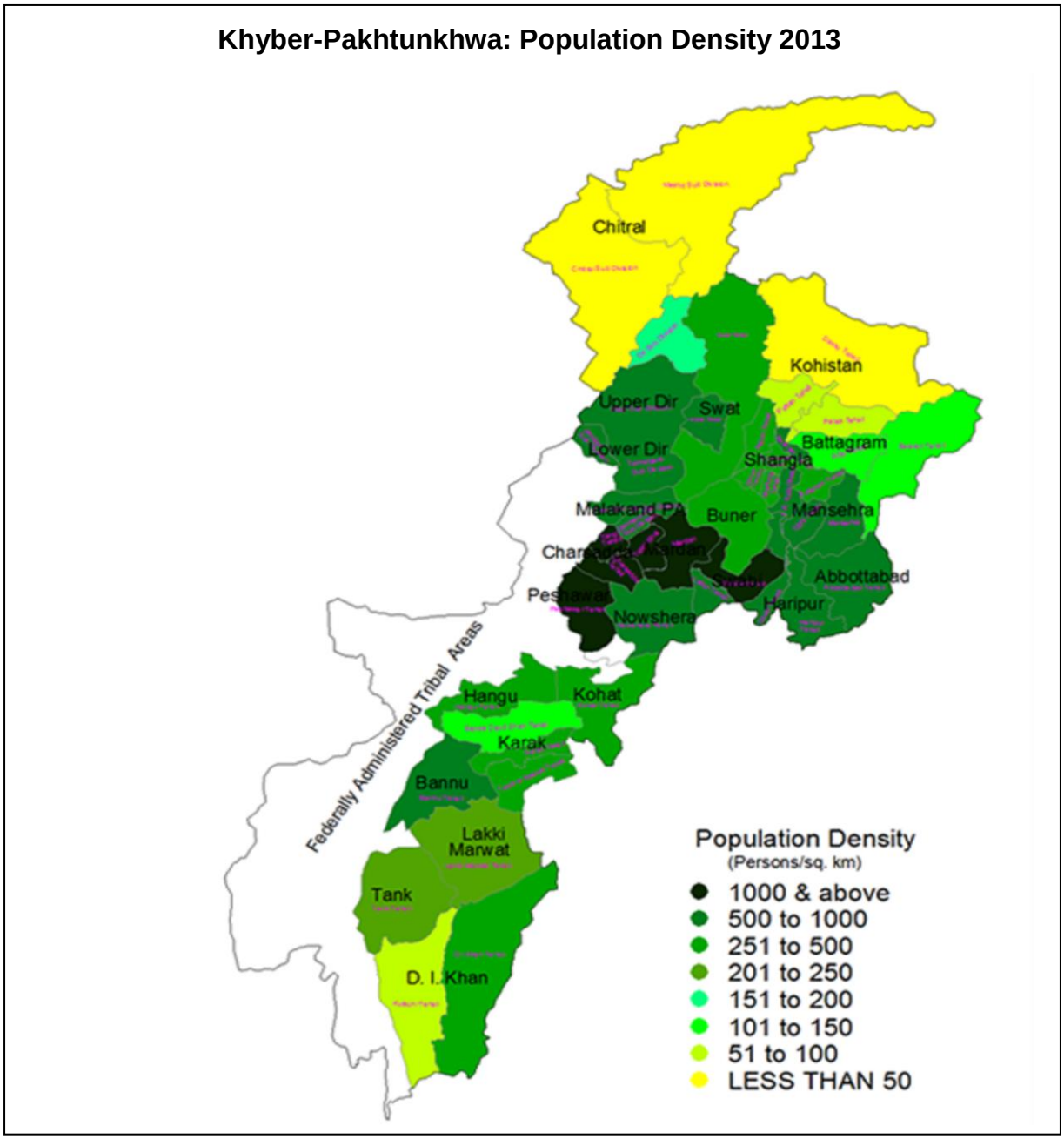

Khyber-Pakhtunkhwa: Urban Places 1998
Chitral
Dir
Mingora
Timergara
Mansehra
Charsadda
Mardan
Abbottabad
Swabi
Peshawar
Nowshera
Haripur
Hangu
Kohat
Karak
Bannu
Lakki Marwat
Tank
D. I. Khan
REFERENCES
POPULATION
25,000 TO 49,999
50,000 TO 99,999
100,000 TO 499,999
500,000 TO 999,999
COMMUNICATIONS
MAIN HIGHWAYS
ROADS
TRACKS
RAILWAY TRACKS

Map 3.

Khyber-Pakhtunkhwa: Population Density 1998 - *districts*

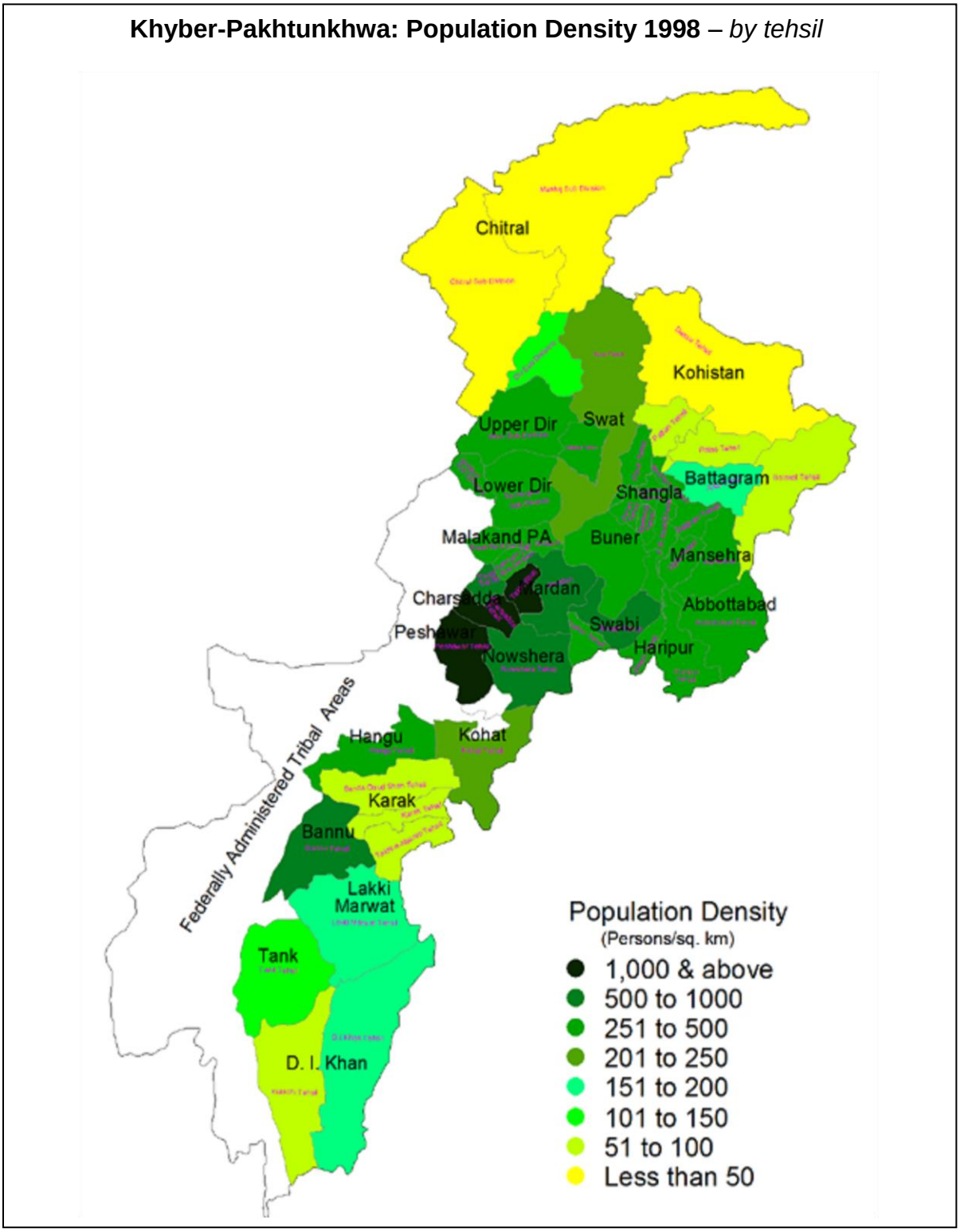


Map 4.


Khyber-Pakhtunkhwa: Population Density 2013
Chitral
Kohistan
Upper Dir
Swat
Lower Dir
Shangla
Battagram
Malakand PA
Buner
Mansehra
Abbottabad
Haripur
Nowshera
Hangu
Kohat
Karak
Bannu
Lakki Marwat
Tank
D. I. Khan
Federally Administered Tribal Areas
Population Density
(Persons/sq. km)
1000 & above
500 to 1000
251 to 500
201 to 250
151 to 200
101 to 150
51 to 100
LESS THAN 50

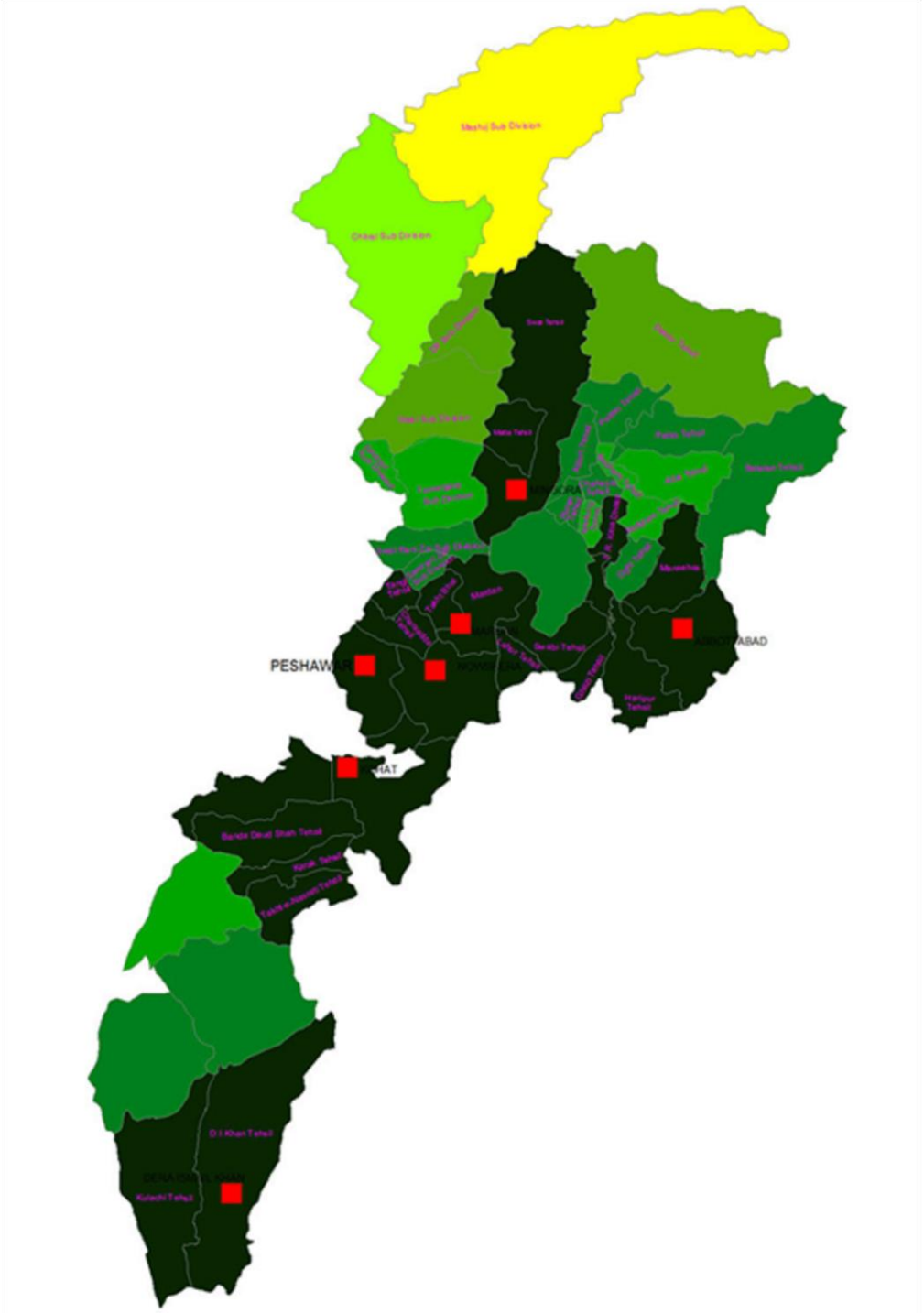
Map 5.

Khyber-Pakhtunkhwa: Population Density 1998 – *by tehsil*

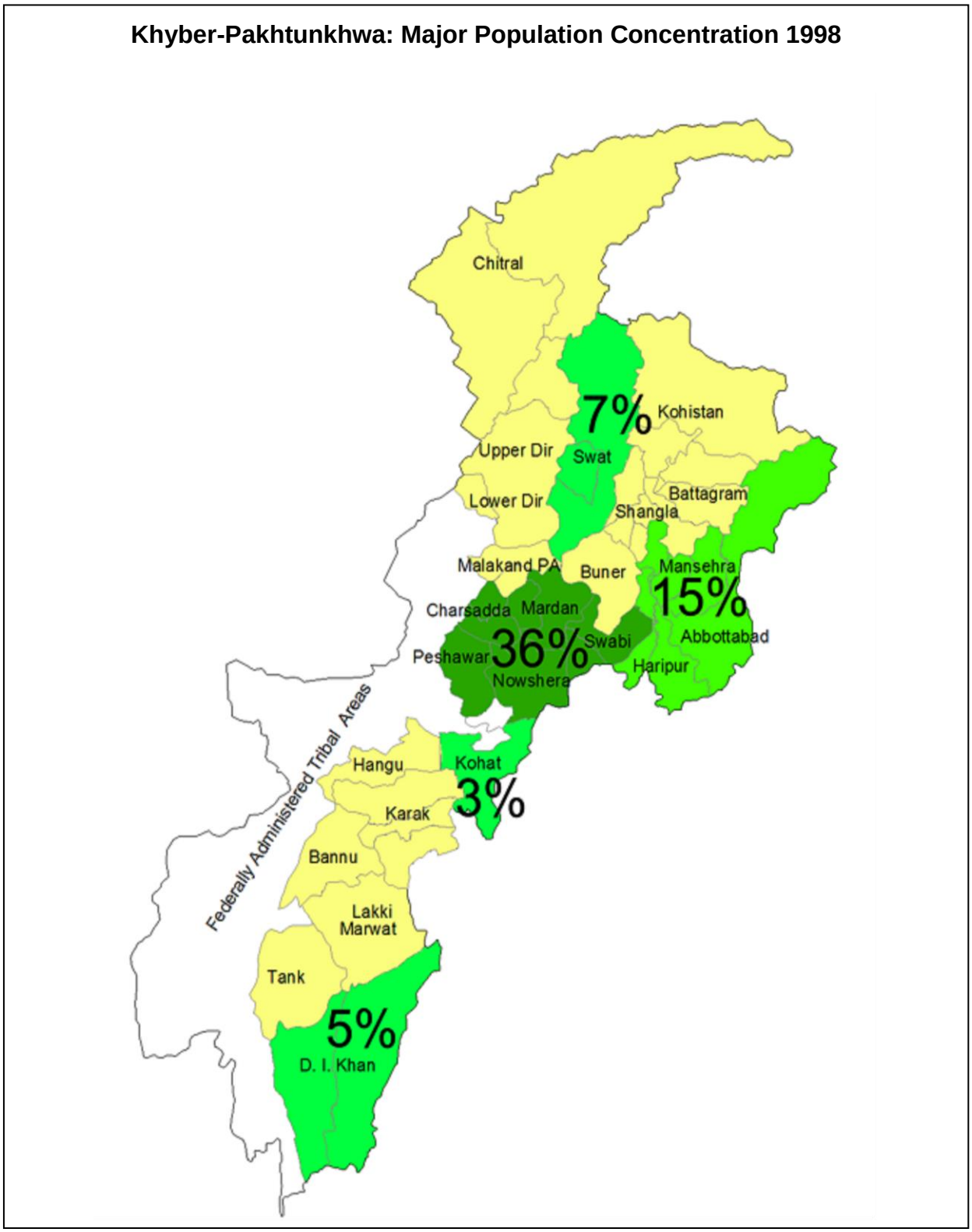


Map 6.

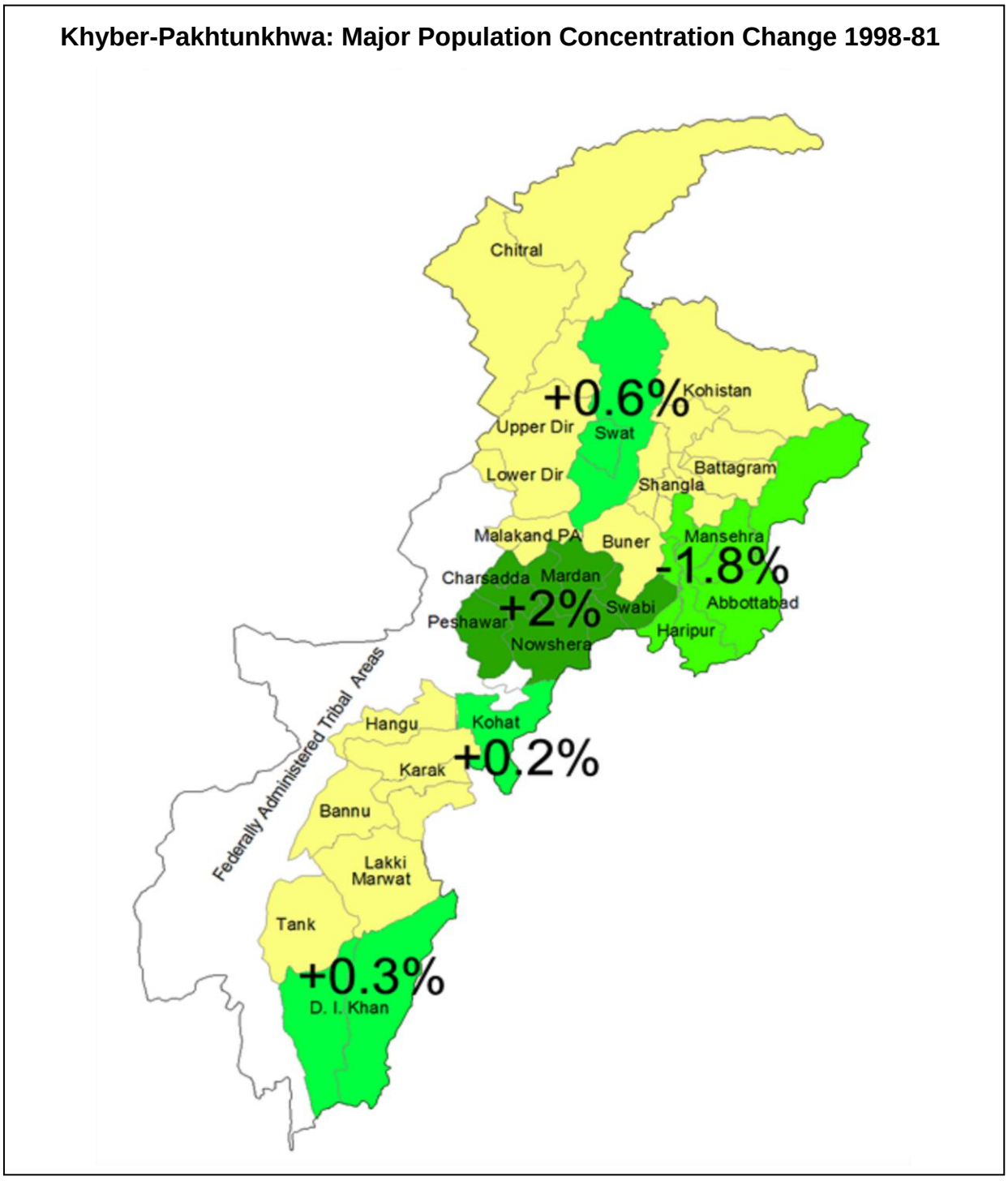
Khyber-Pakhtunkhwa: Urban Core and Proximity 1998



Map 7.

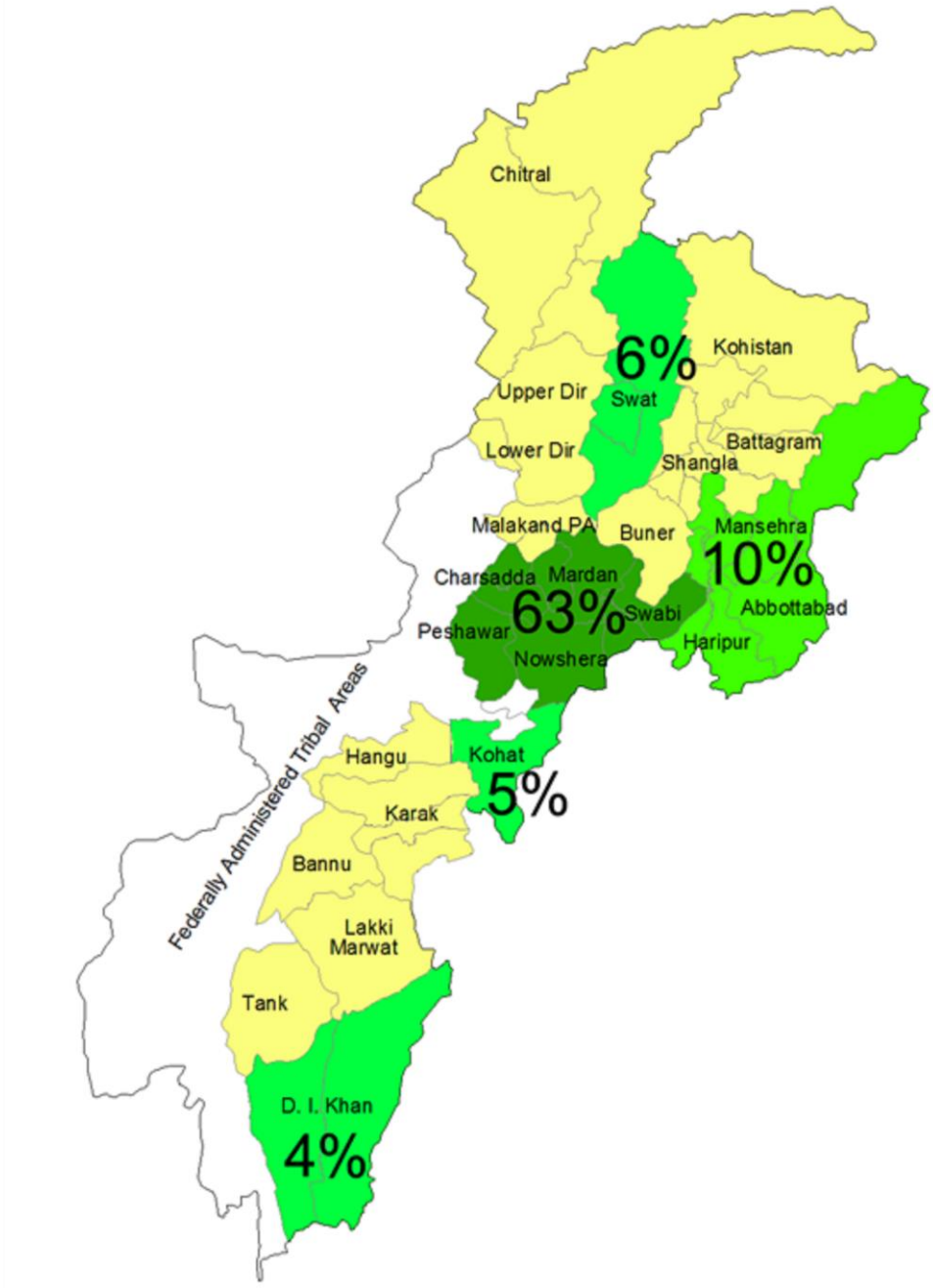

Khyber-Pakhtunkhwa: Major Population Concentration 1998
Chitral
7%
Kohistan
Upper Dir
Swat
Lower Dir
Shangla
Battagram
Malakand PA
Buner
Mansehra
15%
Charsadda
Mardan
36%
Swabi
Abbottabad
Peshawar
Nowshera
Haripur
Federally Administered Tribal Areas
Hangu
Kohat
3%
Karak
Bannu
Lakki Marwat
Tank
5%
D. I. Khan

Map 8.

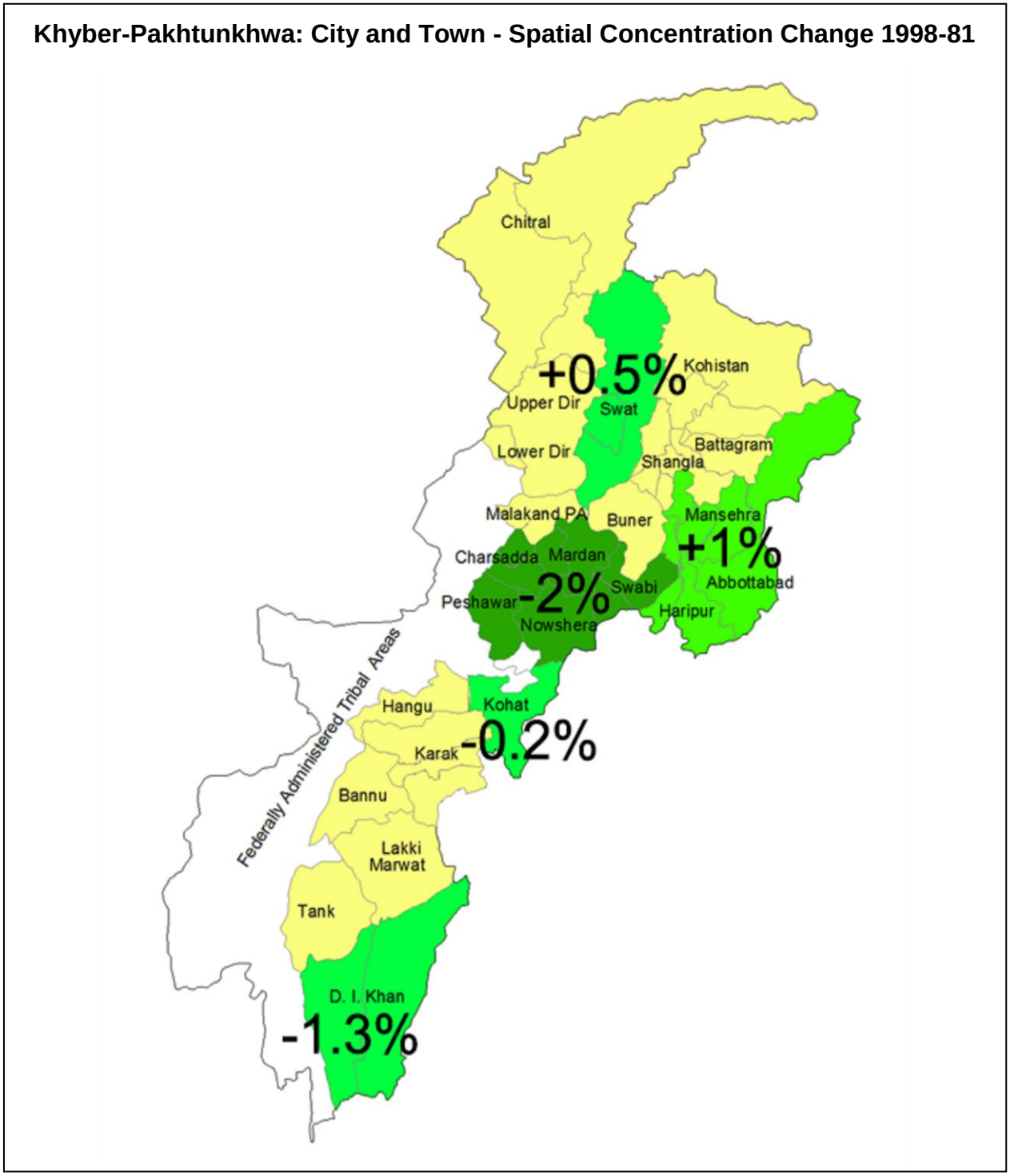

Khyber-Pakhtunkhwa: Major Population Concentration Change 1998-81
Chitral
+0.6%
Kohistan
Upper Dir
Swat
Lower Dir
Battagram
Shangla
Malakand PA
Buner
Mansehra
-1.8%
Charsadda
Mardan
+2%
Swabi
Abbottabad
Peshawar
Haripur
Nowshera
Federally Administered Tribal Areas
Hangu
Kohat
+0.2%
Karak
Bannu
Lakki Marwat
Tank
+0.3%
D. I. Khan

Map 9.

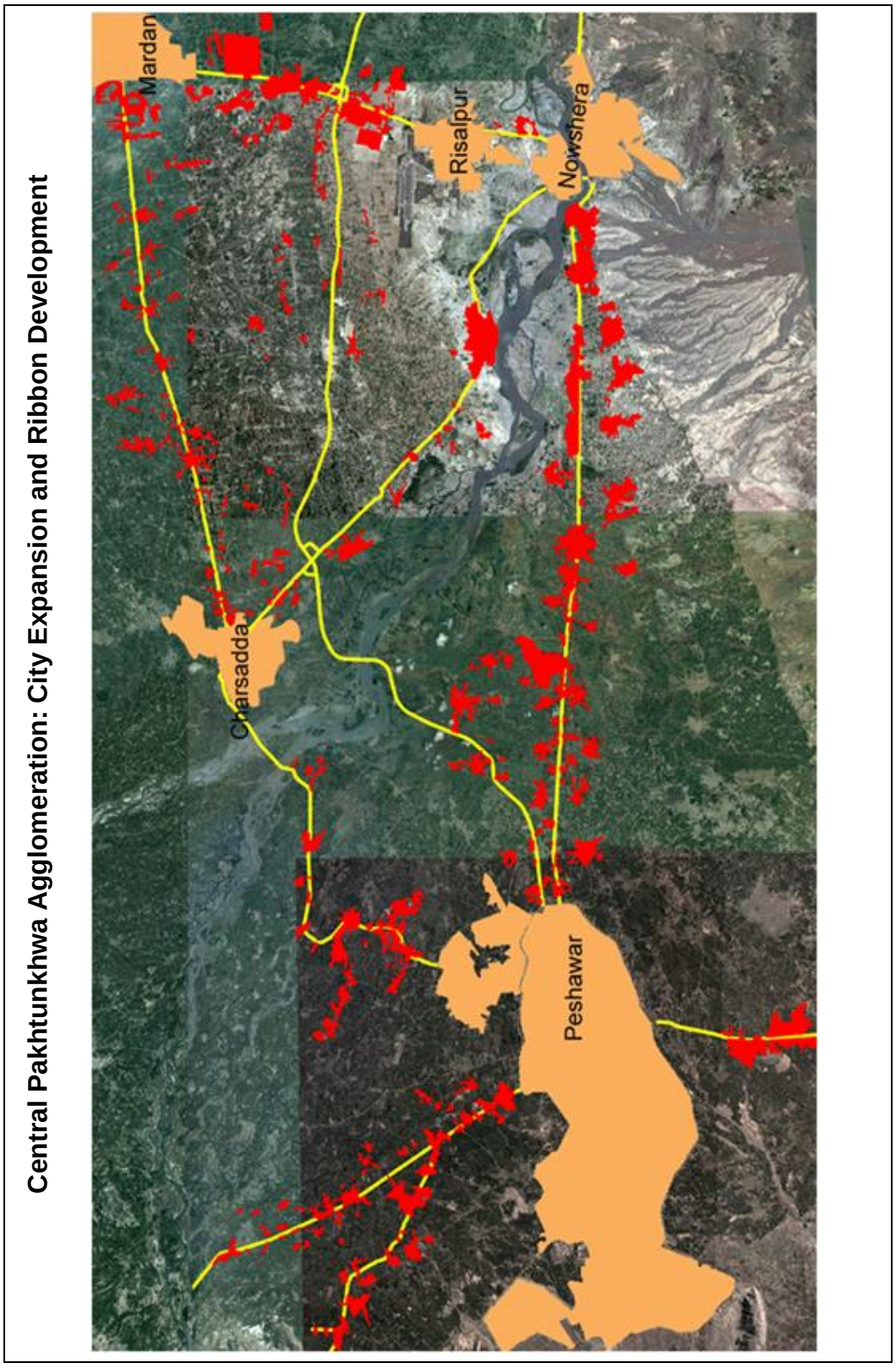
Khyber-Pakhtunkhwa: City and Town Population – Spatial Concentration 1998



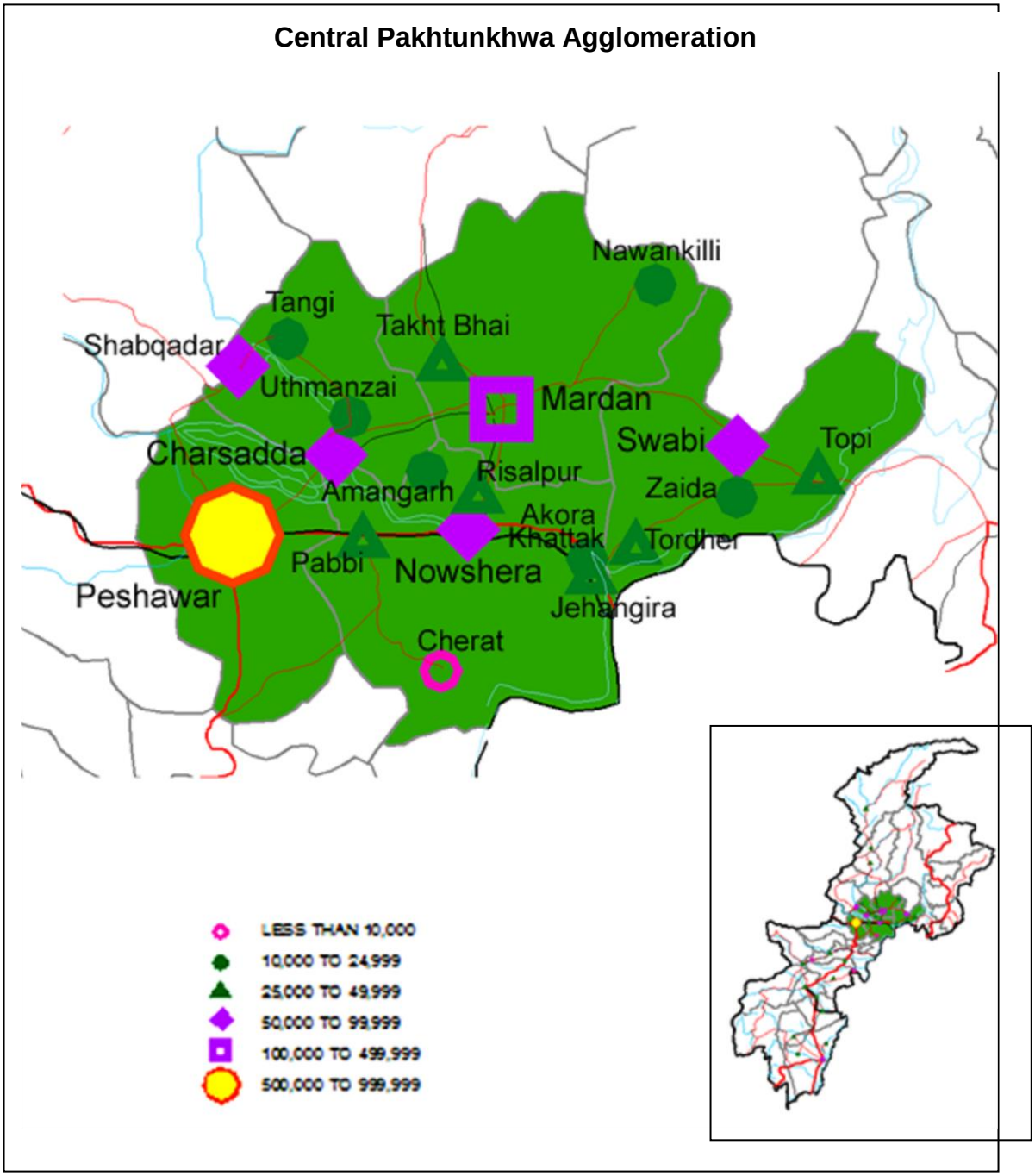
Map 10.


Khyber-Pakhtunkhwa: City and Town - Spatial Concentration Change 1998-81
Chitral
+0.5%
Kohistan
Upper Dir
Swat
Lower Dir
Shangla
Battagram
Malakand PA
Buner
Mansehra
+1%
Charsadda
Mardan
Abbottabad
Peshawar
-2%
Swabi
Haripur
Nowshera
Federally Administered Tribal Areas
Hangu
Kohat
-0.2%
Karak
Bannu
Lakki Marwat
Tank
D. I. Khan
-1.3%

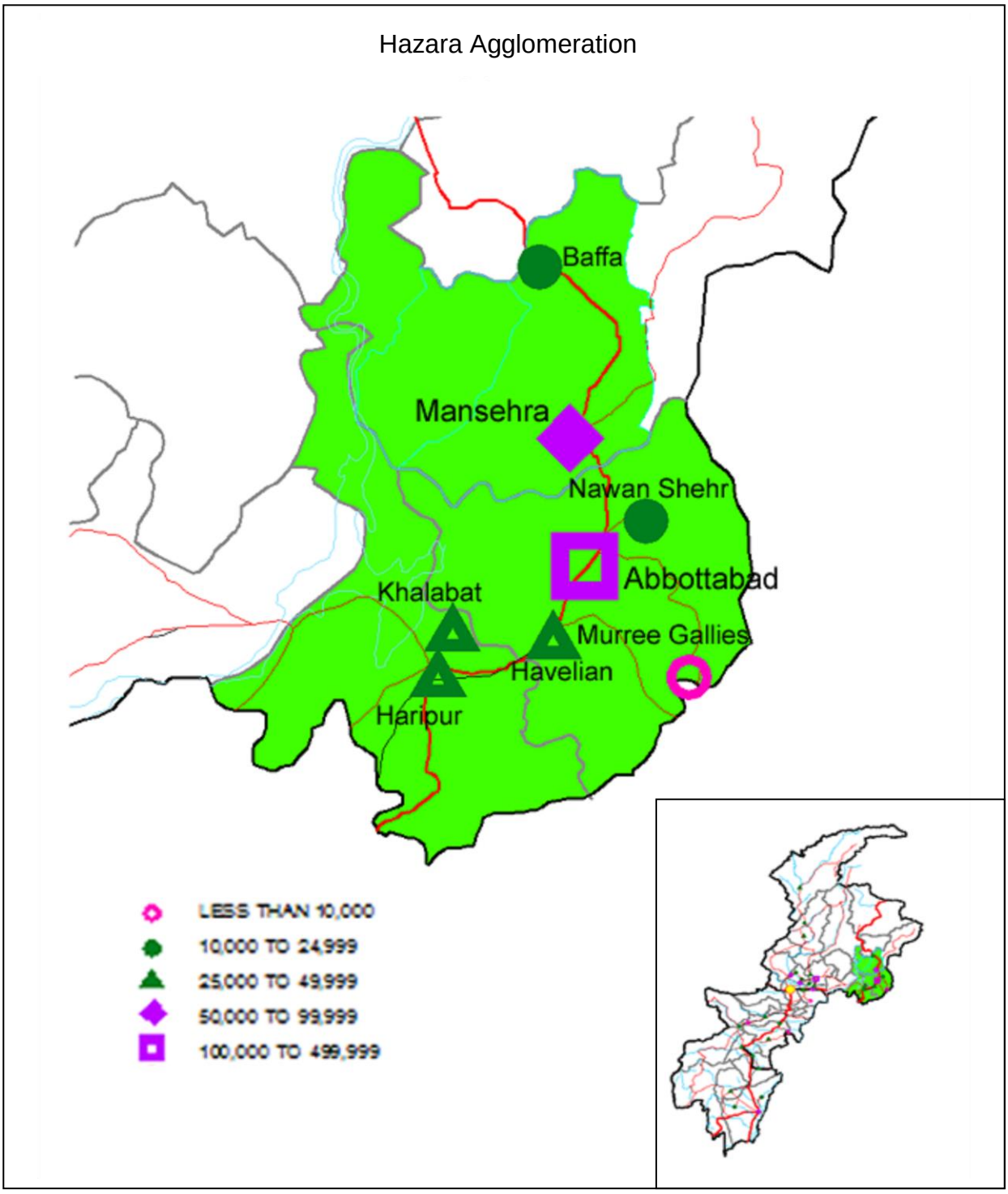
Map 11


Central Pakhtunkhwa Agglomeration: City Expansion and Ribbon Development
Mardan
Risalpur
Nowshera
Charsadda
Peshawar

Map 12.

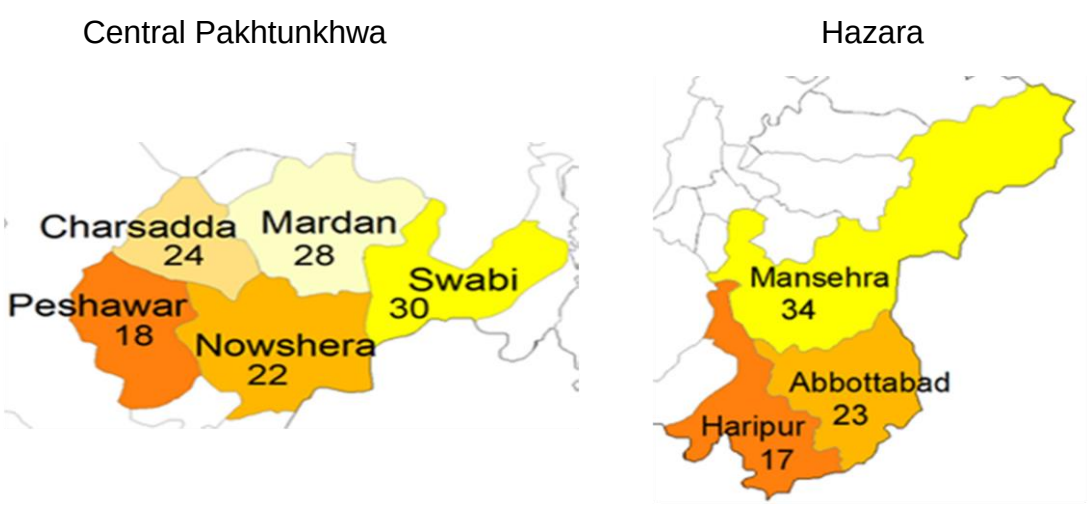

Central Pakhtunkhwa Agglomeration
Nawankilli
Tangi
Takht Bhai
Shabqadar
Uthmanzai
Mardan
Swabi
Topi
Charsadda
Risalpur
Amangarh
Zaida
Akora
Khattak
Tordher
Pabbi
Nowshera
Peshawar
Jehangira
Cherat
LESS THAN 10,000
10,000 TO 24,999
25,000 TO 49,999
50,000 TO 99,999
100,000 TO 499,999
500,000 TO 999,999

Map 13.


Hazara Agglomeration
Baffa
Mansehra
Nawan Shehr
Abbottabad
Khalabat
Murree Gallies
Havelian
Haripur
LESS THAN 10,000
10,000 TO 24,999
25,000 TO 49,999
50,000 TO 99,999
100,000 TO 499,999

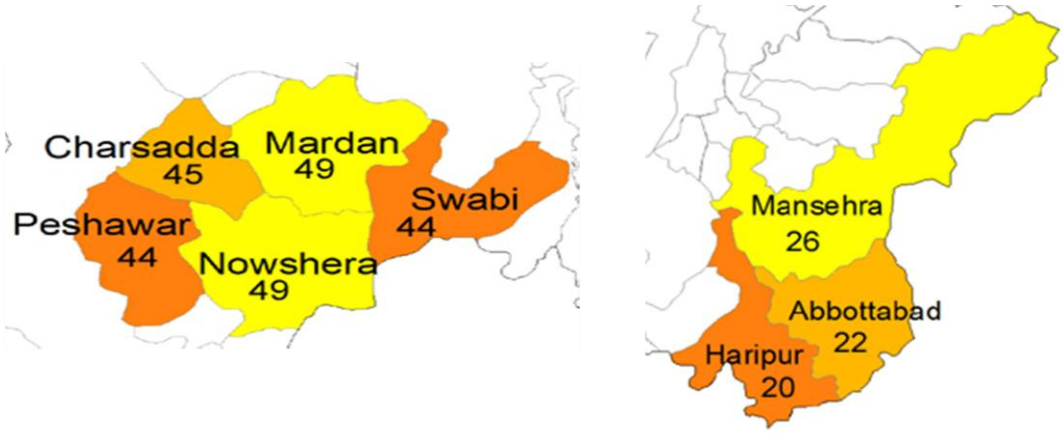
Map 14.

Khyber-Pakhtunkhwa Agglomeration: Social and Economic Deprivation 2011



Map 15.

Khyber-Pakhtunkhwa Agglomeration: Poverty 2011



Annex B: Strategies to Minimize Negative Impacts on Affectees of Decrease in Transit Trade[128]

Segment Affected by Decrease in Transit Trade	Recommendations
High income and high dependence on ISAF transit trade: • Truck owners/companies • Owners of restaurants, filling stations and weight gauges, spare part shops, NATO mechanical workshops, etc • Mechanics (NATO truck experts) • Local creditors and insurers • Clearing agents • Tire shops • Tracking and security companies	Preparing the truck owners, owners of restaurants, filling stations etc. to diversify existing businesses and or explore and invest in new business (through provision of training and support in planning). Provision of matching grant to initiate business that can create new job opportunities Support for financial management to businesses ensure that the people who have initiated new business do not face major losses due to decrease in non commercial transit trade
High income and low dependence on ISAF transit trade • Other large businesses in the area • Civil aviation/ports	Support for establishing/strengthening industries that can create employment for the local people e.g. provision of support for establishment of fruit processing facilities in Kuchlack, Balochistan
Low income and high dependence on ISAF transit trade • Workers at restaurants, filling stations, warehouses, guards, etc • Employees of custom clearing agents • Mechanics/helpers • Truck drivers and helper • Tea shops, kiosks, public call centers etc • Local taxis	Technical and vocational training to around 5,000 to 10,000 persons working at hotels, restaurants & mechanical workshops, truck helpers, etc diversify their skills and to prepare them for livelihood opportunities inside and outside the country. Wage compensation during the training may be considered to support their families during training. Grants to support establishment of 5, 000 to 10,000 micro enterprises to individuals who may lose their business (e. g tea shops, kiosks, etc) and jobs.
Low income and low dependence on ISAF transit trade • Livestock holders along the route due to overgrazing on the land across the route (around 10, 000 local assumed and expected) • Local populations in the areas hosting registered and unregistered Afghan refugees • Pakistani labour who my lose their jobs in Aghanistan • Individuals and businesses indirectly benefiting from non commercial transit	Support for the formation of Community Organizations to enable the communities to play a proactive role in improving their livelihoods and engage with government. The existing MTDF CDD programmes can be used to support formation and strengthen such groups. Enhancing productivity of agriculture and livestock sector. Training to people associated with the agriculture and livestock sector (with focus on both men and women) on the methods that can help enhance the productivity of these sectors

[128]Source: MTDF (2014) "The Economic Impact of Afghanistan's Transition on Pakistan's Border Areas"

Segment Affected by Decrease in Transit Trade	Recommendations
trade • Unemployed/under employed people in the areas	Formation of Farmer Groups Preparing educated women for jobs in education sector Encourage and support girls interested in continuing their education through financial assistance/scholarships for studying to complete their education(under graduation and post-graduation) Help educated girls and teachers in seeking advanced teacher training/education Technical and vocational trainings for youth including training of medical assistants, midwifes and training in health related areas. It can also be used as an opportunity to counter radicalization (Strategic Objective -4 of PCNA) Graduation of extremely poor households through microenterprise development, training and livelihood counseling Social safety nets covering more than 90% destitute in the border areas

Annex C: Further Information on Hydropower and MircoHydel Options[129]

Existing Hydropower Projects in KP

Malakand-III hydropower project is a success story competed at provincial level and is now earning much needed cash flow. It has a capacity of 81 megawatts (MW). The cost of generation is around 2.18 cents per kWh. The other hydropower stations being operated by the provincial government are Pehur in Swabi (18 MW), Reshun in Chitral (4.2 MW) and Shishi in Chitral (1.8 MW). The province has collected more than 10 billion rupees from these projects. Under the existing tariff regime the private investor gets 18% return on the equity.

However there are cases where the delay in executing a project has not only escalated the cost, but also hurt investor sentiment such as Sukhi Kinari, which is located in the Kaghan Valley in Mansehra District and is easily accessible through a paved road. The project was designed to provide daily four hours peak capability, hence able to produce maximum power for up to four hours daily. Due to large size of the project, a huge capital cost is required which is not available to the federal as well as the provincial government. The case study of Sukhi Kinari (840 MW) reveals that part of the reason for the delay was the provincial government as it was given to a private investor and then taken back by the provincial government. But before moving forward, it will help to examine the cause of the delay and whether the reported claims about the lack of transparency are valid.

Community Managed MHPs:

The Pakistan Council of Renewable Energy Technologies launched a project in 1976-77 for the design, development and the installation of micro hydro power plants with the participation of local communities in every phase of the project i.e. from initiation to implementation and subsequent operation and maintenance. Under this approach the expenses incurred are borne by the local communities/beneficiaries, in addition to provision of land and labor. Power plants are operated and maintained by the communities themselves through establishment of Local Electrical Management Committees. This committee fixes the tariff for the power use and arranges collection of bills, which are utilized for operation and maintenance of power plants; the most commonly applied billing systems are flat rates, often with no extra charges for additional appliances.

Chitral has the most schemes and highest micro hydel concentration. Chitral has the highest number of MHPs where Sarhad Rural Support Programme (SRSP) has built seven micro hydels, the Chitral Area Development Programme (CADP) 37 installations, while AKRSP has more than 151 installations. However, in 2007, around 20% of all AKRSP-assisted micro hydels in Chitral were not in operation anymore, raising questions about the reasons and the fundamental differences between them and those plants that are still used by the communities. Comparing abandoned micro hydels with those that are in operation, it is noticeable that the projects in both groups resemble each other very much. The only significant difference was the existence of a Maintenance Fund, with abandoned projects less likely to have established one.

The **sustainability** of community-managed projects depends on the robustness of the respective EMC. People have to bear higher costs for the electricity; nevertheless, the amount of total collected revenues rises with the number of electrified households. However, field research indicates that the sizes of the projects have neither a uniform effect on the profitability nor on the payment morality. Taking the great diversity of financial mechanisms in different projects into account, the communities have not established institutions to pool enough financial resources for covering the depreciation of the equipment. The reasons may lie in lacking financial capacities of the majority of households, difficulties in communicating the necessity of regular fees for creating reserves, and the availability of external financial injections,

[129] Munir Ahmad, Independent Consultant

rather generally question the possibility of financial profitability in community-managed projects. According to the communities, few other reasons for the abandonment are the availability of alternative electricity, destruction of channel, drought or conflict.

Non-profit Involvement:

The province has seen increased activity by nonprofit organizations taking forward micro-hydel initiatives. AKRSP and SRSP are the lead NGOs executing MHPs through donor grants. The main funding to AKRSP's MHP programme is from PPAF, while SRSP is also getting a substantial grant from EU and other donors. Recently PPAF also established a special cell for micro-hydels in their Islamabad office. There is a need for close coordination so that there can be synergies.
In the current practice the civil works construction, E&M equipment and T&D system is designed to meet the basic electrification requirements of the communities. Uncertified locally manufactured turbines and control governors are used which have a maximum design life of 8 to 10 years. In 2012, the GIZ s assessed more than 32 MHPs funded by PPAF to AKRSP and found that the efficiency of most of the projects above 50 kW is below 45%. The low efficiency is mainly attributed to locally manufactured electromechanical equipment and low quality of civil structures.

Linkage with industry:

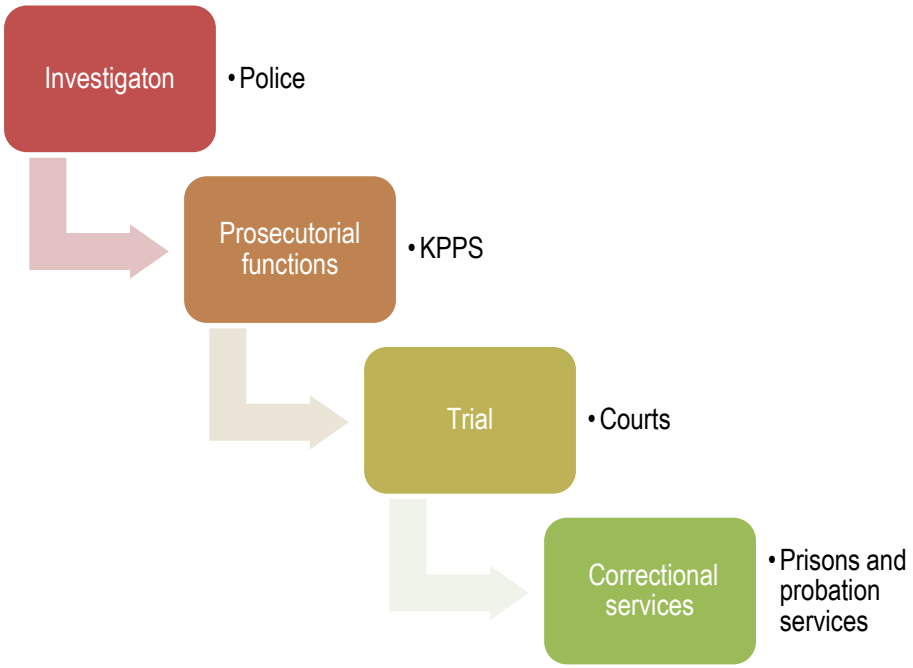
Astudy done in 1987 found MHPs to be especially beneficial to small industrial units. It was found during the study that small units such as flour mills, grinders, saw machines and oil expellers had benefited from the construction of MHPS in various parts of Chitral and Swat. During this research experts from the field indicated the following changes that can be attributed to setting up of MHP:

- Less fuel consumption for lighting
- Flourishing of cottage industry viz-handicraft, sewing, embroidery and an improvement in public living standard
- Opportunities for additional income sources enhanced.

Similarly a recent case study of MHP in Mardan, determined that "about 31% off-farm employment opportunities were created for 59% of the available labor force due to availability of power. This led to an increase in income for about 47.48% households in the area.

Annex D: Criminal Justice in KP[130]

The courts, the police, the prosecution and the correctional services comprise the criminal justice system in KP. These agencies administer and manage different stages and aspects of the criminal process, starting from police investigations leading up to trial and, ultimately to conviction and sentencing. The diagram below presents the sequence of a standard criminal trial – after the filing of a First Information Report (FIR) follows the police investigation, succeeded by criminal prosecution by the state (conducted in KP by the KP Prosecution Service (KPPS)) in the criminal courts and post any convictions and sentencing, the correctional services (including the prison and probation services) come into play.



One commonly used indicator to gauge the effectiveness and fairness of the criminal justice process is the 'offences brought to justice' (OBTJ) rate and the resulting 'justice gap.' The 'justice gap' is the difference between the number of recorded crimes and the number of crimes where the offender is brought to justice.. The justice gap, is a key measure of the effectiveness of any criminal justice system, and a crucial indicator of success in terms of reducing crime[131]. According to available statistics, in KP, this gap is high for the Sessions Courts (25.4% of the recorded crimes were brought to justice in 2011 and 31.6% in 2012) and reasonably satisfactory for Magistrates Courts (74.3% of the recorded crimes were brought to justice in 2011 and 71.6% in 2012).[132] However, it needs to be noted here that the Sessions Courts numbers are much more significant because these courts try serious crimes, as opposed to the Magistrates' Courts that take cognizance of less serious offences and a whole host of regulatory offences as well.

Since a wide justice gap indicates that there are issues within the criminal justice system, the numbers for the Sessions Courts demonstrate a less than satisfactory situation. This in turn underlines several systemic

[130] Osama Siddique, Department of Law and Policy, Lahore University of Management Sciences
[131] For further explanation of this standard see 'Narrowing the Justice Gap,' The Crown Prosecution Service, at https://www.cps.gov.uk/publications/prosecution/justicegap.html
[132] Source: Official unpublished data provided by KPPS. Reproduced in Police Prosecutions Project Design, Aitebaar – Peacebuilding Support to the Post-Crisis Needs Assessment, DFID (2013).

problems. Some of the key reasons for a low OBTJ rate and high justice gap in KP are:

- Low police evidentiary standards – i.e. weak evidence collection and recording resulting in weak criminal cases against the accused and hence a lesser proportion of the perpetrators brought to justice
- Low or poorly administered bar to entry – i.e. weak filtering mechanisms and oversight resulting in unmeritorious cases burdening the court system and distracting precious institutional resources from the more meritorious cases. Also, greater probability of implication of innocent parties and miscarriages of justice
- Poor prosecution standards – i.e. insufficiently professional and effective prosecution of cases resulting both in less than satisfactory rate of convictions in meritorious cases as well as inadequate filtering out or compromise of deserving cases resulting in the burdening of the court system
- Inability of judges to administer the law – i.e. inadequate and efficient judicial decision-making due both to weak investigations and prosecutions as well as insufficient incompetence and inability due to insufficient training as well as high-hand tactics by elements in the legal bars respectively

The underlying causes of an ineffective criminal justice system in KP are rooted in both policy and practice. One fundamental reason is that the applicable laws remain largely outdated and have undergone piecemeal and inadequate up-gradation over the years.[133] The legal framework comprises of the Code of Criminal Procedure 1898, the Police Act 1861 and the Police Rules 1934 – which have persisted in the post-independence era despite scattered attempts at reform. Civilian law enforcement capacity has also generally weakened under various eras of military rule in the country.[134] Furthermore, progressive political, executive and military cooption of the police for purposes largely divergent from public interest goals have resulted in an institutional framework and culture that is pre-modern in how it approaches contemporary policing functions.[135] The most significant attempt at overhauling and modernizing the policing system – the Police Order 2002 – remains embroiled in institutional controversies and inertia, faces an uncertain future and is only partially en vogue in KP. Much as there is justification to revisit and possibly amend some of its original features and proposed interventions and to also better stagger and embed its implementation, this legislative endeavor to its credit did put forward several significant and progressive frameworks and approaches for policing in the modern world. However, this policy debate too is in relative disarray.[136]

After an initial spurt the policy debate around the Police Order 2002 has withered away and needs to be expeditiously revived and prioritized.[137] Even while the PO 2002 has actually been in operation in KP, the real impact on operational practices and culture has been largely cosmetic and that too mostly at the higher operational levels. Careful mapping and addressal of the various gaps in mandate, role clarification, capacity and incentives that still characterize the operational edifice of the police at medium and lower levels, is therefore necessary. Quite apart from such reforms having a direct impact on citizen experience of and perception of crime in society and resulting trust in the state, the current lack of robustness and professionalism of police and civilian intelligence agencies has direct correlation with the state's capacity

[133] *See* Osama Siddique, Pakistan's Experience with Formal Law: An Alien Justice (Cambridge: Cambridge University Press 2013) [hereafter 'Pakistan's Experience with Formal Law].
[134] *See* Kalim Imam, *Police and the Rule of Law in Pakistan: A Historical Analysis*, Berkeley Journal of Social Sciences, Vol. 1, No. 8, 2011.
[135] *See* Muhammad ShoaibSuddle, *Reforming Pakistan Police: An Overview*, 120th International Senior Seminar Visiting Experts' Papers, (Resource Material Series No. 60), 2002.
[136] *See* Paul Petzschmann, *Pakistan's Police between Centralization and Devolution* (NUPI Report), Norwegian Institute of International Affairs, 2010; *see* also Stabilizing Pakistan through Police Reform, Asia Society Report by the Independent Commission on Pakistan Police Reform, July 2012,
[137] *See* Policing in Pakistan. An Overview of Institutions, Debates and Challenges, UNODC, June 2012.

to fight lawlessness in general and counterinsurgency and counterterrorism in particular. Incapacity in this domain of civilian law enforcement results in sub-optimal reliance on the military and other security agencies which creates additional complex issues of operational ineffectiveness, politicization of security forces, militarization of society, weakening of democracy and reputational loss for both the civilian governments and the military.[138] The extant legal framework allows excessive discretion at various levels of the criminal justice system and it does not define duties, responsibilities, roles and institutional relationships with necessary comprehensiveness and clarity; at the everyday operational level there is an acute lack of established processes, clear guidelines, codes of practice, protocols and standard operating procedures. The result is a system afflicted by poor investigations, weak prosecutions, excessive delays, absence of witness/victim support and inconsistent sentencing – and, therefore, resulting low levels of citizen trust in the system. Some of these aspects are discussed in some greater detail below.

Poor police investigations

A sound and modern investigation system has both security and justice aspects – in other words, it is not only meant to bring offenders to justice through successful convictions and serve as an effective deterrent to crime but to also ensure the protection and non-exploitation of the innocent. The quality of police investigations in KP, however, continues to be plagued by several issues and shortcomings. Police evidence is predominantly oral despite the fact that modern research shows that oral evidence is often inaccurate or false and, therefore, should be supported and augmented with scientific evidence.[139] Reliance on oral evidence is inordinately high in KP because of the police's inadequate understanding of and training in the collection, analysis and use of forensic evidence as well as the absence of necessary forensic equipment and facilities – for instance, as things stand, KP has no forensic science laboratory. This is all the more glaring considering that the extent and nature of crime in KP has undergone tremendous changes over the years and the highly escalated level of terrorism related crimes employ innovative and highly sophisticated modes and methods that necessitate equally sophisticated evidence collection and police investigation as well as modern approaches to admissibility of different kinds of evidence procured through scientific methods, witness protection programmes etc.[140]

The legal and regulatory framework of policing in KP also does not adequately cover forensic evidence – for instance, the extant Police rules provide very inadequate coverage of various important areas of policing such as, *inter alia*, securing and preserving scenes of crime and chain of custody protocols, which have heightened significance considering the nature of crime in the province. As a result, police often arrive at the scene of crime when it is already contaminated and/or little evidence can be salvaged from it. Thus, the police usually works its way from the suspect to the evidence rather than from the evidence to the suspect – the consequent deficiencies of such an approach result both in defective investigations and paucity of legally credible evidence and hence inadequate convictions, as well as frequent violation of the due process rights of citizens embroiled in police investigations – police intimidation, torture and falsification of evidence are frequent negative externalities in various instances where the police is under tremendous pressure to achieve results and possesses inadequate leads and/or evidence due to the

[138] *See* Khyber Pakhtunkhwa since the Post-Crisis Needs Assessment 2010, Aitebaar – Peacebuilding Support to the Post-Crisis Needs Assessment, DFID (2013) [hereafter 'KP Justice Sector Assessment']. *See* also Reforming Pakistan's Police, International Crisis Group, Asia Report N°157 – 14 July 2008.

[139] Quite apart from the fact that in certain kinds of crimes such as suicide bombings and terrorist attacks, at times there are no surviving eye witnesses; oral testimonies can be unreliable on their own in other more every day instances as well. For instance, current research shows that the memories of victims and witnesses can be false or inaccurate even though they believe them to be true, *See* Elizabeth Loftus, *Our changeable memories: legal and practical implications*, Nature Reviews, Vol 4, March 2003, at p 232.

[140] *See*ZulfiqarHameed, *The Anti-Terrorism Law of Pakistan: Need for Reform*, Social Science & Policy Bulletin, Volume 3, No. 3 (Winter/Spring 2012), Development Policy Research Center (DPRC), Lahore University of Management Sciences (LUMS).

aforementioned factors.

The quality and effectiveness of police investigations in KP also suffer from the lack of established processes, clear guidelines, codes of practice, protocols and standard operating procedures. Also missing are any meaningful police-prosecution communication and cooperation frameworks. There are additional issues contributing to weak police investigations – most notably, the current institutional framework which – beleaguered as KP currently is with fighting terrorism and heightened crime – even otherwise does not attach due significance to the investigative function through provision of necessary incentives and recognitions. The watch and ward functions of the police take clear precedence in terms of human and financial resource allocations and the investigative function neither receives the institutional recognition nor the support that it acutely requires.[141] The fact that citizens are also largely unaware of the powers, roles, responsibilities and procedures pertaining to police investigations means that there is little pressure from the demand side to require up-gradation of the same.[142]

Additional challenges are also presented by the fact that policing and maintenance of security in KP comes under divergent legal and regulatory frameworks depending on whether we are dealing with the settled districts, PATA, or any addition specially governed areas. Therefore, such arrangements include the KP Police (a provincial police service as in the other provinces); federal reserve military forces and federal paramilitary police forces under the Federal Ministry of Interior, such as the Frontier Corps and Frontier Constabulary respectively; specially established forces such as the Levies and the *Khassadars*; and informal mechanisms such as *Lashkars* for security provision, as well as various additional security and intelligence agencies. A holistic policy towards crime prevention and investigation as well as maintenance of peace requires greater linkages and communication between all these arrangements which is not always the case.[143]

Inadequate prosecutions

The KPPS was established as recently as in 2005 – consolidated and centralized prosecution services in different provinces only came about in the last decade as a result of policy actions mandated by international donor led justice sector reforms. Prior to 2002, the prosecution function lacked a concrete institutional framework and was undertaken by a number of state actors in different scenarios (for instance, by police officers before magistrates, by district attorneys and deputy district attorneys before Sessions Courts, by representatives of the Office of the Advocate General before the appellate courts). Prosecution services perform a key role in the functioning of criminal justice systems in developed justice systems. This role encompasses: the provision of legal advice to the police at appropriate stages of the police investigation in order to ensure that such investigations do not suffer from any defects that may compromise the eventual cases at the trial stage; performance of a 'gate-keeping' role in order to keep unfit and legally unmeritorious cases out of the trial process; and, the rigorous prosecution of offenders in court in order to assist the judges in reaching meritorious convictions. As things stand, KPPS only minimally performs the first two functions and more or less takes a backseat as regards the third function.[144]

There are several reasons why the KPPS is currently performing at a sub-optimal level:

[141] *See* Police Prosecutions Project Design, Aitebaar – Peacebuilding Support to the Post-Crisis Needs Assessment, DFID (2013).
[142] Id.
[143] *See* the KP Justice Sector Assessment.
[144] For instance, 28% of the prosecutors interviewed in a recent survey openly admitted that when private prosecutors were involved in a case they were effectively in control of prosecutions; at the same time, over 80% of the judges found private prosecutors more skillful than public prosecutors. The public prosecutors in KP thus suffer due both to real and perceived professional shortcomings and constraints. Id.

- Like in other provinces the prosecution service in KP is a **relatively recent phenomenon** and is finding it very hard to define, establish and play its institutional role in a milieu dominated by the much larger, better-resourced and more entrenched institutions of the police and the judiciary. Both the police and the judiciary have historically occupied areas of operations that potentially overlap with and even encroach upon the roles and responsibilities that an independent prosecution ought to have played, and routinely tend to look upon the KPPS as a relative upstart and short on professionalism and are unwilling to relinquish turf

- KPPS is **a small and nascent organization and its budget is less than 1% of the overall budget of the Home and Tribal Affairs Department**. [145] This in turn demonstrates that despite its significant role in the justice sector, it continues to be neglected by the political as well as bureaucratic decision-makers and enjoys little leverage and clout when it comes to asserting it role and receiving funds. This institutional insignificance, needless to say, also manifests in an inability on part of KPPS to assert its voice in important and meaningful prosecutorial decisions;[146]

- The political and bureaucratic apathy also translates in several additional ways – essentially **non-existent induction and specialized trainings for prosecutors** (prior to certain very recent donor funded trainings in the there were no such trainings) while there are special training academies dedicated to the judiciary and the police; lesser physical infrastructure and essential equipment as compared to other justice sector departments; and, instances of lower concomitant pay scales, privileges and additional service incentives as compared to the judiciary and the police;

- The **current law governing the KPPS** – The NWFP Prosecution Service (Constitution, Functions and Powers) Act, 2005 is vague and unclear on certain key points and even otherwise there is an absence of protocols, rules of business and established communication and mutual consultation and decision-making interfaces vis-à-vis the police and the judiciary – which are vital considering that their work overlaps and depends on mutual engagement and cooperation at several key junctures;

- In KP the **prosecutorial function at the appellate court level is still entrusted to the Advocate General's office**. This raises challenges in terms of having a uniform, independent prosecution policy across all levels of the court system, as appointments to the Advocate General's office are widely known to be politically motivated. Further, the officers of the Advocate General's office hold their office at the pleasure of the government and hence do not enjoy security of tenure. This is in contrast to the situation in Punjab, for example, where the Prosecutor General can depute any prosecutor to conduct prosecution before the Supreme Court, the High Court or the Federal *Shariat* Court. The Prosecutor General is expected to maintain liaison with the Advocate General, but functions in parallel to the Advocate General, with the Advocate General's office focusing on writs and non-appellate work. This is not the case in KP, as mentioned earlier, where the Advocate General's office exclusively looks after appellate work. The fact that appellate level work in KP is still entrusted to the Advocate General's office means that it lies outside the ambit of a truly autonomous and independent prosecution service

The KP Prosecutor General's office has taken various initiatives to monitor staff performance against various quantifiable indicators and there are additional signs of a will to develop the institution. Moreover, recruitment procedures for prosecutors are based on an examination system conducted by the public service commission, as in the other provinces. These enhancements and initiatives, however, are

[145] *See* Budget Estimates for Service Delivery 2012-15, Government of KP, page 227.

[146] For instance, 21 out of the 26 judges interviewed by the Aitebaar programme considered the judges to be the most important actors in decision-making regarding prosecutions. *See* Police Prosecutions Project Design, Aitebaar – Peace building Support to the Post-Crisis Needs Assessment, DFID (2013).

basic and personality driven, and there remains a long way to go before a performance culture begins to become institutionalized – security of tenure for a good senior team is necessary, as evidenced by the fact that the last Prosecutor General got transferred just as many of his initiatives were taking shape.[147]

Due to all these and related factors, the KPPS is both undermanned and by and large attracts those lawyers who are not good enough to strike out on their own in private practice, who then hardly receive any training for their specialized tasks and suffer from lack of confidence and a sense of professional and institutional inadequacy. As a result, the quality and impact of prosecution in KP is rather patchy and struggling and does not attract much citizen confidence.

Growing litigation, delays and case backlogs

One of the main issues confronting the justice sector in Pakistan in general is the paucity of credible and disaggregated data that is necessary for a realistic assessment and meaningful diagnosis of its problems and also the contemplation of effective reform prescriptions.[148] KP is no exception in this regard. Statistics from available public data from 2011 tells us that there were 367 'subordinate court' judges in 24 districts of KP as against 446 sanctioned posts; 1.75 judges for every 10,000 residents; and, 5 lawyers for every 10,000 citizens. This demonstrates that the formal legal system faces serious capacity constraints in terms of dealing with the adjudicative needs of the population. At the same time, according to Supreme Court of Pakistan statistics from 2009 on the backlog of cases before the Pakistani courts, there were 10,363 cases pending in the Peshawar High Court and 1,87,441 cases pending before the KP subordinate courts. Furthermore, Peshawar High Court data for the past decade indicates that case disposals have been by and large outstripped by new case institutions in all the relevant courts.[149] The erratically available statistics and occasional public statements by the judicial leadership reveal a large and growing gap between newly initiated cases and case disposals, in turn contributing to growing case pendency and delays in litigation. The enormity of the problem may be even larger than what is revealed by available numbers. For instance, according to a set of official statistics, in 2011 the case disposal in the subordinate criminal courts in KP was as follows:

Court	Pendency on 1/1/2011	Institution during the year	Disposal during the year	Balance on 31/12/2011
District judiciary (criminal cases)	27698	231569	113249	39918

It is to be noted that these official numbers here do not add up which further underlines the patchiness of data collection in the justice sector – a situation further aggravated by divergent data collection templates used in different provinces, courts and other justice sector institutions as well as the fact that there is hardly any historical data to allow for time series analysis and also that any available data is at a very generic level and hence can at best present a hazy and broad picture.[150]

Absence of witness/victim support

International research on criminal justice postulates that, 'improving the care of victims and witnesses and enabling them to attend court is an effective means of narrowing the justice gap and increasing public

[147] *See* the KP Justice Sector Assessment. *See* also Police Prosecutions Project Design, Aitebaar – Peacebuilding Support to the Post-Crisis Needs Assessment, DFID (2013).
[148] *See* Pakistan's Experience with Formal Law.
[149] Id. at 294-296. *See* also Syed Ali Murtaza& Osama Siddique, The Retrospective Report: Mapping and Assessment of Justice Sector Interventions – Donors and Government, 1998-2010 (The Asia Foundation: 2010) [hereinafter 'Retrospective Report'].
[150] *See* Judicial Statistics of Pakistan, Law and Justice Commission of Pakistan (2011).

confidence in the criminal justice system (CJS).'[151] KP like other provinces in Pakistan lacks a system for witness and victim support – all the more glaring in a context characterized by heightened security fears. Thus independent witnesses in important cases frequently avoid coming forth with testimony and trials fail due to lack of evidence or in some instances attract fake, interested or coached witnesses, which ends up contaminating the system. This obviously does not augur well for citizen trust and confidence in the justice system.

Inconsistent sentencing

Sentencing laws essentially lay down important factors to be taken into consideration while sentencing offenders. These factors take into account, *inter alia*, absence of premeditation and other relevant mitigating factors, as well as the danger that an offender may cause to society in future. A fair and exhaustive set of factors and their robust consideration by the court improves the quality of justice, encourages cooperation by offenders, and, raises the overall public confidence in the criminal justice system. KP, however, lacks a sentencing law with the result that court verdicts are often inconsistent and disproportionate to the nature of the crime.

Prisons, Parole and Probation Services

Quite apart from the continuing issues of insufficient, overcrowded and poorly regulated prisons (as well as unsecure prisons – as has been highlighted by a series of recent high profile jail breaks in KP) one continuing contributory factor for overcrowded prisons is that prison sentences are invariably conceived by the courts as the logical ultimate punishment in criminal cases. In other words, there is insufficient exploration of the now internationally recognized mechanisms of probation and parole services. This is particularly significant where prisoner rehabilitation as well as lessening the load on prisons by keeping the less serious offenders out of prison (also for the additional reason that the contamination of such inmates by the more hardened criminals is very likely) are goals that are prioritized as policy choices. While probation and parole services do exist in KP they are incapacitated both by insufficient formal recognition of and support for their roles in appropriate cases as well as consequent budgetary and manpower constraints. Many prisoners also overstay because of lack of access to meaningful legal aid for prison inmates. At the same time, the applicable prison laws are either: (i) antiquated – such as the Prisons Act 1894 and the Prisoners Act 1900; (ii) fairly dated – such as the Probation of Offenders Ordinance 1960; (iii) relatively recent but still in need of revisiting – such as The North-West Frontier Province Adaptation of Prison Laws Act 1977 that furnishes certain amendments to the Prisons Act 189: (iv) or very recent but as yet without statutory sanction – such as the KP Provincial Assembly's new bill called the Khyber Pakhtunkhwa Prison Bill which was passed in 2010 but has not as yet been elevated to the status of a law.[152]

[151] *See* No Witness, No Justice, Pilot Evaluation (Final Report), Crown Prosecution Service and ACPO (2004), at 6.
[152] *See* KP Justice Sector Assessment.

Annex E: Methodology for Expenditure and Revenue Forecast for KP (2013 to 2020)[153]

Our methodology for financing KP growth 2013 to 2020 involves the following steps: (1) determining development expenditures[154] and current revenue expenditures[155] (or simply current expenditures) which are consistent with public investment growth targets set in the Planning Commission's, Pakistan: Vision 2025[156], (2) forecasting general revenue receipts (federal transfers and provincial tax and non-tax receipts), and (3) calculating gap between expenditures and revenues and thus determining deficits that needs to be financed or surpluses that need to be invested (a subject of capital budget[157] in the annual budget statement of the provincial government).

Expenditures: Determining Revenue and Financing Requirement

In determining capital expenditure of the development budget we work with projected public investment given in the Planning Commission's document, Pakistan: Vision 2025 – see Table E1

TABLE E1: INVESTMENT TARGETS, 2013-2025 (PERCENTAGE OF GDP)

	2013	2015	2020	2025
Total Investment	14.2	22.4	25.6	25.7
Fixed Investment	12.6	20.8	24.0	24.1
Public incl. General Govt.	3.9	4.6	5.0	5.0
Private	8.7	16.2	19.0	19.1

Source: Government of Pakistan, *Pakistan: Vision 2025* (Discussion Draft), Planning Commission, December 22, 2013.

Table E2 shows the required development expenditure in the forecast period if public investment in KP (which we equate with development expenditure in KP) increases by the same factor as envisaged in the Vision 2025 and average GDP growth is 4.056% between 2013-15 and 6.79% between 2015-20. The assumed growth rates for the purposes of this report are based on GDP targets for 2015 and 2020 as given in the Vision 2025 document.

[153] Anjum Nasim, Institute of Development and Economic Alternatives

[154] Development expenditure has two components, (1) capital expenditure and (2) revenue expenditure. "Development capital expenditure is the capital investment under the development programmes for roads, buildings, irrigation sectors etc that is financed through loans and borrowings [from] multilateral donor agencies through Federal Government for specific foreign assisted development projects." (White Paper 2012-13, Government of the Punjab, Finance Department). "Development Revenue Expenditure … pertains to expenses other than the brick and mortar expense and includes employees related expense, purchase of transport, machinery and equipment, operating expenses, research and development, training etc. provided under the projects during the execution of the projects." (White Paper 2012-13, p.43, Government of the Punjab, Finance Department).

[155] "Current Revenue Expenditure includes the expenditures on the regulatory functions of the government and provision of social and economic services. Following are the main functional heads of expenditure in Current Revenue Expenditure: General Public Service Public Order and Safety Affairs Economic Affairs Environment Protection Housing and Community Amenities Health Recreational, Culture and Religion Education Affairs and Services Social Protection." (White Paper 2012-13, p.30, Government of the Punjab, Finance Department).

[156] Government of Pakistan, *Pakistan: Vision 2025* (Discussion Draft), Planning Commission, December 22, 2013.

[157] "Current Capital Expenditure includes payments of principal portion of domestic and foreign debt incurred by the Provincial Government and equity / capital investments that the Government intends to make in various enterprises. Similarly, repayment of commercial bank loans through sale of wheat stock purchased by the Provincial Government is also included in the Capital Expenditure ….." (White Paper 2012-13, Government of the Punjab, Finance Department).

TABLE E2: ACTUAL AND FORECAST DEVELOPMENT EXPENDITURES AT 2013 PRICES, 2013-2020 (PKR BILLION)

	2013	2015	2020
Development Expenditure	88.13	112.55	169.9

Source: Budget White Paper, Finance Department, Government of Khyber Pakhtunkhawa 2013-14 and author's calculations.

Turning next to the current expenditure, if we assume that it would grow at an annual average real rate of 16% during the forecast period, which was the rate at which this expenditure grew between FY2008/09 and FY2012/13, then the budget deficit would be unsustainable.[158] We consider a real rate of growth of 8% in current expenditure over the forecast period. The projected actual expenditure in 2013 and the projected expenditure in 2015 and 2020 are given in Table E3.

TABLE E3: CURRENT REVENUE EXPENDITURE AT 2013 PRICES (PKR BILLION)

	2013	2015	2020
Current Expenditure	195.00	227.45	334.20

Source: Budget White Paper, Finance Department, Government of Khyber Pakhtunkhawa 2013-14 and author's calculations.

Projected Development Expenditure and Current Expenditures

The revenue requirement to meet development expenditure and current revenue expenditures for 2013 and the forecast period is given in Table E4.

TABLE E4: DEVELOPMENT EXPENDITURE AND CURRENT EXPENDITURE 2013 PRICES (PKR BILLION)

Row #		2013	2015	2020
1	Development Expenditure	88.13	112.55	169.9
2	Current Revenue Expenditure	195.00	227.45	334.20
3	Total Development and Current Expenditure or Revenue Requirement (row 1 + row 2)	283.13	340	504.09

Source: Budget White Paper, Finance Department, Government of Khyber Pakhtunkhawa 2013-14 and author's calculations.

Provincial Revenues: Federal Transfers and Provincial Tax and Non-tax Revenues

We consider impact on provincial deficit/surplus by simulating increases in: (1) the federal tax to GDP ratio (we take taxes to be the divisible pool of tax revenue), and (2) the provincial tax to GDP ratio. We simulate increase in federal tax to GDP ratio to increase by 0.8% per year from its current level of 8.9% up to a maximum of 12.9% (by 2018) and assume the ratio to remain at this level from 2018 to 2020. We also assume that provincial tax to GDP ratio will increase by one percentage point over the five year period

[158] A World Bank Report (*Pakistan Khyber Pakhtunkhw: Public Expenditure Review*, p. 29, The World Bank, Washington, D.C., 2013) makes the following observation: "Over the last three years [2008-09 – 2010-11], the wage bill of the government has increased at an average rate of 30% per year, as the overall employment in the public sector has increased at 5% per year, whereas the salaries of provincial government staff increased by 24% per year ... Wage bill is growing at a rate which does not commensurate the rise in resources. Same is true for pension liability. This is clearly unsustainable and ultimately would result in lowering of essential development and O&M expenditures. Challenge will be more acute after 2013-14 with the drying up of PKR 25 billion per annum hydel profit arrears."

(2013-2018) or increase by 0.2% per year till 2018 and remain at this level till 2020.[159] Since KP's share in provincial tax revenue in 2013 was 4.7%, we assume that this percentage will remain unchanged in the forecast period.

Other assumptions in the calculations are: (1) average GDP growth will be 4.056% between 2013-15 and 6.79% between 2015-20,[160] (2) allocation of divisible pool of taxes would remain the same as in the 7th NFC award including 1% transfers on account insurgency in FATA , (3) federal transfers other than transfers from the divisible pool will remain the same as in 2013 (in real terms), (4) extraordinary receipts (e.g., privatization proceeds) will be negligible, (5) KP's non-tax revenues/GDP would be 0.0002977, which is the average of this ratio over the period 2009 and 2013, (5) KP's arrears from hydel profit plus hydel profit will remain unchanged at the 2013 level in real terms till 2018 after which it will not receive any arrears but continue to receive hydel profits at the 2013 level (PKR 6 billion) in real terms, and (6) straight transfers on account of oil and gas royalty will remain unchanged at the 2013 level in real terms.

Under our assumptions, KP will have a budget deficit of PKR40 billion in 2015, and a deficit of PKR51 billion in 2020 (see Table E5 and E6).

TABLE E5: PROJECTED KP REVENUES AT 2013 PRICES (PKR BILLION)

Row #		2013	2015	2020
1	Federal tax transfers	179*	229	390
2	Other federal transfers/grants	19	19	19
3	KP's own tax receipts	8.165	13.281	27.694
4	KP's non-tax revenue	6.235	7.010	9.735
5	Profit from hydel generation plus arrears on hydel profit	31.000	31.000	6.000
6	KP Revenues (sum of row 1 to row 5)	244.065	299.573	453.166

* This is an estimate based on GDP of PKR21747 billion and includes transfers on account of 'war against terror'.

Source: Budget White Paper, Finance Department, Government of Khyber Pakhtunkhawa 2013-14 and author's calculations.

.

TABLE E6: PROJECTED KP BUDGET DEFICIT/SURPLUS AT 2013 PRICES (PKR BILLION)

		2013	2015	2020
1	Revenue	244.065	299.573	453.166
2	Expenditure	283.13	340	504.09
3	Budget deficit (row 2 minus row 1)	39.065	40.427	50.929

Source: Budget White Paper, Finance Department, Government of Khyber Pakhtunkhawa 2013-14 and author's calculations.

[159] The assumptions underlying these tax simulations follows similar recommendation in *Pakistan: Finding the Path to Job-Enhancing Growth*, World Bank Report No. 75521-PK , Washington D.C. 2013.

[160] The assumed growth rates are based on GDP targets for 2015 and 2020 in Government of Pakistan, *Pakistan: Vision 2025* (Discussion Draft), Planning Commission, December 22, 2013.

In addition to meeting the deficits, the provincial government would have to meet any deficits in the capital account. In 2013 KP had a deficit in the capital budget of about PKR13.7 billion.[161]

[161]Capital expenditure (ignoring expenditure in Account No. II) which consist of principal repayment of domestic and foreign debt and loan and advances to corporate bodies of the KP government, amounted to PKR13.9 billion. Capital receipts (again ignoring receipts in Account No. II) which consist of money raised through loans, budgetary support programme of multilaterals, recoveries of principal amount of loans advanced by the Government to its employees and autonomous bodies, amounted to PKR0.25 billion.

Annex F: Data And Methodology for Calculation of Revenue From AIT (2009-2013)[162]

The Agricultural Census 2010[163] provides data on farm households by tenure status, classifying them as tenant farmers, owner-cum-tenant farmers or owner farmers. In this subsection, we obtain tax estimates of farmers' incomes after subtracting any payments made on land rented from landowners and by treating farmers' income as business income. These tax estimates are then combined with those of landowners' rental income.

The methodology we have used to calculate taxable income for the tax year 2010 is slightly different from that adopted for the tax years 2011 to 2014. The rationale for this is explained below.

Methodology for Tax Year 2010

The first step in calculating potential tax revenue is to calculate the potential taxable income (PTI) for owner farmers, tenant farmers and owner-cum-tenant farmers. To calculate PTI for owner farmers, we first calculate the gross value of output (GVO) for each farm size and subtract from this an estimate of the cost of production (COP) (see below) to obtain the PTI for each farm size.

The GVO for any crop is the product of its price, yield per acre and the acreage under the crop[164]. Aggregate GVO (by farm size) can be obtained by summing GVO (by farm size) over all crops (including the value of their by-products), but since the data requirement for this is quite formidable, we calculate an approximate value using GVO based on a select number of crops and augmenting this GVO by the ratio of total cropped area to the area under the select number of crops. The COP for owner farmers is taken to be 40% of GVO.[165]

Calculating the potential tax revenue from owner farmers involves the following steps: (i) the PTI for each farm size is divided by the number of farms (in that size category) to obtain the PTI per farm, (ii) the tax liability per farm is calculated by applying the appropriate income tax rate to the PTI per farm, (iii) the tax liability per farm is multiplied by the number of farms in the relevant size category, and (iv) the tax revenue calculated in step (iii) is aggregated over all farm sizes. The potential tax revenue for FY2009/10 is PKR2.05 billion for owner farmers (see Table F1).

To calculate the PTI for tenant farmers, we compute GVO in the same way as for owner farmers but in calculating the COP, allow for the rental income payable to landowners. For owner-cum-tenants, the PTI on own land is calculated in the same way as for owner farmers; for rented land, the PTI is calculated in the same way as for tenant farmers.

---

[162] Anjum Nasim, Institute of Development and Economic Alternatives

[163] Government of Pakistan, Agricultural Census 2010: Pakistan Report, Agricultural Census Organization, Statistic Division, Islamabad, 2012

[164] This data is obtained from, Government of Pakistan, Agricultural Statistics of Pakistan 2009–2010, Ministry of Food and Agriculture, Islamabad, 2011.

[165] Khan, MH, & MS Khan (*Taxing Agriculture in Pakistan*, International Monetary Fund, Washington, DC, 1998), mention that the COP varies between 35% and 45% of the GVO. The World Bank (1999) also reports that several farm management studies on Pakistan support the assumption that COP per acre varies between 35% and 45% of GVO. We have taken the intermediate value in this range. See Nasim (2013) for an alternative method of calculating COP, which gives estimates that are quite close to those obtained under the assumption that COP is 40% of GVO.

Ignoring rental income, the total potential tax revenue from crop farming by owner farmers, tenant farmers and owner-cum-tenant farmers in KP was PKR2.24 billion in FY2009/10 under the assumption that all farmers have the same yield per acre.

Tax estimates on rental incomes is obtained by taxing landowners on their rental income. The estimated potential tax revenue from rental incomes was about PKR0.15 billion in FY2009/10.

We estimate the tax potential from crop farming, including rental income, in FY2009/10 to be about PKR2.4 billion for KP, using the tax rates given in the Finance Act 2009 (or tax year 2010).

TABLE F1: AIT ESTIMATES FOR KP (OWNER FARMERS), 2009/10

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Farm size (acres)	Number of farms	PTI (PKR billion)	PTI per farm (PKR)	Tax liability per farm using tax rates applicable under Finance Act 2009 (PKR)	Potential tax revenue (PKR billion)
Under 1.0	451444	2.89	6408	0	0.0
1.0 to under 2.5	434463	10.12	23293	0	0.0
2.5 to under 5.0	223492	11.06	49482	0	0.0
5.0 to under 7.5	103133	8.50	82404	0	0.0
7.5 to under 12.5	72121	9.75	135129	2,703	0.2
12.5 to under 25.0	36528	8.61	235618	11,781	0.4
25.0 to under 50.0	13176	4.73	359365	26,952	0.4
50.0 to under 100.0	3931	2.72	691971	103,796	0.4
100.0 to under 150.0	781	1.03	1322935	330,734	0.3
150.0 and above	491	1.63	3319210	829,803	0.4
Total					2.054

Sources: (1) Government of Pakistan, Agricultural Statistics of Pakistan 2009–2010, Ministry of Food and Agriculture, Islamabad, 2011; (2) Government of Pakistan, Agricultural Census 2010: Pakistan Report, Agricultural Census Organization, Statistic Division, Islamabad, 2012; (3) author's calculations.

Notes:

1. Column 2 is from Government of Pakistan, Agricultural Census 2010: Pakistan Report, Agricultural Census Organization, Statistic Division, Islamabad, 2012.

2. Column 3 is calculated as the difference between GVO and COP as explained in Section 3.1.1.

3. Column 4 = (Column 3)/(Column 2).

4. Column 5 is obtained by applying the tax rates applicable to individuals as given in the Income Tax Ordinance 2001 for the tax year 2010 to the incomes in Column 4.

5. Column 6 = (Column 5) x (Column 2).

Methodology for Tax Years 2011 to 2014

To calculate the potential AIT for the tax years 2011 to 2013, we update the GVO (by farm size) for each year by assuming that it has increased annually at the same rate as the nominal growth rate of the crop sector as given in the Pakistan Economic Survey.[166] GVO (by farm size) for the tax year 2014 is obtained by assuming that it will increase at the same rate as the targeted growth for the crop sector in FY2013/14. Once the GVO (by farm size) has been updated in this manner for all four tax years (2011 to 2014), the PTIs and potential tax revenues are calculated by following the methodology discussed in the previous section and using the tax rates applicable to individual or property incomes under the relevant federal finance acts.

[166] Government of Pakistan, *Pakistan Economic Survey 2012–13*, Finance Division, Islamabad, 2013.