

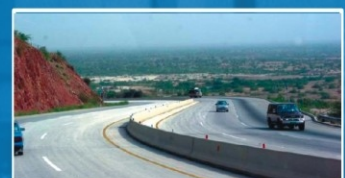
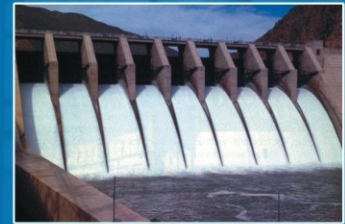


Pakistan Development Forum

Drivers of Economic Growth: Unleashing the Potential of the Private Sector

DELEGATE BRIEF

Pakistan Development Forum 2006



PAKISTAN DEVELOPMENT FORUM

May 10-11 2006, Islamabad

Drivers of Economic Growth: *Unleashing the Potential of the Private Sector*

DELEGATE BRIEF

Government of Pakistan

**Donor Coordination Cell (DCC)
Economic Affairs Division (EAD)**

Ministry of Economic Affairs and Statistics

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Disclaimer

This delegate brief has been developed by Economic Affairs Division (EAD) to provide information about the PDF 2006 sessions as well as the last five PDFs for all PDF stakeholders: development partners, line ministries, provincial and district governments, academia, civil society and others. An attempt has been made to compile and present relevant and accurate information. However, the Ministry accepts no responsibility for the content information. Furthermore, the content of this delegate brief-Session Briefs and Historical-Mapping should not be construed as the official position of the Government of Pakistan or its related organizations and agencies. Official information on the Government's policies, plans, strategies and perspectives can be obtained from the concerned ministries and/or other published material of the Government of Pakistan.

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About This Brief

This Brief has been prepared to facilitate delegates at the 2006 Pakistan Development Forum, titled '*Drivers of Economic Growth Unleashing the Potential of the Private Sector*'. It contains an annotated agenda, which gives the session times, speakers' names and the key issues/questions to be addressed. These are further elaborated in a series of two-page Session Briefs, which give an overview of the key issues and questions to be addressed in each session, as well as an indication of what individual speakers/panelists will be talking on.

Five PDFs have been held to date. The last section, "Five Years of PDFs: A Historical Mapping" gives a year-by-year summary of the PDFs from 2001-5. Each summary comprises an overview of the respective PDF, the country context (significant international and domestic developments since the last PDF), major Government initiatives and achievements shared with Pakistan's development partners at the PDF, and donor responses.

All these documents and full information about the 2006 PDF are available on the PDF website: <http://www.pakistan.gov.pk/PDF/index.jsp>.

PDF 2006: An Overview

The 2006 Pakistan Development Forum on 10-11 May will be the sixth PDF. Previous PDFs were used to outline to Pakistan's development partners the wide-ranging reform program initiated by the Government. PDF 2006 specifically seeks to highlight the Government's pro-growth, pro-investment and pro-poor policies.

This year, the Government will be attempting to showcase Pakistan's achievements to date, as well as the challenges it faces in pursuit of these policies and its future strategy. The forum will also be an opportunity to gauge the nature of the partnership requirements with Pakistan's development partners in not only helping to meet those challenges but also in contributing to a reformed social, economic and political landscape.

The conference title '**Drivers of Economic Growth - Unleashing the Potential of the Private Sector**' reflects the focus of this year's PDF.

Given below are some of the questions that the PDF 2006 hopes to flag and seek answers for.

- What are the key ingredients needed to generate and sustain economic growth and development?
- How is the Government working for this?
- What has it achieved to date and what challenges does it face?
- What role can its development partners play?
- What role has the private sector played in helping Pakistan with the transition and how can it contribute further?

The PDF 2006 is spread over two days. In addition to the inaugural and concluding sessions, there will be nine sessions devoted to specific sectors: the private sector, the SME sector, second-generation reforms, environmental sustainability, social protection, infrastructure, MDGs, devolved services and aid effectiveness.

PDF 2006 Sessions

Spread over two days, the PDF 2006 agenda comprises nine substantive sessions, as well as an inaugural and concluding sessions.

The first two 'sector sessions' on day one are dedicated to economic growth, specifically to the role of the private sector and small and medium enterprises (SMEs) respectively. The Government has done much to liberalize Pakistan's economy, promote privatization and encourage investment. Session Two 'Improving Pakistan's Competitiveness through Dynamism of the Private Sector' examines progress and challenges on these fronts. Session Three 'Unleashing the Potential of the SME Sector with a Focus on Productivity Improvement' looks at Government policies to encourage SMEs and the role they are playing in generating economic growth.

In 2000 Pakistan signed up to the Millennium Development Goals, due to be achieved in 2015. Just over a third of the way along, Session Four 'Millennium Development Goals (MDGs) and Human Development', sees how far Pakistan has come in achieving the MDGs, and what challenges it faces.

Promoting development whilst also ensuring a sound environment is a constant challenge

particularly for developing countries such as Pakistan. Session Five on 'Environmental Sustainability' looks at Pakistan's progress in this regard. The final session on day one 'Social Protection' focuses on measures to help the poor and vulnerable. Social security and social safety nets are vital to helping the chronically poor escape poverty and preventing the vulnerable from falling into poverty. The session looks at social protection measures in place in Pakistan, and assesses their effectiveness as well as gaps in provision of social safety nets.

Economic growth through massive infrastructure projects has been one of the pillars of the Government's economic strategy. The first session on day two 'Infrastructure: Energy, Water, National Trade Corridor' is a wide-ranging session looking at the initiatives undertaken by the government, Pakistan's (outstanding) infrastructure needs and its requirements.

Devolution reform to improve participation and accountability at grassroots level, thereby leading to better services and thus to poverty reduction, was among the country's first governance reforms. Five years on, Session Six (a) 'Devolution: Progress, Future Priorities and Challenges' looks at whether devolution has delivered in terms of citizen empowerment, accountability, and better services. Where is devolution reform heading and what are the challenges and opportunities will be a key focus of the session.

The government of Pakistan initiated the second generation reforms that focus on building the institutional and governance capacity and improving the competitive environment. Session Seven 'Second Generation Reforms' evaluates Pakistan's progress in implementing these vital reforms, and the challenges it faces.

The penultimate session 'Improving Aid Effectiveness through Implementation of Paris Declaration' looks at the issue of Aid Effectiveness through the prism of Paris Declaration. Pakistan is a signatory to the declaration and is serious on operationalization of the Declaration in Pakistan. The session, to be steered by Ms. Hina Rabanni Khar, Minister of State for Economic Affairs and Statistics, will help both Government and development partners take stock of where they stand on their respective commitments and lay out a roadmap for the coming year.

Dr Salman Shah, Adviser to the Prime Minister on Finance, Economic Affairs, Revenue and Statistics will close the conference with an assessment of 'Where do we go from here?'

Pakistan Development Forum - 2006
May 10-11

Drivers of Economic Growth - Unleashing the Potential of the Private Sector

May 9, 2006

1800-2200 hours **Joint Reception/Dinner by EAD & World Bank for PDF Delegates**

May 10, 2006 DAY 1

Inaugural Session **9:00 10:30**

Venue **Jinnah Convention Center**
Session Chair **Pakistani VVIP**

09:00 09:05 National Anthem

09:05 09:10 Recitation from the Holy Quran

09:10 09:20 Address by Dr. Salman Shah, Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics

09:20 09:30 Dr. Ahmed Mohammed Ali, President, Islamic Development Bank

09:30 09:40 Address by Mr. Praful C. Patel, Vice President, South Asia, World Bank

09:40 09:50 Address by Mr. Juan Miranda, Director General, Central and West Asia Department Asian Development Bank

09:50- 10:10 Address by Chief Guest

10:10-10:12 Vote of thanks by Ms. Hina Rabbani Khar, Minister of State for Economic Affairs

10:12- 10:30 **Tea**

Session II: (10:30-12:15) **Improving Pakistan's Competitiveness through Dynamism of the Private Sector**

Venue **Jinnah Convention Centre, Islamabad**
Session Chair **Mr. Jehangir Khan Tareen, Federal Minister for Industries & Special Initiatives**

Session Objective **Assessing Pakistan's enabling investment and regulatory climate Opportunities and Challenges; industrial and agricultural competitiveness; globalization and its impact on domestic markets; export strategy; Analyzing the potential and contribution of private sector- the success, challenges and opportunities; the privatization agenda**

Key Issues/Questions	What are the major issues, challenges and achievements viz-a-viz competitiveness of the Pakistani industry in the domestic and global market place? Have Government measures (e.g. tax reforms, regulation, investment promotion, etc) helped the competitiveness of Pakistani industry and improved the investment climate in Pakistan? What more needs to be done? What initiatives have and can be taken to improve industrial and agricultural competitiveness? What challenges are posed by globalization? Has privatization been effective, and how can it be furthered?
Expectations	Good understanding of where Pakistan stands in terms of encouraging investment, privatization and improving agricultural and industrial competitiveness; mapping of major challenges and strategies to address these.
Key Note Speech (10:30-10:50)	Dr. Michael Enright <i>Sun Hung Kai Professor of Business Administration, University of Hong Kong</i>
Panelists (10:50-11:15)	Tariq Saigol <i>Chairman Kob-i-Noor Maple Group</i> Saquib Shirazi , <i>Chief Executive Officer, Atlas Honda Pvt. Ltd.</i> Tariq Rangoonwala <i>Chairman International Chamber of Commerce (ICC),</i> Mr. Rashid Farooqui , <i>Adviser Ministry of Agriculture</i>
Moderated Discussion	11:15-12:15
Session III: (12:15-13:30)	Unleashing potential of the SME Sector with a focus on productivity improvement
Venue Session Chair	Jinnah Convention Centre, Islamabad Altaf Saleem <i>Chairman Earthquake Rehabilitation & Reconstruction Authority (ERRA)</i>
Session Objective	Evaluating role and contribution of Small and Medium Enterprises in Pakistan's economic and industrial development and assessing government's efforts towards improving productivity.
Key Issues/Questions	What contribution has the SME sector made to improving Pakistan's productivity and how much further potential is there? How have Government measures facilitated this? What more needs to be done? How can donors support this?
Expectations	Good understanding of the current status of the SME sector in Pakistan; mapping of its further potential to promote productivity, and measures needed to realize this.

Panelists (12:15-12:30)	Awais Mazhar Hussain <i>Chief Executive Angoora Textile Ltd.</i> Mr. Shahab Khawaja <i>Chairman SMEDA</i> Dr. Taufiq Hussein <i>Deputy Governor State Bank of Pakistan</i> Dr. Warren Weinstein <i>Chief of Party, Pakistan Initiative for Strategic Development and Competitiveness</i>
Moderated Discussion	12:30-13:30
13:30 -14:30	Lunch
Session-IV (14:30 16:15)	MDG and Human Development
Venue	Jinnah Convention Centre, Islamabad
Session Chair	Lt.Gen (Rtd) Javed Ashraf <i>Federal Minister for Education</i>
Session Objective	Assessing Pakistan's performance against poverty and human development, mapping challenges and requirements
Key Issues/Questions	Pakistan is experiencing a period of high macro-economic growth, accompanied by improved indicators on UNDP HDI index and poverty alleviation. What can be done to make growth more equitable? What is the progress and key challenges in delivering of quality education (formal and non-formal) for all in Pakistan? How can the role of public-private partnerships be enhanced to increase quality and coverage? What are the measures adopted by the Government to improve primary and secondary healthcare services in Pakistan? What are the key institutional and resource constraints in ensuring affordable and quality health services to all in Pakistan? How is the civil society contributing to Government's efforts towards human development and poverty alleviation?
Expected Outcomes	Identification of areas where Pakistan is facing major challenges in human development; identification of key constraints and strategies to overcome these; specifically, role that donors can play.
Key Note Speaker (14:30- 14:45)	Dr. Nasim Ashraf <i>Chairperson National Commission for Human Development</i>
Panelists /Presenters (14:45- 15:15)	Jan VandeMoortele <i>UNDP Resident Representative</i> Dr. Pervez Tahir <i>Chief Economist / Member Planning & Development Division</i> Shahnaz Wazir Ali <i>Executive Director, Pakistan Centre for Philanthropy</i>
Moderated Discussion	15:15-16:15
Tea	16:15 16:30

Session V: (16:30-18:00) Environmental Sustainability	
Venue	Jinnah Convention Centre, Islamabad
Session Chair	Makhdoom Syed Faisal Saleh Hayat <i>Federal Minister for Environment</i>
Session Objective	Assessing Pakistan's progress, requirements, opportunities and challenges for ensuring environmental sustainability and development
Key Issues/Questions	Assessment of the current environmental situation in Pakistan; future plans (policies, strategies and action plans) for integrating environmental concerns; identification of key factors responsible for environmental degradation; implications on poverty, livelihoods security and vulnerability; environmental legislation; impact of climate change and environmental disasters; compliance to multilateral environmental agreements (MEAs); the role of the private sector <i>vis a vis</i> environmental management and sustainable businesses; potential of the environmental goods and services sector; public private partnerships for environmental sustainability; role of the Government in supporting the private sector and ensuring that growth does not damage natural resources, public health, or consumer rights; sector specific and cross sectoral environmental challenges and opportunities.
Expectations	Identification of the main gaps in ensuring environmental sustainability, the challenges in filling those gaps, and a set of recommendations to provide an effective way of ensuring environmental sustainability. Also, identification of key strategies to move forward, and the roles to be played by Government, donors, private sector and civil society.
Key Note Speaker (16:30-16:45)	Syed Babar Ali <i>Advisor, Packages Ltd. Lahore and Vice-President Emeritus WWF International</i>
Panelists (16:45-17:15)	Dr. Tariq Banuri <i>Director Stockholm Environment Institute-Asia</i> Dr. Pervez Hasan <i>Hassan & Hassan Associates</i> Mr. Asif Shuja <i>Director General Pakistan Environmental Protection Agency.</i>
Moderated Discussion	17:15-18:00
Session V (a) (16:30-18:00) Social Protection	
Venue	Jinnah Convention Centre, Islamabad
Session Chair	Mrs. Zubaida Jalal , <i>Minister for Social Welfare and Special Education</i>
Session Objective	Evaluating Pakistan's experience in providing social safety nets for the wider citizenry, the challenges and opportunities ahead

Key Issues/Questions	What approach is the Government taking to social protection? How effective are social protection measures in Pakistan? Are they reaching all those who need support? What support are civil society groups and donors providing? How can targeting be improved?
Expectations	Identification of the main gaps in social protection measures in Pakistan and the challenges in filling those gaps. Also, identification of key strategies to move forward, and the roles to be played by Government, donors and civil society groups.
Key Note Speaker (16:30-16:45)	Kalanidi Subbarao <i>Former Lead Economist- Social Protection, World Bank</i>
Panelists (16:45-17:15)	A.R. Kamal <i>Ex- Director Pakistan Institute of Development Economics (PIDE)</i> Dr. Faisal Bari <i>Executive Director Mabbub-ul-Haq Center</i>
Moderated Discussion	17:15-18:00
20:00 hours May 11, 2006 DAY 2	High-level Dinner for Heads of Delegation

Session VI (09:00-11:30) Infrastructure Energy, Water, National Trade Corridor

Venue	Jinnah Convention Centre, Islamabad
Session Chair	Mr. Liaqat Ali Jatoi , <i>Federal Minister for Water and Power</i>
Session Objective	Assessing the Infrastructure requirements of Pakistan's growing economy, opportunities, resource requirements and challenges.
Key Issues/Questions	Is the current policy environment giving the right incentives to attract private sector investment in developing indigenous energy resources to fulfill Pakistan's future energy requirements? What further measures/incentives are required to obtain the planned energy mix and production? What are costs and potential of developing water resources versus loss reduction/demand management? How should Pakistan prioritize its investment on expansion and efficient utilization of the current water resources? What opportunities does the trans-national trade corridor offer for improving trade and generating growth? What are the infrastructure, services and legislation/regulation needed to realizing this potential? What role can the private sector play in improving Pakistan's infrastructure?
Expectations	Assessment of Pakistan's progress towards energy and water security? Exploring the potential of the trans-national trade corridor; identifying the infrastructure and non-infrastructure

requirements for realizing its potential. Prioritization of next steps; and, identification of strategies and resources to meet energy, water and other infrastructure needs.

Presenters
(09:00-10:00) **Mr. Ashfaq Mahmood** *Secretary Water & Power*
Mr. Ahmad Waqar *Secretary Petroleum and Natural Resources*
Dr. Asad Shah *Member Infrastructure, Planning Commission*

Moderated Discussion 10:00-11:00

Tea Break 11:00-11:30

Session VI (a): (09:00-11:00) Devolution: Progress, Future Priorities and Challenges

Venue Jinnah Convention Centre, Islamabad
Session Chair **Danyal Aziz**, *Chairman National Reconstruction Bureau*
Session Objective **Analyzing Pakistan's experience of implementing devolution reforms and its impact on citizen empowerment, accountability and service delivery, as well as discussing challenges and opportunities**

Key Issues/Questions Has devolution led to citizen empowerment? What impact will the LGO Amendments 2005 have? What do the second local government elections indicate about citizen participation? How can key challenges like ensuring effective fiscal decentralization, local regulation and setting up a district service cadre be met?

Expectations Assessment of the 'status' of devolution reform in Pakistan (in terms of achievements, priorities and challenges); identification of 'next steps' as well as requisites for those; and some indication of roles to be played by Government and donors.

Panelists
(09:00- 09:30) **Ali Cheema** *Associate Professor LUMS*
Yousaf Ayub, *Nazim District Haripur*
Ashraf Wasti, *Provincial Finance Commission, Sindh*
Yusuf Khan *CEO DTCE*

Moderated Discussion 09:30-11:00

Tea Break 11:00-11:30

Session VII (11:30-13:30) Second Generation Reforms

Venue Jinnah Convention Centre, Islamabad
Session Chair **Dr. Salman Shah** *Adviser to Prime Minister on Finance, Economic Affairs, Revenue & Statistics*

Session Objective **Evaluating Pakistan's progress on the second generation reforms, the challenges and impediments.**

Key Issues/Questions	<p>What is the progress in implementation of second generation reforms (including financial management, industrial and agricultural improvements, private sector strengthening, further civil service, legal and justice sector reforms)? What strategies is the Government following? What are the key constraints and challenges it faces? How can these be overcome? What are the reform priorities?</p> <p>Expectations Overview of the status of implementation of second generation reforms (including a clear understanding of what these encompass); identification of key challenges and constraints; and strategies to address these.</p>
Key Note Speaker (11:30-11:45)	Omar Ayub <i>Minister of State for Finance</i>
Panelists (11:45-12:15)	Dr. Shamshad Akhtar <i>Governor State Bank of Pakistan</i> Mr. Razi-ur-Rehman Khan <i>Chairperson Securities and Exchange Commission of Pakistan (SECP)</i> Dr. Ishrat Husain <i>Chairperson National Commission for Government Reforms</i>
Moderated Discussion	12:15-13:30
Lunch	13:30-14:30
Session VIII: (14:30-16:15)	Improving Aid Effectiveness through implementation of Paris Declaration
Venue Session Chair	Jinnah Convention Centre, Islamabad Hina Rabbani Khar , <i>Minister of State for Economic Affairs</i>
Session Objective	Examining operationalization of commitments on the implementation of Paris Declaration on Aid Effectiveness in Pakistan
Key Issues/Questions	What steps can Government and donors take to improve aid effectiveness? To what extent have donors aligned their programs behind key policy documents (PRSP, MTRF, MTBF etc) and what are the challenges and issues in aligning with national planning instruments, strategies and policies? What is needed to ensure Paris Declaration commitments are implemented?
Expectations	Improved mutual understanding between government and donors on how Paris Declaration commitments fit with key national policies and generation of a road- map for operationalization of Paris Declaration in Pakistan; menu of alignment and harmonization measures to be implemented over the year.

**Panelists
(14:45 -15:15)**

Mr. Kazuo KODAMA *Deputy Director-General of the Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan*
Mr. Soe Lin *Harmonization Unit, World Bank*
Mr. Peter Fedon *Resident Representative ADB*
Ms. Charlotte Seymour-Smith *Director Asia DFID*
Mr. Haoliang Xu *Country Director UNDP*
Mr. Jonathan Addleton *Mission Director USAID*

Moderated Discussion 15:15-16:15

Session IX: (16:15-17:45) Closing Remarks

Session Chair **Dr. Salman Shah**, *Adviser to Prime Minister on Finance, Economic Affairs, Revenue & Statistics*

Theme **Where do we go from here?**

16:15-17:15 **Statements by Development Partners**

17:15-17:45 **Wrap-up by Adviser**

17:45 **Press Conference**

20:00 **Dinner by Dr. Salman Shah**, *Adviser to Prime Minister on Finance, Economic Affairs, Revenue & Statistics* **in honor of PDF Delegates**

Session II: Improving Pakistan's Competitiveness through Dynamism of Private Sector

The Session on *'Improving Pakistan's competitiveness through dynamism of private sector'* will be chaired by the *Federal Minister for Industries & Special Initiatives* Mr. Jabangir Khan Tareen. The overall objective of the session is *'Assessing Pakistan's investment and regulatory environment opportunities and challenges, industrial and agricultural competitiveness, globalization and its impact on domestic markets, export strategy, analyzing the potential and contribution of private sector-the success, challenges and opportunities'*.

This session is an attempt to assess Pakistan's investment climate and competitiveness in the global market. The strategy to do this will be two pronged: first, what the government has done in terms of improving the investment climate; second, it will take a look at the private sector, including donors to assess how they have functioned in tandem with the government in addressing the focal issue of enhanced industrial as well as agricultural competitiveness.

The session will take a view of Pakistan's present investment climate and evaluate whether it has been sufficiently simplified and decontrolled to attract investment to benefit the population. A review of reforms introduced by government in the recent years and the effectiveness of related laws will form the basis for discussion on investor attractive policies which ultimately impinge upon the industrial and agricultural sectors. The role of government in regard to creating an enabling regulatory environment for investment, especially in these two main sectors will help to understand what more is needed to improve productivity and competitiveness.

The importance of industry and agriculture will be examined as a key reference point in Pakistan's economy and the positive trickle down impact this creates in other sectors of economy as well as on employment and poverty alleviation.

An attempt will be made to appraise how qualitative improvements in exports have enhanced Pakistan's global positioning and made them not only competitive but also brought a shift from traditional exports to export based on knowledge and design wherein lie real value additions and advantage.

This analysis will help to highlight what needs to be done now and how government can extend its role as lead facilitator in the sectors of agriculture, industry and exports.

The discussion will also put a focus on the key issues, future challenges and developments since PDF 2005. Private sector development has been a sub theme in some of the previous PDFs but the discussion was not in the context of the private sector development leading to a more competitive economy by provision of opportunities to other sectors.

Most importantly, the changing nature of competitiveness and new dynamics of world markets will be discussed. The issues such as low sophistication products and low technology resulting in Pakistan's small share of exports in world market and other issues constraining Pakistan's competitiveness devise another area of discussion.

The key note speaker, Professor Enright is a leading expert on competitiveness, regional economic development, and international business strategy. He will discuss the systematic nature of competitiveness and how to bring together macro, micro, cluster, and firm level work and programs and the importance of linkages. Focusing on the significance of private sector as a tool for enhancing competitiveness of a country he will also mention the role of public sector and the importance of public-private partnership. The discussion on unleashing the private

sector will address the issues of basic enabling conditions, regulatory and administrative environments, privatization and overcoming market failures. The discussion will be supported by examples of international best practices.

The panelists for this session are Tariq Saigol, Tariq Rangoonwala and Saquib Shirazi. The Speakers will discuss the following key issues and sub themes:

The speakers will highlight the state of regulation and other factors impacting investor interests and the present investment climate. This will incorporate the tax reforms and supportive legal requirements. The focus of the discussion will be the contribution of the regulatory environment to enhancing investment in the country and the challenges and opportunities in this regard. The Government's role and initiatives in providing better investment opportunities and enhancing performance of other sectors such as agriculture and industry will be discussed.

The discussion on industrial and agricultural and export competitiveness will highlight the significance and contribution of these sectors in achieving growth and poverty alleviation. Also highlighted will be the factors constraining growth of these sectors, the role of the government as a facilitator and various initiatives of the Government. Export competitiveness and impact of globalization on various markets (commodity, labour and capital), pros and cons of globalization and government response to global opportunities will be addressed. Lessons learnt from other developing countries and how they can be applied in our context will be another area for discussion.

Another key theme/area of discussion will be the role of private sector in helping Pakistan's investment climate and contribution to growth, employment generation and poverty reduction. In addition, the initiatives of the government to further improve the sector, the bottlenecks to its development and how effectively has this facilitated the labour class of the economy will be included in the discussion. The schemes and programs of the donor community that are aimed at improving overall competitiveness in the global market will be detailed. Of particular interest will be the ways and means for enhancing the incentives and the role of the private sector in setting standards of working and making Pakistan more competitive in the global market.

The expectations from this session are to acquire a good understanding of where Pakistan stands in terms of encouraging investment, privatization and improving agricultural and industrial competitiveness; mapping of major challenges and strategies to address these. Finding ways of improving Pakistan's human resource to make us more competitive and the ways the domestic private sector can collaborate with donors to improve the productivity of our human resources is another key expectation from the session.

Session III: Unleashing Potential of the SME sector with a Focus on Productivity Improvement

The Session on '*Unleashing potential of the SME sector with a focus on productivity improvement*' will be chaired by *Mr. Altaf Saleem Chairman ERRA*. The overall objective of the session is '*evaluating role and contribution of small and medium enterprises in Pakistan's economic and industrial development and assessing government's efforts towards improving productivity*'.

The session emphasizes the significance of the SME sector by taking into account how its development can contribute to reduction in unemployment, chronic poverty and lead to a better distribution of income. The discussion also accentuates the beneficiaries of SME reforms. The session also talks about the increase in productivity of industrial and agricultural sectors, resulting from present and future SME policies/programs.

The session reviews Pakistan's SME sector and major short, medium and long term issues/constraints such as fiscal, regulatory, infrastructure and human resources, hampering the growth of SME sector.

The role of government as facilitator in unleashing potential of SMEs that would result in enhancement of productivity and at the same time, the issue of the government allowing a free hand to private enterprises to bring about the needful will be discussed. The needful will involve provisions of infrastructural support facilities, supportive operating environment, streamlining tax laws; improved fiscal measures etc. so that SMEs are strengthened to act as a catalyst for the growth process. Another key area of discussion will be the prior government initiatives/policies and how effective they have been in boosting the development of SME sector for further employment generation, leading to a less skewed distribution of income.

The session also attempts to identify areas where donor interventions can further contribute to success and also ways to get donors on board where required. The session will also delineate key player's roles in a tripartite partnership between government, private sector and donor agencies.

On the basis of the above mentioned discussion, key policy reforms or key areas of interest to enhance productivity of SMEs will be highlighted. Future direction of government initiatives regarding access to finance and business support and so forth will also be detailed.

Another important aspect of SME sector development is the institutional set up to promote and strengthen this sector. A network of institutions like SMEDA, SME Bank and SMEC etc. have been formulated by the government for creation of a conducive and enabling SME sector; their roles in supplementing the development process will be discussed.

The speakers for this session are Mr. Awais Mazhar Hussain, Mr. Shahab Khawaja, Mr. Shaukat Tareen and Dr. Warren Weinstein. They will focus on various aspects of SME sector: They will highlight the current situation of SMEs and discuss various labour related, finance, human resource development, technology transfer and up gradation and infrastructure constraints and how they impede the development of small setups.

The discussion will also highlight recent government initiatives to strengthen the development of SME programs out lined in various documents such as MTDF and by various agencies such as SMEDA and SME bank. The current government regulations and policies and donor participation and how these are translating into achieving a better productive and competitive environment will be addressed.

They will also discuss the past government policies and programs so that a comparison can be drawn between the past and present government efforts. Through this exercise, the level of commitment of the government to developing SME sector will come into view along with the loopholes in the policy framework and based on the observations and discussions, the speaker will identify the direction of future policies to be adopted by the government.

This session is of vital importance since none of the previous PDFs' have discussed SME sector thoroughly or highlighted the factors constricting its development. Through this session not only a good understanding of the current status of SME sector in Pakistan will be developed but further potential to promote productivity and measures to realize this will also be highlighted.

Session IV: MDGs and Human Development

Lt. Gen. (retd.) Javed Ashraf, Minister for Education, will chair this session. The objective of the session is 'assessing Pakistan's performance against poverty and human development, mapping challenges and requirements'.

Context and Background

Pakistan adopted the Millennium Declaration along with 190 nations in September 2000. Human development has been the cornerstone of Pakistan's government's development agenda and both the Poverty Reduction Strategy Paper, the Medium Term Development Framework and Budget keep human development as their primary focus. All the development forums so far have concentrated on human development and since 2002 the government has been holding a separate human development forum because of its importance in the overall development process in Pakistan.

In 2001 PDF, the new government introduced overall human development targets and specific targets for health and education. Keeping its focus on key sectors the government unveiled the new health policy and more detailed strategy on education sector in PDF 2002. In subsequent year the government updated the forum on progress on human development issues and presented the draft (full) Poverty Reduction Strategy Paper. Although, PDF 2004 was devoted to infrastructure, the inaugural session highlighted the role of education, health, human development progress and issues. Previous years PDF, once again, focused on Human Development and Millennium Development Goals. The PRSP implementation focus was realigned to the MDG targets and the five-year Medium Term Development Framework was presented. The government once again increased its spending on social sectors from previous estimates.

PDF 2006 Focus

Last year the government published Pakistan Millennium Development Goals Report 2005 to highlight its achievement towards MDG targets. This year's forum will use the MDG report as a backdrop to discussions on poverty alleviation and key social sectors of health and education. Achievements of the government will be highlighted and critical institutional and resource constraints would be discussed to chart a way forward in these important sectors.

In recent years Pakistan has experience a period of high macro-economic growth, accompanied by improvement in indicators on human development index and **poverty alleviation**. The issues to be discussed in this session would be how the current growth can be translated into more equitable gains for the poor. The growth sectors would be examined to see whether they include income, employment and other benefits for the poorer segment of the society. In addition, options for strategies that ensure more balanced growth would be weighed. Civil society is also an active contributor to poverty alleviation. Its performance and measures to improve impact will be considered in the overall discussion in poverty alleviation.

Pakistan has made considerable progress through rapid reforms in the **education** sector and has achieved good progress as a result. This forum would see how universal primary enrollment can be achieved in the stipulated time and what further incentives could be given to narrow the gender gap. Central to the discussion would be inclusion of the non-formal sector towards increasing literacy and using public-private partnership in increasing quality and coverage of education. The role of civil society initiatives would also be examined to see whether the

alternatives have the potential of filling the gap in providing universal primary enrollment. And if so, what additional measures would be required to ensure and upscale the level of their participation.

Since announcement of the **health** policy in 2002 the government has been striving to improve primary and secondary healthcare. Key institutional impediments and resource constraints will be discussed particularly with respect to mother and child healthcare issues. While reviewing the progress further measures to bring increased improvement in service delivery would be considered. Once again the role of private sector and civil society would be considered and ways to increase their impact will be discussed.

The government has already initiated **monitoring** of progress towards MDG targets. This forum will elicit the views of those responsible for ensuring achievement of the goals to see whether the current mechanisms are sufficient to help them make rapid course correction if needed and how could the systems be improved to make their efforts more effective. Donors' views and support would be sought in helping bolster the monitoring and reporting mechanisms.

This session would be kept highly interactive so that maximum input from the participants can be elicited. Dr. Nasim Ashraf, Chairman NCHD, will deliver the keynote address on Human Development and MDGs. He will speak about Human Development and MDGs in the international context and best practices that are relevant to Pakistan. Jan VanderMortele, Resident Representative UNDP will speak on poverty alleviation and human development with respect to MDGs in Pakistan. Mr. Akram Malik, Secretary Planning & Development Division will discuss the current progress in poverty situation and human development and the government's initiatives to tackle them. He will also touch upon the adequacy and progress in monitoring mechanisms for measuring human development and MDG indicators.

Shahnaz Wazir Ali, Executive Director, Pakistan Centre for Philanthropy, as a discussant will highlight opportunities, issues and constraints in the education sector and how the role of philanthropy, civil society and private sector can contribute to meeting MDG targets.

The floor would then be opened for a moderated discussion on the issues discussed above.

Expected Outcomes

Through this session we hope to identify areas where Pakistan is facing major challenges in human development, especially in poverty reduction, health and education. Key constraints in achieving the goals will be highlighted to ensure that Pakistan remains on track. Also strategies to overcome these, specifically, the role and potential of private sector participation and civil society support will be identified. Finally, the role that donors can play in this process and the mechanisms for effective monitoring will be discussed.

Session V: Environmental Sustainability, Pakistan Development Forum, 2006

The Federal Minister for Environment will chair the Session V, PDF 2006 on Environmental Sustainability. The overall **objective** for the Session is “*assessing Pakistan's progress, requirements, opportunities and challenges for ensuring environmental sustainability and development.*”

The overall issues/questions that will be addressed by this Session will include an assessment of the current environmental situation in Pakistan and future thinking (policies, strategies and action plans) for integrating environment within the overall sustainable growth and development agenda of the country. Of particular interest will be the focus on identifying key factors responsible for the degraded environmental situation and the bearing of environment on poverty, livelihoods security and vulnerability. Particular focus will also be on the vulnerability of the poor to impact of climate change and environmental disasters and compliance to multilateral environmental agreements (MEAs), environmental rules and regulations.

In addition to environmental legislation, the Session will attempt to take an in-depth view of the role of the private sector vis a vis environmental management and sustainable businesses; the potential of the environmental goods and services sector and the challenges and opportunities and public private partnership for environmental sustainability. The role of the Government in supporting the private sector in taking advantage of environmental needs and ensuring that the growth process does not damage natural resources, public health, or consumer rights will also shape the overall discussions in this Session. Other sector specific challenges and opportunities faced by the country in meeting environmental objectives will also be included.

The key expectations from the Session will be to identify the main gaps in ensuring environmental sustainability, the challenges in achievement of environmental goals and a set of recommendations to provide an effective way of ensuring environmental sustainability. Another expectation will be to identify key strategies for implementing environment policies regarding environment conservation, management and use. The roles to be played by Government, donors, private sector and civil society will also be defined. It is also expected that a key outcome of the Session will be to help identify a set of proposals and/or strategies that, if implemented would provide a transparent and effective way of ensuring environmental sustainability while providing maximum incentives to the private sector. A key expectation from the Session is that it will emphasise the requirement for the government, private sector and other stakeholders in directing attention as well as resources towards sustainable environmental development. The Session will have one key note speaker and three panelists who will talk on various aspects related to environmental sustainability.

The key note speaker, Mr Syed Babar Ali, an internationally reputed environmentalist and businessman will provide a holistic overview of environmental situation. While focusing on the opportunities and challenges for private sector involvement in environment, he will highlight the vision for sustainable environment development in the country in a continued, consistent and long term focus that is required for ensuring environmental integration across the board. The achievements, expectations and the role of the Government including technical and other forms of assistance required will form part of his address. The discussion will also highlight ways and means of making the private sector equal partners and contributors in efforts to create a sustainable environment.

Dr Tariq Banuri will enrich the Session by elaborating on pursuit of growth and development and implications for environmental sustainability and human development. This will include,

among other issues, the challenges and opportunities arising in ensuring good governance across the board that can ensure growth and a sound environment. This discussion will provide clarity on the linkages between economic growth, poverty reduction and environment and will assess whether the main drivers of our economic growth strategy are effective and sustainable for creating sustainable environmental growth and protection. Dr Banuri will deliberate upon integrating and achieving positive environmental outcomes through public private partnerships and the related policy and financial support that is required. Also addressed will be issues related to adapting to climate change opportunities and challenges addressing vulnerabilities and actions that provide national and global benefits. Pakistan's preparedness for coping with environmental catastrophes and disaster risk management post 8 October 2005 will further shape this discussion. The multi-sectoral implications of environmental concerns and integration of social and environmental considerations into development planning and processes will also feature in this discussion.

The theme for the talk delivered by Dr Pervez Hasan will centre round environmental legislation; how judicial activism (despite the absence of an explicit mandate) is paving the way for innovations through science-based solutions that engage the public-private sector as well as the scientific and academic communities. Specifically, the value, enforcement and compliance to environmental legislation will be the priority focus of the talk delivered by Dr. Hasan. This will include Pakistan's experience of implementing its environmental legislation, Pakistan Environmental Protection Act, 1997, and the National Environmental Quality Standards. Of particular focus would be the recent successes of the Lahore Solid Waste Management Commission and the Lahore Clean Air Commission towards resolving Lahore's most pressing environmental problems.

The GoP official (TBD) will give a broad overview of Pakistan's policy framework for environment in Pakistan as well as detailing the government's priorities and plans for ensuring environmental sustainability in Pakistan. Moreover, he will highlight the key achievements and progress made by the country and the requirements, opportunities and challenges that it faces. The relevance, contribution and impact of the economic growth strategy to achievement of sustainable environmental development will be highlighted. Pakistan's future thinking (strategies and action plans) for integrating environment within the overall sustainable growth agenda and the Government's role in facilitating and enhancing the private sector involvement *vis a vis* environmental management and sustainable businesses will be discussed.

The PDF 2005 did not explicitly address environment. The Government, however, highlight key environmental challenges such as lack of access to potable water and sanitation facilities, air and noise pollution, land degradation, deforestation, loss of biodiversity, lack of proper waste management system, energy in-efficiency, unplanned urbanization and hospital waste. The GoP also mentioned that the goals set for environmental sustainability were consistent with MDG Goal-7 on ensuring environmental sustainability. Energy conservation in particular enactment and enforcement of laws, efficient building designs and renewable energy sources were stressed. Development of monitoring mechanism for compliance to conservation laws and proper use and storage of water were emphasised. Plans for construction of large and small dams were discussed and improvements and rehabilitation of watercourses and canals and flood control measures were detailed. The Government also announced other institutional measures being adopted by the Government for water conservation and management.

Session V-A: Social Protection

The final session on Day One of the 2006 Pakistan Development Forum is devoted to '*Social Protection*'. Chaired by Ms. Zubaida Jalal, Minister for Social Welfare and Special Education, the session objective is to '*evaluate Pakistan's experience in providing social protection for the wider citizenry, and the challenges and opportunities ahead*'.

Background and Context

Social protection refers to a range of measures designed to alleviate poverty, reduce vulnerability and exposure to risks, and helping people to cope with 'shocks' like unemployment and illness. Social protection measures include social insurance (security), e.g. medical insurance; social safety nets, e.g. food subsidies; labour/income generating initiatives, e.g. public works programs and micro-credit provision. Such measures are vital for helping the chronically poor to escape poverty, and prevent the vulnerable from falling into poverty.

In the 2005 Pakistan Development Forum, 'Social safety nets' was included as a sub-theme in Session III 'New Initiatives Targeting Poverty and Unemployment'. In her presentation the Minister for Social Welfare and Special Education Zubaida Jalal outlined government initiatives to promote social protection. She also identified some of the major issues with social safety nets in Pakistan - notably lack of resources, lack of coordination and effective targeting, inability to reach all those in need of support (particularly in the informal labour sector) and recommended measures for improvement: formulation of a coordinated social protection strategy, allocation of increased resources, and improved data collection to better target interventions. The Minister called on donors to provide support in this regard.

In the discussion that followed, a number of donors raised the issue of the informal labour sector commenting that this needed to be mainstreamed in Government policy documents like the PRSP and MTDF. Under land ownership: access to land was identified as an important means to reduce poverty. It was proposed that state land be redistributed to landless workers.

PDF 2006 Focus

The PDF 2006 will discuss the approach to social protection being taken by the Government. While it will highlight Government achievements in providing social security, safety nets, micro-credit and other social protection measures, the session will focus particularly on challenges.

A major challenge for social protection initiatives in Pakistan is lack of resources. A second is targeting: how to ensure that social protection programs actually reach those in need? Coordination is a third challenge. In addition to the Government, several civil society groups are providing micro-credit and other support to the poor and vulnerable. It is important to ensure coordination between these diverse programs, and thereby enhance their effectiveness. The PDF 2006 session will discuss ways to overcome these pressing issues.

Pakistan's development partners are committed to supporting the Government's poverty reduction strategy and the massive reform program it has undertaken. Social protection however, is a relatively neglected area as far as donor funding and initiatives are concerned. One of the aims of the PDF 2006 session on social protection is to promote donor support in this area.

The session will have a keynote address, followed by panel interventions, and then an open

discussion.

The keynote speaker for the session is Kalanidi Subbarao, consultant with the World Bank on safety nets and social protection for Africa and South Asia. Mr Subbarao will provide an overview-based on social protection theory and international practice on which and how best social protection measures could be applied in Pakistan. He will outline the respective roles that could be played by Government, donors and civil society groups.

The three panelists will focus on specific aspects of social protection in Pakistan: Government initiatives and strategy; micro-credit provision; and the informal labour market and risks posed by globalization.

The Government of Pakistan has made repeated commitments to ensure social protection for all citizens, e.g. in the Constitution, MDGs, PRSP and MTDF. The Government's approach to social protection is currently based on:

- a) Social security measures for workers and their dependents in government employ and the formal labour sector (registered establishments).
- b) Social safety nets Zakat, Bait-ul-Maal, Wheat Subsidy Program, and so on.
- c) Public Works Programs designed to create employment and generate growth.
- d) Micro-credit Programs notably PPAF and Khushali Bank.

While these various initiatives are doing extremely useful work, they all have limitations. Social security measures exclude the large informal labour market. Social safety nets have limited resources, and can face problems with targeting. Labour-intensive public works programs tend to provide short-term employment. Access to micro-credit is limited.

Since the 2005 PDF the Government, with support from the World Bank, Asian Development Bank and UK Department for International Development (DFID), has prepared a National Social Protection Strategy. The PDF session will discuss the effectiveness of Government initiatives, challenges faced, and the new National Protection Strategy.

Micro-credit can help families survive shocks and/or setting up income-generating initiatives. Evidence suggests micro-credit does reduce poverty, but only a small proportion of potential beneficiaries actually have access to it. Micro-credit provision in Pakistan is being undertaken by the Government, as well as civil society groups like Kashf Foundation. The PDF session will discuss the impact of micro-credit provision in Pakistan and strategies to increase access to it.

Pakistan has a large informal labour sector, deprived of the social security available to those in government and the formal labour sector. Many of these people are the 'working poor' or are constantly at risk of falling into poverty. Strategies need to be developed to ensure social protection for those in the informal sector. This is particularly important given the likely negative impact of globalization increasing the divide between rich and poor, and reducing the capacity of the state to provide social protection.

These challenges and ways to overcome them will be examined in the PDF session. The PDF 2006 'Social Protection' session will hopefully provide a good picture of the current status of social protection measures in Pakistan; the major challenges faced in making these more effective; and identify strategies for how these can be overcome.

Session VI: Infrastructure Energy, Water, National Trade Corridor

The *Federal Minister for Water and Power* will chair this session. The objective of the session is 'assessing the infrastructure requirements of Pakistan's growing economy, opportunities, resource requirements and challenges'.

Background and Context

Improving and maintaining key infrastructure is necessary for Pakistan's growth and prosperity. One of the previous PDFs "Spurring Growth for Economic Development through Infrastructure Development" was devoted to infrastructure as a driver of growth in 2004. It had detailed sessions on power, water, roads, transport and telecommunication; and, private sector investment in infrastructure. These sectors were identified in the PRSP as the supportive infrastructure for growth of the economy to alleviate poverty. The PDF 2003 had already highlighted water resources and unveiled the current government's plans for development of the sector. In 2005, the debate was extended to progress and investment plans for water and energy security, transport (road and shipping) and urban infrastructure. These sectors are the primary focus of MTDF and detailed plans for their medium term development were shared with donors and private sector.

PDF 2006 Focus

The current PDF will continue the discussion on the sector and give participants a chance to take stock of the progress of critical infrastructure sub-sectors and chart the way ahead with the help of donors. Keeping with the time limits and to provide room for meaningful discussion, the session will concentrate on three priority sub-sectors. Key issues in the sectors would be revisited to highlight Pakistan's progress towards objectives and strategies outlined in MTDF and to discuss strategic course-corrections that may be required to align them to the current global realities and opportunities.

Three panelists would present state of the sector reports and explore the following key issues in their discussions.

Mr. Ahmad Waqar, Secretary Petroleum and Natural Resources, will highlight Pakistan's progress on development of **energy sector**. The PRSP and MTDF have called for Pakistan to attain an energy mix that utilizes indigenous resources, is less import reliant, and encourages private sector participation to provide long-term energy security to the country. Energy alternatives include oil and gas, hydel, coal and renewable resources like wind, solar and nuclear energy. Policies and plans for oil, gas and hydel energy development have been modified by the current government to bring them in line with the projected energy mix, while a policy for renewable energy is about to be finalized. The CEO Hubco will give a private sector perspective on current policy environment and opportunities. The key question to be addressed would be performance of the current policy environment in attracting private sector investment in developing indigenous energy resources to fulfill Pakistan's future energy requirements. Also discussed will be the further measures/incentives that are required to make headway toward the planned energy mix and production.

Secretary, Water and Power Mr. Ashfaq Mahmood will be presenting Pakistan's progress on meeting the **water sector** demands outlined in the previous PDFs and MTDF. The plans involve both increased storage and improved usage. The discussion would focus around the costs and potential of developing water resources versus loss reduction/demand management,

and how should Pakistan prioritize its investment on expansion and efficient utilization of the current water resources. The main issues are production costs in small and large storage capacity development. Also of concern are losses in conveyance and especially on-farm management of water. While Pakistan is a water scarce country and dependent on agriculture for primary production and employment, a little less than a third of its land is susceptible to water-logging and salinity. The country's crop production per unit of water is also very low compared to similar countries. A two-pronged approach has, therefore, been developed with the help of donors and some headway has been made both on production and conservation/risk reduction side. Infrastructure needs and institutional challenges in improving water usage would be discussed. This discussion would take stock of the current situation and revisit short and medium term priorities in managing water resources effectively and efficiently.

Dr. Asad Shah Member Infrastructure, Planning Commission, will look at the trade prospects of the **National trade corridor**. The discussion will include infrastructure development strategies and exploiting the trade routes potential in the country and the region. The key issues to be addressed would be the opportunities that the national trade corridor offers for improving trade and generating growth. Also discussed would be the infrastructure needs for making the trade route attractive for regional business. More importantly, the presentation will focus on non-infrastructure needs such as services, legislation and regulation required in realizing these benefits. It will highlight necessary services which include port handling, clearance times, warehousing, customs, insurance, banking and freight forwarding. Provisions of these critical services need coordination of several public sector agencies to bring the facilities and services to internationally competitive standards. The role of the private sector in providing infrastructure and services on commercial basis would also be examined and how their involvement can make service more competitive with international standards.

Moderated discussion would be held after each panelist's presentation to incorporate the views and interests of the participants.

Expectations

The key expectation from the sessions would be to assess Pakistan's progress towards energy and water security. Also the role of donors and private sector in achieving its goal will be discussed to map the future direction of policies and programs in these sectors. This session will also look at transport sector as a major input into enhancing trade opportunities and identifying the infrastructure and particularly non-infrastructure requirements for realizing its benefits.

Finally, it will help Government and Pakistan and donors to identify future strategies, prioritize next steps and resources to meet energy, water and other infrastructure needs with the help of private sector and donors.

Session VI-A: Devolution: Progress, Future Priorities and Challenges

Session VI (a) on Day two of the 2006 Pakistan Development Forum is titled '*Devolution: Progress, Future Priorities and Challenges*'. Chaired by *Daniyal Aziz*, *Chairman National Reconstruction Bureau*, the session will '*analyse Pakistan's experience of citizen empowerment through devolution and its impact on service delivery, as well as discuss challenges and opportunities*'.

Background and Context

Devolution is one of the key pillars of the Government's drive to promote good governance in Pakistan. Devolution seeks to increase citizen participation in local decision-making, strengthen accountability and thereby improve service delivery, leading to poverty reduction. Pakistan's devolution reform includes political, fiscal and administrative decentralization. In August 2001 the Local Government Ordinances were promulgated and elected local governments took office.

Devolution reform has been a prominent topic in the past five Pakistan Development Forums. In the 2001 PDF the Government explained to donors the local government system it was planning to introduce. By the 2002 PDF local government elections were over and the new governments were in place. Measures needed to ensure effective implementation of devolution reform were discussed. The 2003 PDF took place after the election of National and Provincial Assemblies: devolution was discussed in this new context. The 2004 PDF, came after finalization of the Poverty Reduction Strategy Paper (PRSP) which had good governance as one of its core pillars, discussed consolidation of devolution reforms.

Turning to the 2005 Pakistan Development Forum, Session VI 'Governance' examined the issue of devolved services. In a series of presentations, National Reconstruction Bureau (NRB) Chairman Daniyal Aziz and a number of local government Nazims and officials highlighted some of the achievements of devolution reform. These included improved service delivery, greater citizen participation through bodies like Citizen Community Boards, increased revenue generation by TMAs, and innovative practices by local governments. Mr Aziz outlined plans for amendments to the LGO 2001, as well as for the second local government elections. In the discussion that followed, donor agencies called for the outstanding issues in devolution to be resolved.

Focus of 2006 PDF

The PDF 2006 session '*Devolution: Progress, Future Priorities and Challenges*' will consider the impact of devolution over the past five years in promoting citizen empowerment, and specifically at developments in the last year. 2005 was a very eventful year for local governments in Pakistan. The 2005 LGO Amendments brought about significant changes in fiscal decentralization arrangements, inter-governmental relations, local government staffing, and local regulation. The Amendments cut the size of union councils from 21 to 13 members, and stipulated that, upon notification of forthcoming elections, local governments were to be replaced by provincially nominated caretakers. The second local government elections were held between July and October 2005 following the new procedures.

The 2006 PDF session will feature four panel interventions followed by an open discussion. Panelists will examine the overall progress and direction of devolution reform, as well as specific aspects of this: fiscal decentralization, the establishment of a district service cadre, and local regulation and citizen empowerment.

The first speaker, Ali Cheema of LUMS, will give an overview of where devolution reform in Pakistan has come in the past five years, and outline the requirements for effective political, financial and administrative decentralization. Looking at the record of devolution implementation in Pakistan since 2001, there are many achievements. E.g. elected local governments have been established across the country, with one-third representation by women. But in terms of achieving the objectives of devolution, i.e. greater participation and accountability leading to improved service delivery, results have been mixed. A six-district study conducted by the Asian Development Bank, DFID and World Bank in 2004, found significant improvements in some areas, less in others. The PDF session will assess progress to date and the future direction of devolution reform. The three other speakers will be a senior provincial government official, a District Nazim and Yusuf Khan, the CEO of the Devolution Trust for Community Empowerment. They will address the following issues:

Fiscal decentralization - Provincial Finance Commissions have been set up in all provinces, but as yet have only passed Interim Awards. Amendments to the NFC Award have substantially increased federal allocations to the provinces. But challenges with fiscal decentralization include ensuring local fiscal autonomy whilst also ensuring that national/provincial priorities and policy commitments are addressed; and enabling local governments to generate their own revenue. The provincial government official will describe initiatives being taken to promote effective fiscal decentralization.

The District Nazim will describe the achievements of his/her local government, and outline its priorities and plans. Staffing has been a major issue for many local governments, hampered by the fact that officers belong to many different services and cadres, and are primarily accountable to provincial rather than local governments. The 2005 LGO Amendments tackle this issue by calling for the establishment of a dedicated District Service cadre by 31 December 2005. This deadline has not been met. The PDF session will discuss the new service and how best it can be set up.

There was enthusiastic participation in the 2005 local government elections, including that of women: 32 women were elected as Nazim and Naib Nazim. Yusuf Khan, CEO DTCE, will discuss how devolution is promoting empowerment, particularly of women, and how this could be strengthened.

Deteriorating local regulation has been an all too common complaint by citizens since local governments were created for distributing the authority that had previously been concentrated in the office of the DC. The 2005 LGO Amendments include measures to improve local regulation. The PDF session will discuss the impact of devolution on local regulation, and strategies to improve this.

Devolution (and wider governance reform) is one of the main areas of donor interest and support in Pakistan. Virtually all donor agencies have some initiatives varying in scale related to devolution and local governments. The 2006 PDF session will provide an opportunity for donors to provide their input into Pakistan's devolution program, as well as help them to align their support initiatives with the requirements for effective devolution.

The PDF 2006 'Devolution: Progress, Future Priorities and Challenges' session will hopefully provide a good picture of the current status of devolution reform in Pakistan; help clarify the future direction of reform including strategies to overcome challenges; and indicate the roles that could be played by Government and development partners.

Session VII: Second Generation Reforms

The Session IV, PDF 2006 on '*Second Generation Reforms*' will be chaired by the *Advisor to the Prime Minister on Finance, Economic Affairs, Revenue & Statistics*. The overall Session objective is '*evaluating Pakistan's progress on the second generation reforms, the challenges and impediments*'.

The Session will address various questions/key issues related to the nature, purpose and progress as well as the challenges faced by the Government in this respect. As a starting point the Session will elaborate on what are the second generation reforms in Pakistan scope and key elements. The Session will also focus on answering other questions such as the progress made by the Government in implementation of the reforms. These will include financial management, industrial and agricultural improvements, private sector strengthening, further civil service reforms and legal and justice sector reforms). The strategies and action plans of the Government will be explained along with the implementation arrangements. Of particular interest will be to detail the key constraints and challenges that the Government is faced with vis a vis these reforms. Ideas, suggestions and possible solutions will be offered and the reform priorities for the Government will be chalked out.

The expectations from the Session pertain mostly to ascertaining the nature, the scope and the challenges involved in implementation of the second generation reforms. It is expected that the Session will achieve providing an overview of the implementation status of the reforms as well as identification of key challenges and strategies for tackling the constraints.

The key note speaker, Mr Omar Ayub Khan, MOS Finance, will provide an overview of the second generation reforms and what they mean for Pakistan. The key elements, future directions and priorities of the Government will be explained. The key note address will answer questions such as where does Pakistan stand in building the institutional and governance capacity and improving the competitiveness of the country and the key achievements and constraints for meeting this objective. In addition, this address will focus on fleshing out the key constraints faced by the country for reducing the cost of doing business in Pakistan (in context of Government regulations, tax distortions, efficiencies of public utilities and removal of infrastructure bottlenecks). The strategies and action plans for expanding and increasing competitiveness of the private sector and for combating the systemic problems that undermine the efficiency of the reforms will also be covered.

Dr Ishrat Husain will be the panelist for speaking on civil services reform. The key focus and expectation from this presentation will be to determine the reasons for non-implementation of the reforms that have been proposed in the past and to ascertain the status and expectations from the present reforms. The current thinking and strategies for implementing reforms and the potential risks involved will be discussed. Another key issue taken up in this discussion will be the strategy for attracting more competent and qualified people into the civil services and for making compensation commensurate with skills. Capacity enhancement and institutionalizing merit based recruitment, promotion criteria, performance based compensation will be key thrusts guiding the deliberations on civil services.

The Governor SBP will highlight the concept of good corporate governance and how its contribution can be enhanced for sustained growth and employment generation. The Governor will also detail the resource requirements for creating conditions conducive to pro-poor growth especially for fostering confidence of investors and private sector as well as elaborating upon the State Bank's key regulatory and institutional challenges in strengthening the performance of the financial sector. The discussion will touch upon strategies and ideas for enhancing the role and

attractiveness for private sector investment in the financial sector as well as increasing competitiveness and sustainability in the country with respect to industry and agriculture. The status, progress and limitations in extending microfinance to the poorest of the poor will be another issue of interest for this discussion.

The chairperson SECP will primarily highlight concept, application and promotion of good governance and how Pakistan can protect and promote the interests of all the stakeholders while increasing competitiveness. The status (progress and constraints) regarding SECP's regulatory measures for ensuring accountability and transparency in the corporate sector and improvements needed to make Pakistan a business friendly country will also feature in the discussion. Other issues of interest to be taken up in this discussion relate to forwarding the improving standards of corporate compliance, disclosure and accountability; opportunities and challenges faced in view of the international environment; Pakistan's comparative advantages and constraints and strategy for addressing the challenges of human resource development, technical and vocational training and research and development.

The key issues/questions to be answered in the discussion on the legal and judicial reforms (speaker TBD) will focus on providing the status, progress, challenges and opportunities offered by the Police Order 2002 and determining the constraints and possible strategies for addressing the systemic and structural problems in making the Police an effective, efficient, accountable and professional institution. Of interest will be the amendments introduced in the Police Order (2002) and their implication in day-to-day working of the police force. Another issue that will be taken up will be deliberating upon standards of quality service delivery by the police and unleashing the potential of the public safety commissions. The access to justice reforms are likely to focus on improving predictability and consistency between fiscal and human resource allocation and mandates of reformed institutions at all tiers and strategy for meeting the objective of providing speedy and equitable justice for all, particularly the poor. The key challenges faced by the judiciary and ways of improving performance of the judiciary and administrative justice institutions will be focused upon.

The PDF 2005 discussed the second generation reforms with reference to strengthening institutions including industry, agriculture, trade, financial sector, tax systems, judiciary, police and civil services reform. The GoP talked about the amendments to the Police Order 2002 and the LGO 2001. Civil service reforms were highlighted with respect to transparency, accountability and professional development and rewarding good performance. The donor community urged the Government to take into account issues such as federal to provincial devolution, fiscal decentralization, transparency, accountability and enforcement and complete implementation of the institutional reforms and making them functional.

Session VIII: Improving Aid Effectiveness through implementation of Paris Declaration

Ms. Hina Rabbani Khar, Minister of State for Economic Affairs and Statistics will chair the session. The objective of the session is '*operationalization of commitments on the implementation of Paris Declaration on Aid Effectiveness in Pakistan*'.

Background and Context

The Paris Declaration on Aid Effectiveness was endorsed on March 2, 2005 by more than a hundred countries and multi-lateral agencies. There are five pillars of the declaration, which are; **ownership, alignment, harmonization, managing for results and mutual accountability**. The declaration is to be implemented by 2010 and there are 12 specific indicators that measure success in implementation.

Pakistan has a large donor community helping it in its development efforts. Pakistan has already outlined its development strategy in the medium term along with the budgetary framework. Given the number of programs, Pakistan can benefit significantly from the alignment and harmonization of donor aid in a substantive manner. At the same time mutual ownership of development strategies and managing for results can help the country achieve better development outcomes.

PDF 2006 Focus

This forum will open the debate on aid harmonization in Pakistan for the first time. Broadly, it will look at how aid is disbursed and what modalities for aid effectiveness are in place. For example, the PDF contributes towards announcing country strategies and policies and tries to align the donor's contribution towards common objectives. The current government has gone through a long and arduous consultative process of developing Interim Poverty Reduction Strategy Paper (I-PRSP), Full PRSP and Medium Term Development Framework (MTDF) that is accompanied by a Medium Term Budgetary Framework (MTBF). The first question of clearly defined policies and objectives and ownership has, therefore, been addressed with respect to Pakistan. Second, the session will discuss the level of alignment of donor aid to the country's strategies. A third question is whether the major donors are working in complimentary manner and the extent of their harmonisation in fulfilling a common objectives such as supporting primary health or education.

Another major part of the aid effectiveness commitments is managing for results and joint accountability. A cursory assessment of Pakistan's alignment of budget to the development strategies will be done. The government is already engaged in a process of developing a common monitoring and evaluation framework for the earth-quake related activities with the donors. Strengthening such common frameworks and replicating them in other sectors will be considered. The donors will indicate the extent to which they rely on the country's internal monitoring mechanisms and suggest alternatives for developing a mutually agreed upon system. The country's capacity to manage such a system will also be considered. For assessing mutual accountability mechanisms, the session will look at Pakistan's process for approving budgets and strategies for two key aspects; (i) approval by the parliament; and, (ii) local level participation. The donor's role in ensuring, at the least, medium term predictability in support will be examined.

Mr. Kazuo Kodama, *Deputy Director-General of the Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan* will present his country's views on implementation of Paris Declaration and alignment to Pakistan's development strategies. He will also highlight Japan's current approach and challenges for harmonizing aid with other major donors.

Mr. Soe Lin, *Harmonization Unit, World Bank*, will share the World Bank's experience and efforts towards aid effectiveness. He will also share some international best practices with an emphasis on key factors and mechanisms that make the donors and recipient countries' funding processes more effective than others.

The **ADB** and **UNDP** representatives will share how their current aid priorities are aligned with Pakistan's strategies and what efforts are made for harmonization with other donors. Key challenges in aligning the Pakistan's aid expenditure procedures with the organizations' own requirement. They will also clarify the pre-requisites for removing the PIU/PMU system and the capacity within the Pakistan government to achieve this objective.

USAID and **DFID** will present the formulation processes of their respective aid strategies with respect to consideration for alignment with Pakistan's MTDF and harmonization with other donors. This will include the level of dialogue within Pakistan, decision making in the donor country and interaction with other donors to highlight the expectations from the Pakistan's government in helping them increase aid effectiveness. They would also comment on the level of predictability offered in their funding strategies.

A moderated discussion will follow to assess how aid effectiveness can be improved in the context of Pakistan. The chair will discuss with the development partners a formal mechanism that is agreeable to all, and is consultative and participatory in nature.

Expectations

The session is expected to increase the understanding between government and donors on implications and requirements for implementation of Paris Declaration commitments in Pakistan's context. Given the commitment of donors at the forum, a formal mechanism for taking the process of implementing Paris Declaration forward with the leadership of Economic Affairs Division for the upcoming year will be identified and agreed upon. The session will not only conclude the Forum but will also form the basis of a mechanism for following-up on the findings/recommendations of the forum so that they can be fed into the development coordination process as an ongoing activity throughout the year and provide a context for the discussions next year.

PAKISTAN DEVELOPMENT FORUM 2001

Conference Overview

The Pakistan Development Forum was held from 12-15 March 2001 in Islamabad (Jinnah Convention Centre). The Conference title was '**Reforming the Economy**'. As the first major meeting between Government and donors since 1998, the main theme of the PDF was the Government's wide-ranging reform program. Aside from the inaugural and concluding sessions, there were five substantive sessions devoted to: economic reforms, human development, private sector development and privatization, governance reforms, devolution and provincial reforms. Donors were told about progress and issues in reform implementation, and also given assurances about the Government's commitment to democracy. Finance Minister Shaukat Aziz inaugurated the PDF.

Country Context

The 2001 PDF took place after a gap of almost three years. Initiated by the Government, it came at an extremely significant time. It was the first following the October 1999 change of government in Pakistan, and the subsequent wide-ranging reform program initiated by the new government. It came after a decade that had been challenging for Pakistan in terms of promoting development and growth. And it came one year after Pakistan had signed up to the Millennium Development Goals, achievement of which would require changes in policies, resource allocations and institutional functioning.

The 2001 PDF was the first opportunity in three years that donors and Government had had to collectively discuss Pakistan's development. For the Government, it was a chance to allay international concerns about the 1999 transition, outline its reform program and bring Pakistan's development partners on board. For donors, it was a chance to hear the new government's reform program laid out in a systematic manner and put across their own concerns and priorities.

Government Initiatives and Achievements

The main theme of PDF 2001 was the ambitious reform program initiated by the new government, focusing on generating economic growth, good governance and poverty reduction. PDF 2001 was used by the Government to explain its reforms and details of their implementation to Pakistan's development partners. This was reflected in the agenda which, as well as inaugural and concluding sessions, had five sessions devoted to various reform areas: economic reforms; human development; privatization and private sector development; governance; devolution and provincial reforms.

As Finance Minister Shaukat Aziz made clear in his opening remarks, 'The first and foremost challenge we are facing today is how to reinvigorate growth'. Poverty reduction was identified as the other major challenge. But the Government also made clear that it saw growth and poverty reduction initiatives as mutually reinforcing. Donors were told that the Government would be focusing on four areas to generate growth: small and medium enterprises (SMEs), the energy sector, agriculture and information technology. On agriculture, the Government shared with donors its concerns that long drought spells in Balochistan and Sindh could have a negative impact on productivity, thereby hampering growth and poverty reduction efforts.

In the 2001 PDF, the Government acknowledged that - with 60% of revenue used for debt servicing - Pakistan faced a massive debt crisis. It had formed a Debt Reduction and Management Committee, whose report stressed economic growth and measures such as increased tax collection and privatization, as crucial for tackling the debt issue.

Reiterating its commitment to macro-economic stability, and highlighting the initiatives it had already taken in this regard (e.g. resolution of the Hubco dispute), the Government also called on Pakistan's development partners to provide strong support.

Efforts to improve tax revenue included, for the first time in Pakistan, a comprehensive tax survey and documentation campaign, expansion of GST, and strengthening tax administration. Moves to improve financial management included the creation of Public Accounts Committees; promulgation of a New Accounting Model (NAM) and system of accounts; preparatory work on a Medium-Term Budgetary Framework; and drafting of a Freedom of Information Law. It was impressed on Pakistan's development partners that the Government recognized massive structural reforms were needed, and in just 17 months, it had made significant progress in that regard.

The Government explained that its emphasis on growth (through the four drivers outlined above) would automatically lead to poverty reduction, but in order to ensure that growth benefited all and particularly the poor and vulnerable the Government was also implementing direct poverty-alleviation measures. The four major elements of the Government's poverty alleviation program were identified as: public works programs; food support program; revitalizing the zakat system; and provision of micro-credit. The 2001 Interim Poverty Reduction Strategy Paper included these elements. Economic growth would allow the Government to increase spending on public services.

Export promotion, with sustained double-digit export growth, was highlighted as a crucial part of the Government's debt management strategy. Donors were told about measures being taken by the Ministries of Commerce and Industry in this regard. The energy sector in Pakistan had traditionally been a massive drain on public funds. The Government described the initial moves it had taken for energy sector reform, notably restructuring of WAPDA and KESC, and explained that its long-term goal was privatization with the safeguard of strong regulatory regimes. Its new privatization law (applicable to all sectors, not just energy) not only provided legal cover for investors' rights, but included a commitment to use 90% of privatization proceedings for debt reduction, and the remainder for poverty alleviation programs. In order to improve Pakistan's bloated and public-sector dominated banking sector, the Government had initiated moves for streamlining, commercialization and eventual privatization.

One of the points the Government stressed to donors at the 2001 PDF was its acknowledgement that Pakistan's problems stemmed from an underlying 'crisis of governance' and its determination to promote good governance. In this regard, donors were told about moves for civil service reform, e.g. strengthening the Federal Public Service Commission, reduction by 30% in the Railways staff, review of civil service pay and pensions; measures to promote accountability and transparency in the public sector and judicial reforms.

A key pillar of the Government's program to improve governance in Pakistan was devolution. The Devolution Plan of 2000 had laid the outline of a new system of local government, aimed at increasing participation, improving accountability and thereby leading to better service delivery and poverty reduction. In the 2001 PDF, the Government shared with donors its thinking with regard to devolution, progress and future plans notably completion of local

government elections and new governments being sworn in by August 2001. The fact that 33% of local government seats were reserved for women was highlighted, and commended by donors.

Finally, the Government addressed donor concerns about the future of democracy in Pakistan by stressing its commitment to restore full democracy.

Donor Perspective

Development partners at the 2001 PDF expressed support for the Government's commitment to reform, and the measures undertaken to date.

Donors stressed the need for the citizens of Pakistan to be taken 'on board' the reform program through communication and participation. In particular, they stressed the need to include traditionally marginalized groups: women, minorities, the poor. Devolution was particularly commended in this regard, precisely because it would promote grassroots participation in local decision-making. As the UN Resident Coordinator put it: 'The Devolution Plan represents the best opportunity in a long time to realize the donor community's long-standing advice for participatory human development.'

Various donors stressed the need to invest in provision of vital services like health care and education, as well as to improve social protection and safety nets for the very poor. Whilst commending the Government's privatization drive and other measures to generate growth, they warned that it should protect the poor (particularly those in the informal labour market) from the negative fall-out of such measures. Donors also warned that the real challenge in Pakistan was *implementing* policies and commitments.

Donors used the 2001 PDF to express their concerns about the future of democracy in Pakistan. They urged the Government to adhere to its October 2002 deadline for returning democracy to Pakistan. However, they also stressed that the return to democratic rule would be short-lived if opportunities were not seized to support the strengthening of basic institutions of democracy, including civil society organizations, the media, and political parties.

In her closing remarks, Mieko Nishimizu summed up what Pakistan's development partners had learned from the 2001 PDF:

'We learned a great deal from you about Pakistan's economic revival programme, what you have already done to date, and where you are heading. Most of all, we saw in your eyes, heard in your voice, and sensed in your presence -- individually, and collectively as a team -- your courage to lead the change process and your determination to succeed.'

PAKISTAN DEVELOPMENT FORUM 2002

Conference Overview

The 2002 Pakistan Development Forum took place in Paris from 29-30 April. The conference title was '**Human Development**'. The three main conference sessions were on economic management, governance and human development. At the 2002 PDF the Government highlighted achievements and challenges in implementation of its reform program, particularly with regard to: restructuring of public expenditure towards growth enhancing and poverty-reducing outlays; improving monitoring and transparency in public finances; tax policy and tax administration reform; public enterprise restructuring and privatization; financial sector and foreign exchange market reforms; and governance generally.

Country Context

The 2002 Pakistan Development Forum took place in the wake of the 9/11 terror attacks in the United States. These significantly impacted Pakistan's regional and international context, as Pakistan became a key ally in the US-led 'war on terror'. While the 9/11 attacks raised Pakistan's importance and facilitated its rehabilitation in the international community, they also led to a global economic downturn to which Pakistan was not immune.

Pakistan thus faced a number of problems: the general slowdown in the world economy, high oil prices, protracted drought, trade disruption in the wake of September 11, and regional and domestic security issues. However, due to improvement in macroeconomic fundamentals achieved through stabilization policies pursued in the preceding two years, closer relations with the Group of Seven leading industrial countries and increased remittances and larger foreign grants, the economy was in a better position to absorb the external shocks. The signing of the Poverty Reduction and Growth Facility with the IMF and rescheduling of the country's bilateral debt by the Paris Club in 2001 further reduced the economy's vulnerability. With a comfortable cushion of reserves, and a flexible exchange rate policy, Pakistan was building up resistance to external shocks.

Government Initiatives and Achievements

As with the 2001 PDF, the main theme of the 2002 Pakistan Development Forum was the wide-ranging reform program being implemented by the Government, and achievements and challenges in this regard.

The Government described the progress it had made in implementing governance reforms. The main focus was on institutional reforms, particularly with regard to the civil service and police (justice sector). Government initiatives were highlighted including: promoting autonomy of FPSC; changes in civil service laws; systemic improvement for promotion processes; delegation of administrative and financial powers; training and procedures for performance assessment; rightsizing and restructuring; accountability mechanisms for NAB; police reforms; access to justice; policy making for a more efficient and citizen oriented judicial and legal sector and public procurement regulations.

The Government provided an update on devolution and the accompanying changes for devolution from the federal to the provincial levels in the political, administrative and financial fields. Proposals being developed by the NRB were also detailed, mainly with regard to changes

in political structures and systems; devolution from central to lower levels; introducing efficiency and transparency in governance; and civil service reforms. The Government stressed the requirement for additional financial support in the short term, particularly for establishing new institutions and systems and for the reform of infrastructure and modernization of the police and lower judiciary, training of elected representatives and government functionaries; e-governance and capacity building.

At the 2001 PDF the Government also shared with donors its Interim Poverty Reduction Strategy Paper (I-PRSP). This had three main goals: increasing growth potential; improving social outcomes; and reducing vulnerability to shocks. The approach, goals and targets of the Pakistan Poverty Reduction and Human Development Strategy were presented and it was explained that it was fostering growth through economic reforms, physical and social asset creation for the poor, development of social safety nets and good governance through devolution of power, civil services reform, access to justice and police reform. Poverty trends were also discussed.

On economic management, the GoP summarized the progress that had been made to stabilize the economy over the last two years, and the improvements in Pakistan's debt situation. In terms of policy developments, donors were told that the Government's agenda for the medium term consisted of articulation of tax policy; initiation of a universal self-assessment scheme for income tax, progressive reduction of the tax rate for banks and private companies over the next 5 years to 35% and the progressive elimination of withholding taxes. Also that the process of Central Board of Revenue (CBR) reforms had gathered momentum and other related reforms had been initiated. The Securities and Exchange Commission of Pakistan continued with reform of the stock markets. The Government also continued with the process of trade and foreign exchange system reforms.

Liberalization of the oil and gas sectors were identified as priority areas for the GoP, while restructuring of the publicly-owned banks had moved ahead. Looking at the 'big picture', the Government would be focusing on the key drivers of development: further improvements in governance at all levels of the state and the further liberalization of the economy. The former included the adoption of a fiscal responsibility law, an anti-money laundering law and measures for ensuring the reliable provision of key public services.

Donors were told that emerging challenges related to the newly initiated devolution reforms: accountability at the lower levels was a particular concern. Energy was identified as another challenge: socio-political pressures had built up due to the extraordinary run up in international oil prices, while geopolitical tensions related to Iraq had also gained force. The financial situation of gas and power utilities was worrisome. Fundamental reform of the power sector was seen to be critical for addressing the main risk to fiscal adjustment.

The GoP requested donors to consider a substantive reduction in interest rates, so that the objective of attaining overall debt sustainability could be achieved before the ten years visualized by the Debt Management and Reduction Committee. GoP's commitment to following prudent fiscal policies, in the context of a sustainable debt strategy, was emphasized while pointing out the need to concentrate public investment in areas which could help Pakistan to achieve targets in the poverty alleviation program. GoP stressed the need to use grant assistance as well as debt-for-social sector assistance on employment generation. The GoP recognized the support of bilateral donors and assured them that spending would be done in a transparent and accountable way.

Donor Perspective

The donor community expressed satisfaction with the way the Government had progressed on its economic adjustment program, in meeting macro-economic targets and in addressing long-standing structural problems. The Government's commitment to pursue ambitious reform efforts under the PRGF, despite the difficult socio-political environment following September 11, was lauded. The main goals in the interim PRSP were noted to be adequate for providing a basis for concessional lending, namely, increasing growth potential, improving social outcomes, and reducing vulnerability to shocks. There was also consensus over the challenges facing the country, namely, poverty reduction, achieving higher growth with lower inflation, raising annual growth to 56 percent within a few years, through productivity gains and a recovery of private investment and consolidating stabilization gains.

Donors noted and stressed measures related to trade liberalization, maintenance of a fully flexible exchange rate regime for strengthening competitiveness of the economy, fiscal consolidation through a broadening of the tax base and improved tax administration and restructuring of public expenditure. Monitoring and transparency in public finances were emphasized and weaknesses in social services provision as well as increased revenue allocations were noted. Institutional reforms of CBR and KESC as well as creation of incentives for more private investment were emphasized by the donor community. Implementation of spending priorities mentioned in the IPRSP regarding social sectors was stressed.

Donors highlighted the prevalence of poverty and its multidimensional aspects: the role of education and health in poverty alleviation were particularly mentioned. The reliance of people on private sector facilities (e.g. schools and clinics) was attributed to the deterioration of public service quality. Limited progress in meeting health (especially maternal health) and nutritional requirements were mentioned as key concerns. Other prevalent health threats in Pakistan were noted and the impact of ill health on children's physical and mental development was mentioned.

Donors opined that the reforms in Pakistan offered an opportunity to tackle human development problems by catering to technical and institutional constraints. It was pointed out that devolution provided a unique opportunity for addressing interconnected problems in an integrated manner and that the creation of the tehsil municipal administration was a radical, and long necessary, step. It was suggested that the approach to human development needed to focus on the importance of the youth bulge and its implications, quality of public service delivery, the interlinkages among sectors, treatment of girls and women, and local management of public services.

Pakistan's development partners noted the progress in financial and civil service management and accountability and stressed the need for complete and impartial implementation of legal and judicial reforms. They registered their interest in further supporting the reforms process and expressed their desire to get more frequent updates on the process. The Government's drive against rooting out corruption was appreciated. It was pointed out that civil service reforms should tackle issues such as code of conduct for civil servants, clear rules on conflict of interest and nepotism, a significant reduction of discretionary powers, systematic monitoring and enforcement of the rules, promotions on merit and an easy complaints mechanism and a protection program.

PAKISTAN DEVELOPMENT FORUM 2003

Conference Overview

The 2003 Pakistan Development Forum took place from 12-14 May at the Convention Centre in Islamabad. The Conference title was '**Transition to Democracy**'. Representatives from 17 bilateral donors and 20 international agencies participated in the Conference, alongside senior Government officials and private sector/civil society members. The draft Poverty Reduction Strategy Paper was a key focus of the Conference, as well as continuing governance reforms, economic reforms and initiatives to strengthen the private sector. For the first time, the Conference had a session dedicated to Provincial Perspectives (notably in the context of devolution).

Country Context

The 2003 PDF was held while Pakistan was recovering from several external and internal shocks. These included the US-led war in Afghanistan, continuing border tensions with India and extended drought in the country. Though macro-economic parameters had stabilized, all these developments had a bearing on the country's economic performance; the growth rate in 2002 was 2.1%, well below the expected 3.6%.

The investment climate remained at ebb due to geo-political tensions in the region. Agriculture was hit by a fourth year of drought and growth fell to 1.2%. Large scale manufacturing fell to 4.0% from above 8% previously. Inflation, however, declined to 3.5% and the balance of payments situation improved due to large inflow of remittances, donor loans and grants and payments (for use of Pakistani airbases by coalition forces).

The 2003 PDF was also the first since the restoration of elected national and provincial governments in Pakistan, following the October 2002 polls.

Government Initiatives and Achievements

The full Poverty Reduction Strategy Paper was a key theme of the 2003 PDF. This was presented to donors, with the explanation that it was prepared in consultation with local governments as well as civil society groups. The full PRSP addressed the gaps in the I-PRSP, notably related to gender, the environment and labour. Key initiatives were also unveiled for the social sectors, notably health and education. These were not new policies but rather strategies and work plans to achieve targets in the next three years.

Governance reform and devolution was another important theme. The state of devolution reform was discussed in the context of improving social service delivery. Provincial governments were all given the opportunity to present their perspectives on devolution reform. Local government Nazims also gave an update of progress, and identified the challenges involved in improving devolved service delivery.

The Government explained to donors its initiatives for private sector development: specifically, industrial reforms, the privatization program and Pakistan's preparation for the WTO regime. Private sector representatives gave their perspectives on what is required to revive the private sector. The session identified key areas where further work was needed to strengthen the enabling environment for private sector development. Visions for the textile, leather and engineering sector were presented to the participants. The role of small and medium enterprises

was also emphasized.

The 2003 PDF had a session dedicated to water resources. The Government outlined the water situation and its plans to expand the water sector: resource requirements and institutional constraints were also identified.

Economic reforms continued to be a main focus of the Pakistan Development Forum. The Government gave a comprehensive update on macro-economic reforms. It highlighted the fact that macro-economic stability, signs of which were visible in the 2002 PDF, had become established. Foreign currency reserves, at \$10.5 billion, were unprecedented.

The Government explained progress with implementation of various economic reforms including: banking and financial reforms, fiscal reforms to manage debt and support growth. Banking and financial sector reforms included consolidation and privatization of the banking sector and building strong capacity for regulation through strengthening of the State Bank of Pakistan and Security and Exchange Commission of Pakistan. Fiscal reforms were also discussed and progress on revenue side through increasing the proportion direct taxation and other measures were presented. In this connection the plans for overhauling of Central Board of Revenue to make it modern and progressive were also presented. Tax administration reforms were also described, in the context of promoting growth.

The Government stressed that, while progress on the economic front had been good, many problems and challenges remained. Notable among these were the need to: accelerate growth; create fiscal space for greater investment in human development; reduce losses of public sector corporations; improve infrastructure; and invest in the private sector. It called on donors to provide support in meeting these challenges.

Finally, the Government highlighted the fact that elections had been held in October 2002, and provincial and national assemblies and governments were in place. It also stressed its strong commitment to the wide-ranging reform program initiated since October 1999.

Donor Perspective

Donors commended the quality of discussion and debate at the 2003 Forum. They also appreciated the quality of the draft PRSP and hoped that the programs that were critical to reducing poverty would be fully funded. They also indicated their willingness to providing continued support in efforts to fight poverty. E.g. DFID expressed confidence in and support for Pakistan's development program; Norway showed interest in the Debt Swap proposal launched by the Government to support funding in the social sectors. Both countries, as well as UN delegates, said the Millennium Development Goals underscored their funding strategies.

The United States acknowledged Pakistan's performance on Poverty Reduction Growth Facility. It announced support for devolution and the National Health Facility Program in Partnership with DFID. The return of USAID in Pakistan was also announced as a sign of long term commitment to Pakistan's development, with focus sectors being education, health, governance and economic growth. Among multilateral development partners, ADB and the World Bank praised the Government's efforts on planning and implementing home grown reforms and pledged long term financial and technical support.

All donors commended the restoration of elected governments in Pakistan. They welcomed the presence of elected legislators in the Forum, and their contribution to discussions on the progress of reforms.

PAKISTAN DEVELOPMENT FORUM 2004

Conference Overview

The 2004 Pakistan Development Forum took place from 17-19 March at the Convention Centre in Islamabad. The title of the Conference was '**Spurring Growth for Economic Development through Infrastructure Development**'. Representatives from bilateral donors, and international agencies participated in the Conference, alongside senior Government officials and private sector/civil society members. In addition to the Poverty Reduction Strategy Paper, key themes in the 2004 PDF were infrastructure development (particularly water, power and telecommunications) and the role of the private sector in this.

Country Context

The PDF 2004 took place at a time when as a peace process was being initiated with India. Tension with India had already diminished, and both sides had withdrawn their forces from the international border. It also took place in the context of the on-going war on terror in Afghanistan and Iraq.

Pakistan's progress in achieving macro-economic stability was confirmed by the massive upgrade in the country's credit rating by international credit agencies. From Selective Default in 1999, Pakistan had risen to B2 by Moody's and B by Standard and Poor's. This enabled Pakistan to return to the international capital market with a new issue of Eurobonds, which was well-received.

Government Initiatives and Achievements

At the 2004 PDF the Government presented the full Poverty Reduction Strategy Paper to donors, prepared after a two-year consultative effort. It was explained that the PRSP was a comprehensive strategy to accelerate growth whilst maintaining economic stability (through reducing poverty and creating job opportunities), improving governance, investing in human capital, and targeting the poor and the vulnerable. Employment, environment and gender strengthened compared to the Interim PRSP.

The Government also described its efforts and progress on health, education and devolution, and plans for alignment of policies to the PRSP objectives. Higher education was stressed along with practical perspectives (from the ground) on delivering social services through local governments.

In keeping with the Conference title, considerable focus was placed on infrastructure development, as well as power and water. The urgent need for power sector reforms was highlighted, and the Government outlined its plans for investment in the sector. Donors were told about various initiatives taken by the Government including adoption of the Power Generation Policy 2002 focusing on energy security, increased exploitation of domestic resources and incentives for investment through private sector. The Government also approved plans for restructuring of WAPDA into GENCO, NTDC, DISCOs to make it more competitive, efficient and competitive along with WAPDA vision 2025. Plans for improvement of the water sector were also elaborated. Discussion on the telecommunications sector stressed the tremendous growth of this over the past few years, and progress on deregulation, promoting private sector investment and lowering the cost for the poor.

The 2004 PDF stressed the role of the private sector in infrastructure development, given that demand for infrastructure could not be met by the public sector alone. The discussion highlighted the need for an enabling environment for public-private partnerships. Private sector leaders presented their perspectives.

As always, the Government used the PDF to explain its economic reforms and progress on achieving economic growth. Donors were told that the growth rate reached 5.1% in 2003 from 2.1% in the previous year. The major driver of this growth was almost doubled remittances from abroad and a strong export performance. The agricultural growth recovered to 4.1% growth on account of better availability of irrigation water. Inflation declined further to 3.1% from 3.5%.

The Government explained that its policy focus remained on reducing the debt burden with Fiscal Responsibility and Debt Limitation Bill being submitted to the National Assembly. Privatization of the State Owned Enterprises continued to be an emphasis area to reduce the government expenditures. Fiscal reforms were also initiated in provincial governments.

Whilst elaborating achievements on the economic front, the Government stressed that many challenges remained. Many of these were the same as those highlighted in 2003, namely: accelerating growth, increasing spending on development, reducing the burden of loss-making public sector corporations, improving infrastructure and accelerating investment in the private sector. An addition from the 2003 list was the need for second-generation reforms for institutional strengthening, further reform of the civil service and justice sector, and creating an enabling environment for the private sector.

Donor Perspective

Several donors commended the Government's efforts to keep social sectors, human development and service delivery at the forefront of its poverty reduction efforts. They also commended the Government for completing the PRSP, which they described as a comprehensive document and an effective strategy.

Individual donors made specific comments. The Canadian representative lauded the full PRSP's launch and the increased budgetary support for it, but stressed that the PSDP should follow the Pakistan Environmental Act 1997 and called for more focus on gender issues. In the same vein, the Norwegian and French representatives said human development and MDGs should be the focus in all growth-related strategies.

The Japanese representative showed strong support to human development as well as infrastructure and called for better and more effective implementation. The United States' representative said that the US Government was pleased with the PRSP and saw the PRSP as an essential element for a country where 46 million people live in poverty. He expressed strong support for local governance and service provision through devolved structures. He also said that the US agreed to provide increased and sustained support for five years in social sectors like health and education.

The Country Director of the World Bank closed the PDF by saying how pleased he was to see that Pakistan stood firm on the road to reform and was "back in business." He was also pleased to see that the PRSP had allocated even more resources to poverty reduction, and that the concerned Ministers were stressing more investment in the social sectors.

PAKISTAN DEVELOPMENT FORUM 2005

Conference Overview

The 2005 PDF was held from 25-26 April in Islamabad. Its theme was '**Sustaining Growth and Improving Quality of Life**'. The title reflected the commitment of the Government to generating growth, promoting development and alleviating poverty. These commitments, articulated in the PRSP, were operationalized in the Medium-Term Development Framework, which was presented to donors at the 2005 PDF. Other sessions at the PDF were devoted to human development, governance, infrastructure and sustaining growth.

Country Context

The 2005 Pakistan Development Forum took place against the backdrop of the on-going war on terror (primarily in Iraq) which had some fall-out in Pakistan. However, it also took place in the context of a vastly accelerated peace process with India. Substantive progress was made in improving relations, promoting people-to-people contact, CBMs, bilateral trade, and other areas.

The period from the last PDF saw a robust performance in the real sectors of the economy, steep rise in imports of machinery and industrial raw materials, and continuing high domestic demand. The agriculture sector showed some improvements as did the industrial sector.

Government Initiatives and Achievements

The recently finalized (draft) Medium-Term Development Framework was a key focus of the 2005 PDF. Donors were presented an overview of the MTDF and its relationship to the 2003 PRSP. The MTDF operationalizes the commitments made in the PRSP. It was pointed out that boosting investment to exceed 25% of GDP, infrastructure development, human resource development etc., were essential requisites for the attainment of overall goals. Details of the Khushal Pakistan Fund were discussed and it was linked to additional spending in the social sector. It was also noted that the KPP would act as an umbrella under which all donors could coordinate their activities. The GoP mentioned that strategies would be devised for productivity enhancement in various sectors, including investment promotion, privatization, deregulation and liberalization of trade. In the energy sector, production of energy, building gas pipelines and nuclear energy would be targeted. The GoP also clarified that the draft MTDF would be further refined, based on consultations with development partners.

The 2005 PDF also discussed realignment of the PRSP to ensure attainment of the MDGs. The Government highlighted the need for education to reduce poverty as well as for health, infrastructure development and good governance. The key drivers of economic growth were identified as agriculture, housing and construction, small and medium enterprises, energy sector, trade and information technology. Plans for capacity-building at all levels for M&E of the PRSP were shared, and the Government expressed the hope that continued support would be provided by donors to ensure that the PRSP targets and MDGs were met.

A second key theme was targeting poverty and unemployment. Initiatives for economic empowerment of rural population, provision of employment and empowerment opportunities and social safety nets were discussed. The Government explained its plans to empower people through initiatives such as Pakistan Poverty Alleviation Fund, the Livestock development

program, Khushali Bank, etc. Various other initiatives, e.g. setting up of a Rural Enterprise Management Company to transfer modern technology, design and marketing ideas to local entrepreneurs, and a program to upgrade and expand vocational centres, were also mentioned. Key challenges facing the Government with regard to the empowerment of women were discussed and different women focused programs were mentioned. On social safety nets, the need for formulation of social protection strategy was highlighted as well as the need for reliable data collection through social mapping.

The 2005 PDF had a strong focus on human development. The Government outlined the core challenges faced by Pakistan in the field of education and the steps being taken in this regard, primarily pertaining to child enrolment and adult literacy. Mainstreaming of Madaris; reducing the disparity between private and public schools; GoP initiatives for adult literacy and teachers' training; and the Punjab Education Sector Reforms were discussed. The Government highlighted the increase in the education budget and expressed the hope that in the coming year the current level (2.7% of GDP) would be raised to 3%. There was also discussion of the challenges being faced, notably in the continuation of programs, ensuring quality, and building capacities at the provincial and district levels. The role of public-private partnerships and community mobilization were also discussed.

There was a review of the Government's health strategy and reforms, including initiatives to improve maternal and child health and combat communicable and other diseases. The major challenges in the health care system were identified as largely institutional in nature. It was recommended that monitoring and surveillance systems be strengthened. Acknowledging the Government's commitment to achieve the MDGs, the session noted the challenges posed by the high incidence of communicable and non-communicable diseases. Also by resource constraints: the Government pointed out that demands on its finances were much greater than just those required for achievement of the MDGs. It stressed the need to integrate the functions and different layers of government so that the synergies of a holistic approach could be realized.

Education was the other social sector the Conference focused on: specifically on vocational training and higher education. Mainstreaming of technical and vocational education was discussed, and the need to improve quality of life by shifting emphasis from general education to employable technical education and vocational training. Plans and future programs for boosting vocational training and resource requirements were shared with partners. In the context of higher education, increased allocations for higher education were highlighted, together with achievements and plans to attract brighter people to higher education, and the challenges facing the HEC. Participation of the private sector in this regard was termed critical.

The 2005 PDF reviewed progress on governance reforms, particularly in relation to devolved service delivery; innovations through citizen participation; improved corporate governance; police and civil reforms. The GoP emphasized that second generation reforms, aimed at strengthening institutions, would include industry, agriculture, trade, financial sector, tax systems, judiciary, police and civil services.

A number of issues with reform implementation were discussed: the delay in the transfer of audit and accounts function; amendments to the Police Order 2002 and the LGO 2001; and the emergence of fraudulent CCBs and elite capture in some instances. However, improvements in service delivery were also noted - attributed to the devolution process and innovations through citizen participation, e.g. in CCBs. Suggestions were provided to enhance the role of CCBs in monitoring, evaluation and feedback, performance management and social awareness, with the ultimate goal of increasing transparency and improving service delivery.

With regard to civil service reform, the Government elaborated its aims and objectives, stressing the need to ensure transparency, accountability and merit-based induction. It explained that its reform strategy included restructuring, professional development and rewarding good performance. Development partners were told that a National Executive Service (NES), a cadre of professional and responsive civil servants capable of formulating and implementing proactive public policy, was being considered.

Returning to a key theme in the 2004 PDF, there was considerable discussion of infrastructure, focused on national energy needs and infrastructure requirements; water resource development and water security; roads network development; ports and shipping in Pakistan; rehabilitation of the water sector in Balochistan and urban infrastructure development in Sindh. The Government shared its plans for construction of new dams, accelerated exploration of oil and gas, development of nuclear, renewable and alternate energy resources. As well as efficient energy use, the Government stressed the need for infrastructure for both power generation *and* distribution and transmission.

With regard to promoting sustainable growth, the Government provided an assessment of Pakistan's performance to date. Its vision for rapid industrialization of Pakistan focusing on the engineering sector - and the role of public-private partnerships to boost investment and production was emphasized. Improving trade performance was discussed and the importance of exports in attaining growth and poverty alleviation was highlighted. The Government described its goals of increasing the value and volume of exports, and enhancing the market share of core products. It outlined its strategy for reducing cost of business, deregulation and liberalization of investment, tariff rationalization, quality and standards and protection of intellectual property rights.

In the context of privatization the Government stressed that meeting the unprecedented demand for infrastructure could only happen through private sector involvement. Key privatization transactions were shared and the need for ownership of the process by the public was underlined. The initiation of a mechanism of citizens' participation in the privatization process through stock exchanges was reported and concerns regarding quality and quantity were noted. The role of agriculture in the economy was emphasized, and the nexus between agricultural growth and poverty reduction. The need to graduate to high value agriculture was stressed, and the Government reiterated its goal of making agriculture profitable and demand driven.

In the 2005 PDF, the Government acknowledged that Pakistan had set ambitious targets for itself, but that though difficult, these were doable. However it stressed that, in addition to its own resources, the development sector required considerable donor participation. The establishment of a Donors Coordination Cell was announced at the PDF 2005.

Donor Perspective

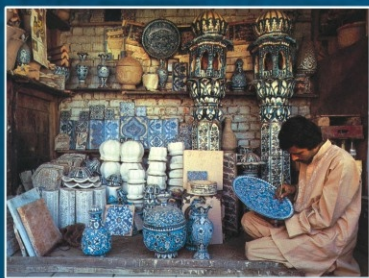
Donors at the 2005 PDF commended the Government on the MTDF. Decisions to strengthen the Statistics Division and build a coordinated monitoring framework for the PRSP and MTDF were well-received. However, a common concern was voiced on the limited attention given to poverty in the MTDF, as well as to the SME sector, and it was suggested that there be targeted interventions for the poor. Donors also stressed the need for consistency between the MTDF and PRSP.

On governance, the Government was urged to take into account issues such as federal to provincial devolution, fiscal decentralization, transparency, accountability and enforcement; administrative and operational decentralization; institutional and human capacity building. The need to conclude the long over due National Finance Commission Award was emphasized. The Government was also urged to ensure an enabling environment for the establishment and functioning of citizen bodies such as CCBs, monitoring committees and public safety commissions. Devolution and governance were among the areas identified as priority areas for development assistance.

Government presentations on education; social protection; gender empowerment were well-received. The Government's responsibility for education was noted as well as the fact that technical and vocational training system needed improvement. Donors stressed the need for credible monitoring data; employment facilitation programs; and community participation in poverty reduction programs. Increase in funds for MDGs, capacity building at the district and local levels, increased allocations for education, focus on the informal sector and land reforms were other priorities mentioned by the donors. Sustaining growth and improving the quality of life of citizens were noted to be key challenges for the country.

Additional priority areas mentioned by donors included energy, water, infrastructure, and communications sectors' growth. Donors shared their concern regarding storage and distribution of water, energy conservation and use and tapping of alternate energy sources. Quality of drinking water was noted to be a key concern. Access to markets and up-gradation of technology in the agriculture sector were recommended. Assistance was offered in human development, industrial diversification, and reducing disparity in social sectors.

The donors welcomed the Government's decision to hold quarterly meetings with the development partners. Lastly, the Government was urged to improve donor coordination and making available PDF proceedings on the website.



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