Pakistan Balochistan Economic Report
From Periphery to Core
(In Two Volumes) Volume I: Summary Report
May 2008
Pakistan – Government’s Fiscal Year

July 1 – June 30

Currency Equivalents

Currency unit: Pakistani Rupees (PKR) or Rs

USD1 = 65.83 PKR as of May 7, 2008

ABBREVIATION AND ACRONYMS

AAA Analytical and Advisory Activity
ADB Asian Development Bank
APT Appointment, Promotion and Transfer
BCDA Balochistan Coastal Development Authority
BCF Billows Cube Felt
BEC Balochistan Education Foundation
BOS Board of Investment
BPSC Balochistan Public Service Commission
BRMP Balochistan Resource Management Program
BWRMA Balochistan Water Resources Management Authority
CBB Control Board of Revenue
CD-ROM Compact Disk–Read Only Memory
DEDD Department for International Development
DOTS Directly Observed Treatment Short course
DTW Dead-Weight Taxation
ECO Economic Cooperation Organization
ESZ Exclusive Economic Zone
FATA Federally Administered Tribal Areas
FBS Federal Bureau of Statistics
GAE Global Alliance for Vaccines and Immunization
GDA Gawadar Development Authority
GDP Gross Domestic Product
GES Gas Development Schemes
GERNER Gross Enrollment Ratio / Net Enrollment Ratio
GIR Gawadar Industrial Estate
GNP Gross National Product
GPA Gawadar Port Authority
GSP Geological Survey of Pakistan
GST General Sales Tax
HALP Hot Air Low-load Plains
HDPSE High Density Polyethylene
HIV/AIDS Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
HRMS Human Resource Management System
IBB Indo Basin Irrigation System
IBRD International Bank for Reconstruction and Development
IDA International Development Association
IFC International Finance Corporation
JICA Japan International Cooperation Agency
LBP Low Density Polyethylene
LGD Local Government Ordinance
LHEDA Laboche Industrial Estate Development Authority
LPG Liquid Petroleum Gas
MCC Metallurgical Construction Corporation
MDG Millennium Development Goals
MRF Million Rupees
MREE Million Rupees Equivalent
MBTU Million British Thermal Units
MTBF Medium-Term Budget Framework
MTS Million Tons of Steel
MVO Million Tons of Oil Equivalent
MWB Megawatt
NFC National Finance Commission
NFP North-West Frontier Province
NIP National Institute of Population Studies
NVTEC National Vocational and Technical Education Commission
NWFP North-West Frontier Province
OFWM On-Farm Water Management
OGDCL Oil & Gas Development Company Limited
OGRA Oil & Gas Regulatory Authority
PASSEC Pakistan State Development Corporation
PICS Pakistan Investment Climate Survey
PHS Pakistan Integrated Household Survey
PPB Private Power and Infrastructure Board
PPS Poverty Reduction Strategy Paper
PSA Port of Singapore Authority
PSD Public Sector Development Program
PSLM Pakistan Social and Living Standards Measurement Survey
PVC Polyvinyl Chloride
QESCO Quetta Electric Supply Company
QWSA Quetta Water & Sanitation Agency
SBM Single Busy Morning
SEES Strategic Environmental and Social Assessment
SMEDA Small and Medium Enterprise Development Authority
SPS Sanitary and Physio-Sanitary
SAGCCL Sui Southern Gas Company Limited
TMAs Tekri Municipal Authorities
UNFA United Nations Population Fund
UNDP United Nations Development Program
UNODC United Nations Office on Drug Control
UNICEF United Nations Children’s Fund
USAID United States Agency for International Development
WAPDA Water and Power Development Authority
WASA Water and Sanitation Agency
WDR World Development Report
WRMA Water Resource Management Authority
WTO World Trade Organization

WORLD BANK

Vice President: Isabel M. Guerman, SARVP
Former Vice President: Paul C. Paish
Country Director: Yumubha B. Crookes, SACPK
Sector Director: Emundo May, SACPK
Task Team Leader: Kaspor Richter and Zahed Haemen, SACSP

ASIAN DEVELOPMENT BANK

Country Director: Peter L. Fedon
Programs Officer: Safdar Purvee
Task Team Leaders: Khalid Iram, Farrana Noosh and Maashia Ahmad
TABLE OF CONTENTS

PART 1: FROM PERIPHERY TO CORE ................................................................................................................. 1
  1.1 Setting the Stage .......................................................................................................................... 1
  1.2 Roadmap ...................................................................................................................................... 3
  1.3 Taking Stock ................................................................................................................................ 7

PART 2: GENERATING GROWTH ......................................................................................................................... 11
  2.1 Tapping Mineral Deposits .......................................................................................................... 13
  2.2 Revitalizing Petroleum ............................................................................................................... 14
  2.3 Gwadar’s Potential ..................................................................................................................... 15
  2.4 Beyond Gwadar: Coastal Development ..................................................................................... 17
  2.5 Linking Enterprises .................................................................................................................... 17
  2.6 The Rural Economy ................................................................................................................... 19
  2.7 Livestock and Rangelands ......................................................................................................... 20
  2.8 Crops and Fruits ......................................................................................................................... 21
  2.9 The Water Crisis ........................................................................................................................ 22

PART 3: DELIVERING SERVICES ......................................................................................................................... 24
  3.1 Towards an Effective and Accountable State ............................................................................ 24
  3.2 Gaining an Educational Future .................................................................................................. 25
  3.3 Making Health Services Reach Poor People ............................................................................. 26
  3.4 Securing Health Through Improved Water Sources .................................................................. 27
  3.5 Assisting Poor People Through Cash Transfers ........................................................................ 28

PART 4: FINANCING DEVELOPMENT ......................................................................................................................... 31
  4.1 Fiscal Recovery .......................................................................................................................... 31

TABLES

Table 1.1: Balochistan’s stock taking of challenges and opportunities across four dimensions .......... 10
Table 2.1: Balochistan’s growth pillars, sectors and areas .................................................................. 12
Table 2.2: Instruments for Generating Growth ..................................................................................... 23
Table 3.1: Instruments for Delivering Services .................................................................................... 30
Table 4.1: Instruments for Financing Development ............................................................................. 33

FIGURES

Figure 1.1: Pakistan’s Province of Balochistan ......................................................................................... 1
Figure 1.2: Balochistan as share of Pakistan along three dimensions ...................................................... 2
Figure 1.3: Framework of the Balochistan Economic Report ................................................................. 3
Figure 1.4: Balochistan has the weakest long-term growth record, but the ongoing recovery is broad-based ................................................................................................................................ 7
Figure 1.5: Balochistan’s workers are less productive than workers of the other provinces, but job creation increased noticeably in this decade. .................................................................................. 8
Figure 1.6: Balochistan's poor people in rural areas have not yet benefited from the economic recovery.............................................................................................................................. 8
Figure 1.7: Balochistan's social and gender indicators are low but improving................................................. 9
Figure 2.1: Balochistan's 29 districts ............................................................................................................. 13
Figure 2.2: Balochistan's mining sector has a long way to go........................................................................ 14
Figure 2.3: Balochistan's gas fields are becoming less plentiful................................................................. 15
Figure 2.4: The projected port traffic is likely to exceed the available capacity at Karachi and Qasim within the next decade ..................................................................................................... 16
Figure 2.5: Production and exports of fishery products has stagnated.......................................................... 17
Figure 2.6: Balochistan’s enterprises are few in-between, as Quetta’s ranks 114th among 194 cites worldwide in cost of doing business, much worse than other cities in Pakistan .......... 18
Figure 2.7: Balochistan is still recovering from a long drought, which contributed to a shift from livestock to minor crops.......................................................................................................... 19
Figure 2.8: Drought and overgrazing lead to a loss of livestock and a degradation of rangeland .... 20
Figure 2.9: Balochistan’s crop production and yields are low after the drought .............................................. 21
Figure 2.10: Balochistan utilizes only two-fifth of its water resources, and the growth in subsidized electric tubewells depletes the groundwater ............................................................. 22
Figure 3.1: Balochistan’s bureaucracy is biased towards low grades, and secretaries transfer frequently ......................................................................................................................... 25
Figure 3.2: Balochistan’s private primary schools are few in-between and distance to schools is far in rural areas.......................................................................................................................... 26
Figure 3.3: Balochistan’s child and mother service indicators have improved since the late 1990s, but vacancies and absenteeism remain high in rural areas ..................................................... 27
Figure 3.4: Balochistan’s improved water access lags far behind the other provinces, and TMA, with the legal responsibility for municipal services, are grossly under-funded .......... 28
Figure 3.5: Poverty among Balochistan’s children increased more than among Balochistan’s adults, yet social assistance remains small in reach ........................................................................ 29
Figure 4.1: Balochistan’s public expenditures have increased in the last few years, but some of the rise was debt-financed ........................................................................................................ 31

List of Background Notes Prepared For The Balochistan Economic Report ......................................... 34
PREFACE AND ACKNOWLEDGEMENTS

This report is a joint product of a team from the Government of Balochistan, the World Bank and the Asian Development Bank. In April 2006, the Balochistan Government constituted a counterpart team of government officials, who were closely involved in the Report’s preparation. This team was headed by Mr. K. B. Rind, former Chief Secretary and Mr. Qayyum Nazar Changezi, former Additional Chief Secretary (Development), Government of Balochistan, and included Mr. Ghulam Muhayuddin Marré, Chief Economist and Mr. Zulfiqar Durrani, Chief of Section (Foreign Aid). The task team also benefited from the considerable support of the Secretaries of Planning and Development, Finance, Excise & Taxation, Local Government and Rural Development, Services and General Administration, Education, Health, Population Welfare, Livestock, Agriculture, Fisheries, Mines and Minerals, Irrigation and Power, Transport, Communication and Works, and Industries Departments and the Balochistan Public Service Commission, Provincial Public Accounts Committee, Accountant General, Bureau of Statistics, Provincial Environment Protection Agency, Mining Association of Pakistan, Small and Medium Enterprise Development Association, Balochistan Coastal Development Authority, Balochistan Development Authority, Gwadar Development Authority, Gwadar Port Authority, National Highway Authority, Geological Survey of Pakistan, Arid Zone Research Centre, Water and Sanitation Agency, Water and Power Development Authority, Balochistan Resource Management Program, Quetta Chamber of Commerce and Trade Association, Port Qasim Authority, Karachi Chamber of Commerce and Industry and many other institutes.

The report was prepared by Kaspar Richter and Zahid Hasnain in the Poverty Reduction and Economic Management (PREM) unit of the World Bank’s South Asia Region, under the guidance of Satu Kahkonen, Lead Economist, Manuela Ferro, former Lead Economist, Ijaz Nabi, Sector Manager, Yusupha Crookes, Country Director, John Wall, former Country Director, Ernesto May, Sector Director, and Sadiq Ahmad, former Sector Director. The World Bank peer reviewers were Farrukh Iqbal and Mark Thomas. The team from the Asian Development Bank comprised Safdar Parvez, Madiha Ahmed and Farzana Noshab. Khalid Ikram provided overall guidance for the report.

The report draws upon contributions from Anjum Ahmad and Madiha Ahmed (Private Sector Development), Shahid Ahmed (Water Resource Management), Shahid Amjad (Fisheries), Asif Ali (Procurement Systems Performance Assessment), Ismaila Ceesay (Public Financial Management and Accountability Assessment), Raja Rehan Arshad, Nadir Abbas, Kevin Crockford and Ambreen Malik (Water Supply and Sanitation), Agnes Couffinhal and Inaam Haq (Health), Mohammad Farooque Chaudhry (Development of Gwadar Port and Coastline), Richard Damian (Livestock and Rangelands), Haris Gazdar (Social Structures and Migration), Zahid Hasnain (Governance and Decentralization), Roland White (Local Government System), Marc Heitmer and Waqar Haidar (Oil and Gas), Rasmus Heltberg and Neils Lund (Social Protection), Sadaqat Hanjra (Livestock), Khalid Ikram (A Vision for Balochistan), C. Bert Kruk and Bradley Christopher Julian (Container Terminal Facilities in the Arabian Sea Region), Hanid Mukhtar (Fiscal Situation and Issues), Shaheen Malik (Gross Domestic Product), Eric Manes and Tilahun Temasgen (Business Constraints to Growth), Naveed Naqvi (Education), Zafar Iqbal Raja (Transport), Rashid-Ul-Qayyum (Crops and Horticulture), Michael Stanley and Ekaterina Koryukin (Mineral Sector), and Syed Sayem Ali, Martin Cumpa and Nusrat Chaudhry (Data Analysis). Irum Touqeer and Arlene D. Reyes provided invaluable assistance in handling all logistical arrangements for the mission, and with processing the report.

The report team benefited greatly from collaborative work with the Government of Balochistan counterpart team during three preparation missions (May and December 2006 and January 2007). The counterpart team coordinated all government inputs, and provided comments, feedback, and guidance to the study team at all stages of the analysis and report preparation, and helped facilitate interaction with other line departments.
PART 1: FROM PERIPHERY TO CORE

1.1 SETTING THE STAGE

1.1 Balochistan offers some of the best assets for development. Balochistan is generously bestowed with natural and locational resources. It possesses the largest land area of any province of Pakistan, proving vast rangeland for goats, sheep, buffaloes, cattle, camels and other livestock. Its southern border makes up about two thirds of the national coastline, giving access to a large pool of fishery resources. As a frontier province, it is ideally situated for trade with Iran, Afghanistan, Central Asia and the Persian Gulf countries. Over the last four decades, it supplied cheap natural gas to Pakistan’s economic centers, supporting the country’s industrialization. The province also claims large deposits of coal, copper, lead, gold and other minerals.

Figure 1.1: Pakistan’s Province of Balochistan

Source: World Bank

1.2 And yet, Balochistan’s economy has not done well (Figure 1.2). The province has Pakistan’s most anaemic growth record, worst infrastructure, worst water crisis, and weakest fiscal base. The poor economic performance leads to poor living standards. Balochistan has the highest poverty—along with NWFP, lowest social indicators, and, in parts of the province, the weakest state institutions. Last but not least, newspapers carry almost daily headlines about internal conflicts in this frontier province. All this has earned Balochistan a reputation of being a backward region, far distant from Pakistan’s economic hubs, with a life burdened by the toils of the field and rangeland and tribal disputes rather than a hub of activity surrounding world-class mining explorations, modern trade links, sustainable agriculture and an empowered community.
Many developing countries have well-recognized areas where poverty has been persistently high and economic growth has not kept up with other regions. The western provinces of China, the Northeast of India, the Southern States of Mexico, the West of Argentina, the Northeast of Thailand and the Northeast of Brazil are just few examples of such “lagging regions”. Similarly, developed nations, such as the Canada, Italy, or the USA also have regions with chronically low incomes compared to national averages. Economic geography, a branch in economics developed in the 1990s, is all about where economic activity takes place. It offers two concepts that are important in understanding lagging regions (Krugman 1998). First, differences in economic development across locations can emerge from underlying, inherent differences in those locations, such as climate, sea access and geography. Second, such initial disadvantages embedded in geography, climate, policy biases or cumulative outcomes of historic accidents, can lead to regions failing to develop a self-enforcing economic dynamism. Thin markets with little backward and forward linkages, low purchasing power, weak skills of the labor force and of local administrations combine to make them unattractive for business. The challenge of such regions is to grow and converge with the other regions in the country.

In many ways, Balochistan is a prime example for the relevance of these ideas. Inherent geographical weaknesses led over the centuries to low population density. The modernization process, which transformed the country from a poor rural nation into a semi-industrialized economy, has not benefited all provinces equally. Pakistan’s growth poles developed along the Indus River, leaving the other parts of the country as agricultural hinterland. A diversified economy in Karachi and Punjab’s urban centers coexists with a less developed and more rural economy in the rest of the country. Combined with political neglect, this destined Balochistan to the periphery of economic and institutional development.

As Balochistan was at the fringes of the development process for far too long, knowledge about the province’s assets, challenges, and national contributions remains partial and cast in preconceptions. As a result, there is little appreciation about the other, equally important, Balochistan that in many ways is at the core of Pakistan’s growth strategy. The province is embracing the window of opportunity arising from national economic reforms and global integration to leverage its formidable resources and meet the challenge of development. First, Balochistan has unleashed reform due to the strong leadership as well as the tough lessons learnt from an eight-year drought and two-year fiscal crisis. Second, the good performance of the national economy has boosted public investments in the province to record levels. The provincial and federal governments have launched major uplift initiatives in economic and social sectors,
invested in infrastructure to improve connectivity and initiated administrated change across all layers of government. Third, just as Balochistan’s Sui gas fuelled Pakistan’s industrialization in the second half of the 20th century, its trade and energy ties with Iran, the Middle East and the rest of the world are supporting Pakistan’s economic expansion today. In particular, boosting energy supply depends to a large degree on pipelines and transmission lines from Iran, Middle East, and Central Asia that pass through Balochistan; and scaling up national trade hinges largely on turning Gwadar into a viable, well connected port, as well as transforming Balochistan’s natural riches in mining, fisheries, and agro-products into profitable exports. Combined with the admirable resilience and resourcefulness of Balochistan’s people, these programs and projects can overcome the impediments that have held back provincial prosperity for decades.

1.2 ROADMAP

This report offers an empirical analysis of provincial economic development and the ways in which the provincial and federal governments, supported by donors, can help to foster it. It is organized around three topics: the stock taking of economic outcomes over the last decades; the strategies for inclusive economic development of generating growth, delivering services, and financing development in the future; and the instruments for today’s economic policies to bring about the required changes. Specifically, the report (Figure 1.3):

(a) takes stock of Balochistan’s outcomes on growth, employment, poverty and social development;
(b) conducts a thorough analysis of the three strategies of generating growth, delivering services, and financing development; and
(c) provides the four instruments of investment, innovation, integration, and institutions to bring about the required economic policy changes across the three strategies.

Figure 1.3: Framework of the Balochistan Economic Report

1.7 The five main findings of the report are as follows. First, there are good reasons to be optimistic about Balochistan’s development. Provincial and federal reforms, the synergies between Balochistan’s and Pakistan’s development agenda in the areas of energy and trade, and the strong performance of the national economy present a unique opportunity to move Balochistan from the periphery to the core of economic development to the benefit of its people. Second, in order to overcome the challenges that held back provincial development for many decades, Balochistan should pursue a development agenda around generating growth, delivering services, and financing development. This approach can make sure that Balochistan’s development path is inclusive, where the gains are shared across regions and population groups. Third, generating growth requires leveraging Balochistan’s resource and locational advantages, deepening its capacity for value-addition, and strengthening the foundations for business activity. Fourth, delivering services depends on improving the public administration, making devolution more effective and scaling-up of basic services with innovative approaches involving the private sector and communities.
Finally, financing development relies on a prudent management of provincial expenditures, strengthening the capacity for revenue collection, and advancing fiscal devolution.

1.8 The three strategies reflect three broad lessons from the development experience around the world. The first strategy "Generating Growth" is about fundamental change in economic structures, the movement of resources out of agriculture to services and industry, and about transformations in trade and technology. Since the most powerful and the central force for economic growth is the private sector, the creation of a good investment climate—one that encourages firms, both small and large, to invest, create jobs, and increase productivity—is at the center of this strategy. The strategy lays out a way for Balochistan to share Pakistan's ambition of sustaining growth around 7 percent per year. This requires developing the provincial economy around four thematic thrusts: (i) exploiting the diverse natural resource base; (ii) developing the location advantage; (iii) upgrading the value chains associated with (i) and (ii); and (iv) strengthening the foundations of business activity. The fourth pillar includes law and order. Security issues are a direct obstacle primarily for the exploration and exploitation activities in natural gas. But these problems in selected districts affect the perceptions of potential investors for the entire province and thereby lower investments in other sectors as well. Skill development is another dimension of business activities, as Balochistan's labor force requires human capital to embrace economic opportunities. Among the 2.3 million provincial workers, some 1.4 million have no schooling at all, and only 70,000 practice crafts and related trades.

1.9 The second strategy "Delivering Services" is about changes to social life—in health and life expectancy, in education and literacy (to develop skills in support of growth), in population size and structure, in gender relations, and in social relations. For example, improvements in the status of women is essential to progress in a number of areas, including child well-being, family planning, labor force participation, and community empowerment. The challenge to policy is to help release and guide these forces of change. The strategy proposes measures to improve the effectiveness of the public administration at the provincial and local levels, to scale up basic services in education, health, water supply and sanitation, and social assistance to people, and to foster mechanisms for accountability. Social development will also require involving the private sector and communities in the delivery of services. One crucial aspect is social mobilization by creating agency and voice for poor people to become part of the development process.

1.10 Generating growth and delivering services require resources. Yet, public spending absorbs scarce domestic resources and imposes an excess burden of taxation that can get in the way of economic growth. While foreign aid flows are an essential cheap source of finance for developing economies, they are often small and can delay much needed policy change. Since Balochistan's development needs will always outstrip its revenues, the third strategy "Financing Development" emphasizes a careful prioritization and an effective management of provincial public expenditures as well as providing the fiscal space for local governments. It also highlights the need for upgrading the system of revenue collection as Balochistan's tax base expands with economic growth. These efforts will help to ensure sustainable fiscal positions which in turn are crucial to give confidence to firms in making risky production decisions. They will also promote local accountability by raising the discretion of local governments to respond to local needs.

1.11 The three strategies jointly will help to make sure that Balochistan's development path is inclusive and the benefits of growth are shared across regions and population groups. This is not an automatic process, nor is it a process of "trickle down". It is not enough simply to assume that everyone will eventually gain if the economy continues to grow. A farmer who lacks access to a navigable road will go on struggling—until decision-makers act to rehabilitate the feeder roads and provide access to market centers. A girl who spends her days working at home rather than learning to read will have little to show for her country's economic expansion—until a school is setup in her village that gives children the opportunity to
become literate. As the farmer and the girl gain the tools to participate in the economy, they can go on to contribute to and extend the country’s growth run.

1.12 The strategy of generating growth contributes to inclusive development in two ways. It argues for the parallel development of Balochistan’s diverse resource and locational assets for the benefit of different regions and occupations. And it makes the case for lifting rural livelihoods in support of the four-fifths of the population residing in villages by highlighting the need for connectivity, infrastructure and services in support of the rural economy. Similarly, the strategy of delivering services makes two contributions to inclusive development. It draws attention to the urgency of building human capital, which is linked to better family health and participation in society, higher productivity of farmers, workers and small-business owners alike, and thus higher growth. Human capital also endows people with the ability to gain well-enumerated jobs elsewhere and support the economy at home through remittances. In addition, the strategy also underlines the need to reach remote areas of the province through community-based modes of providing education, health, and other services that reflect Balochistan’s geographic, demographic and social realities. Finally, the strategy of financing development argues in favor of advancing fiscal devolution through a transparent transfer of provincial resources to lower levels. Just as the National Financial Commission Award is essential to ensure the delivery of basic public services across all provinces of Pakistan, an enhanced Provincial Financial Commission Award is vital to ensure the delivery of basic public services across all districts in Balochistan.

1.13 Implementing the three development strategies will require differentiation of policies and programs across the different regions of the province. This report focuses on a sectoral approach, which matches roughly the structure of policy making of provincial government and thereby tends to understate differences across regions. The report leaves the task of developing sub-provincial development strategies for future work. It remedies this weakness by highlighting, whenever relevant, geographic differences. This will be especially important for the discussion of growth and rural livelihoods in Part 2.

1.14 To mitigate this concern, the three strategies are informed by four instruments to good economic policies. First, investment is at the heart of the development process, as higher living standards come about with the accumulation of physical and human capital. Public investment is required in areas such as floodwater irrigation and drought mitigation, primary education and rural roads, where the private sector would undersupply services due to lack of funds or inclination. Such investments, if done well, will not only be equitable, but can also crowd-in private investments, that is, make feasible fresh private investment in places where it earlier was not. Private investors are unlikely to go into areas without roads, electricity, or credit facilities. However, if done poorly and in the wrong places, public investment — whether by the federal or provincial governments — can also crowd-out private investment by pre-empting scarce domestic savings and imposing administrative control. It then becomes a tax on private entrepreneurship as the engine for growth, jobs, and household income. And the private sector is essential for Balochistan’s development prospects, as it allocates resources typically more efficiently than the public sector and helps to reduce the demands on an already overstretched public sector.

1.15 Second, the success of such investments depends on strong and practical innovation. Development is about the generation and application of good ideas, about what works and what does not under local circumstances (Stern 2002). Balochistan covers nearly half of the land area of Pakistan, yet accounts only a twentieth of the country’s population and one twenty-fifth of the country’s economy. Development policies have to be adjusted to Balochistan’s defining characteristics of remoteness and geographical diversity. Whilst there are basic principles of development strategy, no one size fits all. Models and plans developed for Pakistan’s other provinces, be it the emphasis of canal irrigation in the water sector or the infrastructure and staff intensive structure of health care delivery, have to be modified to fully reflect these conditions. Innovation requires openness to new ideas and instruments, and going beyond activities that have succeeded
in the past. One area of innovation is public-private partnerships. When procuring new infrastructure, such as roads or public buildings, the government has a choice between public and private financing—that is, between paying for the investment itself and choosing a private company that pays for investment in return for payments from infrastructure users or the government. If the public-private partnership between the government and the firm is well designed, private financing may lower costs or increase revenue. The Government of Pakistan is seeking to increase the role that public-private partnerships play, for example as part of the programs to improve the National Trade Corridor. Another area of innovation is service delivery. Publicly funded government provision is only one of many modes of service delivery, and in many cases not the best one. Fortunately, as we will highlight in this report, the Government of Balochistan has already embraced innovative initiatives in service delivery and other areas.

1.16 Third, moving from periphery to core requires integration both internally within the province, as well as externally with Balochistan’s neighboring provinces and countries. Remoteness increases transport cost, which in turn segments markets and reduces the economies of scale and specialization for the private and public sectors. Since problems arising from remoteness are mediated mostly through transport, Balochistan has in recent years rightly paid special attention to this sector. These investments can also help in bringing about urbanization by facilitating mobility. Cities are an important driver of development, as they offer a skilled labor force, access to finance, close proximity to the public administration and policy makers, and, most importantly, powerful agglomeration economies through strong forward and backward linkages to input and output markets. Last but not least, improvements in cross-provincial and cross-border infrastructure can facilitate private trade as an engine of growth. Pakistan opened its trade borders to the world in the 1990s and shifted away from import-substituting strategies. Balochistan can now leverage its strategic location to become a trading center linking Pakistan’s industrial hubs with the energy rich regions of Iran and the Middle East as well as Central Asia.

1.17 Fourth, another important lesson of the global development experience is the essential role of institutions. The state is not a substitute for the market, but a critical complement. Government action is crucial to foster an environment where contracts are enforced and markets can function, basic infrastructure works, adequate health, education and social protection are provided, and people are able to participate in decisions which affect their lives. The failures of economic and social policies in Balochistan and elsewhere underscore the need to strengthen the institutional accountability between users, providers, and policymakers (World Bank 2003). For example, when faced with disappointing education and health outcomes, it is tempting to recommend a technical solution that addresses the proximate cause of the problem. Why not give vitamin A supplements, de-worm schoolchildren, and train teachers to be more effective? Why not develop a “minimum package” of health interventions for everybody? Although each suggestion has merit, simply recommending them does not address fundamental institutional problems that preclude their adoption. Adopting appropriate solutions and adapting them to local conditions can involve two types of measures: building capacity and designing institutions that underpin accountability and participation; as well as changing incentives facing policymakers, providers, and citizens. Rigorous monitoring and evaluation of innovations or experiments are part of the latter category. They lead to more precise and effective lessons and strong evidence to convince others to follow success. In this way, the power of evidence becomes an agent for change (Stern 2002).

1.18 These four instruments of investment, innovation, integration, and institutions form the basis for the policy responses to overcome old, long-lasting challenges as well as to embrace new opportunities for Balochistan’s development.
1.3 TAKING STOCK

1.19 The principal strengths of Balochistan’s economy are natural resource based: mines and minerals, fruit and crops, livestock and fishing. While the economy lacks diversification at the local level, the distinct ecological systems in different areas — flood-plains, uplands, and deserts to the coastal area — lead to a considerable variety at the provincial level. Balochistan’s agriculture focuses on non-staple and high-value products, suitable for the water-scarce high-altitude environment, in addition to crop cultivation in the canal-irrigated districts in the northeast close to the Indus Basin. The northern area specializes in horticulture; the central and western districts engage foremost in livestock rearing, and the coastal belt relies on fishery. In addition, rich mineral deposits, such as coal, copper, gold to natural gas, are scattered around the province.

1.20 Balochistan has the weakest long-term growth performance of all provinces. From 1972/73 to 2004/05, the economy expanded 2.7 times in Balochistan, 3.6 times in NWFP and Sindh, and 4.0 times in Punjab (Figure 1.4). The growth divergence has widened historic income differences and Balochistan’s per capita income level of $400 in 2004 was only two-thirds of Pakistan’s level. Balochistan’s rate of structural change and urbanization was also lower than elsewhere. Yet, Pakistan’s five-year economic recovery has improved Balochistan’s growth prospects. Its recent upswing is broad-based, and the economic uplift initiatives and transport investments are accelerating the process of urbanization (paragraphs of the main report (PMR) 1.25 to 1.33).

Figure 1.4: Balochistan has the weakest long-term growth record, but the ongoing recovery is broad-based

1.21 The quality of employment is worse in Balochistan than in other provinces. Workers produce about one quarter less than workers in NWFP and Punjab, and over one third less than workers in Sindh (Figure 1.5). The labor market is marked by duality, as less than one in five workers holds a regularly salaried job, of which the private sector supplies just one in four. And while the job quality is worse than elsewhere, workers in Balochistan migrate less other workers. The projected increase of Balochistan’s population from 7.8 million in 2005 to 11.1 million in 2025 poses major challenges for policymakers in terms of providing education and employment opportunities. However, Balochistan’s labor market is already improving noticeably. The economic recovery was labor-intensive, generating 900,000 jobs in the last eight years, and the share of workers with some education increased by 7 percent from 1999/2000 to 2005/06. Wage increases have benefited workers on regular jobs, are likely to spill over to irregular jobs due to rising labor demand from construction projects and agriculture. In addition, labor reforms hold the promise of reducing barriers to regular jobs. Improved connectivity will also facilitate mobility of labor. The demographics suggest that the labor force could rise from 4.1 million in 2005 to 7.2 million in 2025. Based on the historic
employment elasticities, creating an additional 158,000 jobs annually for these workers should be well within reach with economic growth of at least 6.5 percent. As the schooling of the future labor force is likely to be more egalitarian, a rising labor force participation rate could become an important force for provincial convergence (PMR 1.34 to 1.43).

Figure 1.5: Balochistan’s workers are less productive than workers of the other provinces, but job creation increased noticeably in this decade.

![Provincial Productivity](image1)

Source: Labor Force Survey

1.22 The number of poor people of rural Balochistan increased from 1.5 million people in 1998/99 to 2.1 million people in 2004/05. While poverty rose in rural areas, it declined in urban areas (Figure 1.6). Manufacturing, government spending and services, Balochistan’s main drivers of the economic recovery, have generated incomes in cities, but less so in villages. The principal challenge going forward is to ensure that rural households share in the growth experience, as in the other three provinces. And there is a reason for optimism. Most importantly, the drought, which depressed economic activity in rural Balochistan, finally ended in 2005. This supported the sharp rise in labor force participation in rural areas from 2003/04 to 2005/06. More public resources, combined with greater efficiency and equity of spending, should further contribute to lower poverty (PMR 1.44 to 1.50).

Figure 1.6: Balochistan’s poor people in rural areas have not yet benefited from the economic recovery.

![Cumulative Density Distribution](image2)

Source: PSLM
1.23 In a country known for its social gap, Balochistan stands out as the province with the weakest social development. It scores lowest key indicators for education, literacy, health, water and sanitation for 2006/07. For example, two in five children aged 5 to 9 are enrolled in primary school (Figure 1.7). It also stands out as the province with the worst record on gender equality. Yet, Balochistan has succeeded in narrowing the social gap from 2001/02 to 2006/07. Enrollment, literacy and immunization rates improved, as has access to tap water and flush toilets. The gender gap also narrowed from 2001/02 to 2006/07. For example, the number of girls of primary school age enrolled in primary school as a share of the number of boys increased by 3 percent over the five years. Progress extended to the labor market. Female employment grew by from 70,000 in 2001/2 to 260,000 in 2005/06, mostly due to the rebound in agriculture (PMR 1.51 to 1.55).

Figure 1.7: Balochistan’s social and gender indicators are low but improving.

Source: PSLM

1.24 The quest for Balochistan’s economic development is challenging. We need to look no further than the province’s own record on growth, employment, poverty reduction, and social development to appreciate the scale of the challenge. Yet, today’s prospects offer the best opportunity in many decades to put the province on a path towards prosperity (Table 1.1). One reason for optimism is the province’s own reform initiatives in areas of subnational responsibilities, which include the services for mines and minerals, labor regulation, agriculture, irrigation, intra-provincial transport, education, health, water supply and sanitation. Another reason is the improved design and implementation of policies coming from Islamabad, which have a large bearing on Balochistan's economic and social performance. Over the last four years, a good national economy has led to a greater resource flow through the NFC Award from the center to the province, as well as scaled-up central investments, such as in Gwadar port, the expansion of the national highway network, the proposed construction of the Iran-Pakistan-India pipeline, or the Kachchi canal irrigation project. In addition, national trade policies have contributed to closer ties between Pakistan, Iran and Afghanistan. Finally, as Pakistan’s prospects have improved overall, there is a better chance for progress on a third set of issues that have to be tackled jointly by the federal and provincial government. They include the sharing of national water resources and the inter-governmental fiscal relations.
Table 1.1: Balochistan’s stock taking of challenges and opportunities across four dimensions

<table>
<thead>
<tr>
<th></th>
<th>Challenge</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Growth</td>
<td>Low growth</td>
<td>Improved outlook</td>
</tr>
<tr>
<td>2. Convergence</td>
<td>Divergence from other provinces</td>
<td>Growing economic linkages</td>
</tr>
<tr>
<td>3. Structural Change</td>
<td>Slow structural change</td>
<td>Broad-based economic recovery</td>
</tr>
<tr>
<td>4. Urbanization</td>
<td>Low urbanization</td>
<td>Agglomeration through economic initiatives</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Productivity</td>
<td>Low labor productivity</td>
<td>Labor-intensive recovery</td>
</tr>
<tr>
<td>2. Quality</td>
<td>Low quality jobs</td>
<td>Rising skill levels</td>
</tr>
<tr>
<td>3. Duality</td>
<td>Scarce wage jobs and abundant informal jobs</td>
<td>Rising formal sector wages</td>
</tr>
<tr>
<td>4. Migration</td>
<td>Low migration in the past</td>
<td>Greater connectivity in future</td>
</tr>
<tr>
<td>5. Demography</td>
<td>Large population growth</td>
<td>Large labor force growth</td>
</tr>
<tr>
<td><strong>Poverty</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Worsening poverty</td>
<td>Check is in the mail</td>
</tr>
<tr>
<td><strong>Social Indicators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Social gap</td>
<td>Worst social indicators</td>
<td>Declining social gap</td>
</tr>
<tr>
<td>2. Gender gap</td>
<td>Worst gender indicators</td>
<td>Declining gender gap</td>
</tr>
</tbody>
</table>
PART 2: GENERATING GROWTH

2.1 Balochistan is by and large a labor-scarce economy with little crop production (apart from the irrigated Kachhi plains), almost no industry (apart from the Hub region near Karachi), and services catering almost entirely to local demand. By contrast, Pakistan is a labor-abundant economy with growth modes in intensive agriculture, domestic manufacturing as well as banking, energy and telecommunications. Furthermore, the fact that Balochistan covers nearly half of the land area of Pakistan while accounting for only a twentieth of the country’s population is a stark enough reminder that any understanding of the province’s economic development will need to pay attention to its geographical and demographic peculiarities. Indeed, remoteness and geographical diversity might be viewed as defining the context of development in the province. But Balochistan geography and locality are also its main economic resource. The low population density implies that the province enjoys potentially high value of natural resources per person. The forbidding topography is home to rich mineral and petroleum deposits, much of which have not yet been put to economic use. The long coastline is a possible site of trade and travel, as well as a gatekeeper of rich marine resources. Last but not least, Balochistan’s land mass endows Pakistan with a strategic space that might shorten trade and travel costs between emerging economic regions.

2.2 In view of these disparities, Balochistan’s growth has to take a different trajectory than the growth paths followed in other provinces. This report proposes that Balochistan’s economic development should be based on four thematic thrusts: (i) exploiting the diverse natural resource base; (ii) developing the location advantage; (iii) upgrading the value chains associated with (i) and (ii); and (iv) strengthening the foundations of business activity. They support growth which occurs whenever people take resources and rearrange them in ways that are more valuable. Every generation has perceived the limits to growth that finite resources would pose if no new ideas were discovered. And every generation has underestimated the potential for finding new ideas. Possibilities do not merely add up; they multiply.

2.3 First, in the short run Balochistan’s growth is likely to come most from economic activities that draw on its diverse natural resource base. Since the province’s marked geographic and environmental diversity supports a varied economy, there is a need to pursue parallel efforts, benefiting multiple sectors and regions at the same time. Balochistan’s 22,000 settlements are scattered across flood-plains, uplands, deserts, and the coastal area. Horticulture dominates in the high-altitude environment of the north, crop production in the canal-irrigated areas of the east, livestock rearing in the central and western districts, and fishery in the coastal belts. In addition, rich mineral and petroleum deposits are scattered around the province, although only few of them are currently being exploited. Finally, some industry clusters have emerged on Balochistan’s side of the border near Karachi. Such internal heterogeneity across a poorly connected, large landmass indicates that no single project or program will be sufficient to transform the provincial economy.

2.4 Second, Balochistan’s advantageous location is the other core asset. The province is on the cultural and geographical crossroads of South Asia, Central Asia and the Middle East, making it a possible hub for inter-regional transport and trade. Balochistan lies opposite to the Straits of Hormuz, which marks the entry into the Persian Gulf where nearly 17 million barrels of oil pass daily. Straddled by the 900 km western border with Iran, Balochistan opens access to these mineral rich areas. In addition, Balochistan shares a 1,200 km border with Afghanistan, providing its north-western neighbor as well as Central Asian countries with sea access. The development of the deep-sea port of Gwadar creates opportunities for trade connections for the resource-rich landlocked provinces of Punjab and NWFP. Finally, Balochistan is also a transit and transport route of gas pipelines, including the $4 billion Iran-Pakistan-India gas pipeline, with an approximate length of 3000 km, as well as the 1,700 km Turkmenistan-Pakistan gas pipeline. Backward
linkages from the import and export at the port, and multiplier effects from the highways connecting it to different regions within and outside the province can spur economic development and population clustering across large parts of the province. This, combined with a fiscal redistribution of a share of the provincial own-source revenues in support of local services, will help to make growth spatially more inclusive.

2.5 Third, while Balochistan’s natural and location resources will be the base for the provincial growth, using these endowments to move up the value chain will make such growth sustainable. This highlights the importance of downstream small-scale processing industries, such as for seafood products at Gwadar, or mineral products at Marble city, as well as small-scale engineering, such as repair and maintenance of machinery and equipment.

2.6 Fourth, Balochistan lacks currently the endowments of technology, infrastructure and manpower for the establishment of modern industries. This suggests that long-term economic development should be centered on fostering the foundations that support business activity. Transport connectivity, education, knowledge, information, and transparent and light business regulations are all crucial.

- Transport connectivity helps to overcome segmentation and remoteness and increases multiplier effects;
- Skill development ensures that Balochistan’s labor force is ready to embrace economic opportunities;
- Generating knowledge about the potential of minerals, the fishing stock, or trade integration encourages entrepreneurship and innovation; and
- Transparent and light business regulation ensures that companies can reap such opportunities.

2.7 Economic affluence is associated with prosperous enterprises, and enterprises locate where they expect the highest profitability. Firms will only invest in Balochistan if resources, markets and business climate are favorable for their products. The following discussion shows how Balochistan can develop through leveraging its natural resources (minerals, natural gas, livestock, major crops, minor corps, and fisheries), location (national, cross-border and transit trade), value-addition (industry hubs, support services), and business environment (transport, education, information, and investment climate) (Table 2.1 and Figure 2.1). Table 2.2 at the end of this part summarizes the instruments for generating growth across these sectors.

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Sector</th>
<th>Area (District)</th>
<th>Chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Natural Resources</td>
<td>Minerals</td>
<td>Copper/Gold - Saindak and Rekodu (Chaghai)</td>
<td>Minerals</td>
</tr>
<tr>
<td></td>
<td>Coal</td>
<td>Quetta</td>
<td>Minerals</td>
</tr>
<tr>
<td></td>
<td>Marble</td>
<td>Hub (Lasbela)</td>
<td>Minerals</td>
</tr>
<tr>
<td></td>
<td>Natural gas</td>
<td>Dera Bugti and Kohlu</td>
<td>Petroleum</td>
</tr>
<tr>
<td></td>
<td>Livestock</td>
<td>northern and central districts</td>
<td>Rural, Livestock, Water</td>
</tr>
<tr>
<td></td>
<td>Major crops</td>
<td>Jaffarabad and Nasirabad</td>
<td>Rural, Cross, Water</td>
</tr>
<tr>
<td></td>
<td>Minor crops</td>
<td>North-eastern and south-western districts</td>
<td>Rural, Cross, Water</td>
</tr>
<tr>
<td></td>
<td>Fisheries</td>
<td>Gwadar, Pasni, Jiwani, Ormara and Sonmiani (Gwadar and Lasbela)</td>
<td>Coastal Development</td>
</tr>
<tr>
<td>B. Location</td>
<td>National trade</td>
<td>Gwadar and transport routes</td>
<td>Gwadar’s Potential</td>
</tr>
<tr>
<td></td>
<td>Cross-border, transit trade</td>
<td>Chaman (Killa Abdullah), Mandu/Turbat (Koch), Gwadar</td>
<td>Linking Enterprises</td>
</tr>
<tr>
<td>C. Value-Addition</td>
<td>Industry hubs</td>
<td>Hub (Lasbela), Quetta</td>
<td>Linking Enterprises</td>
</tr>
<tr>
<td></td>
<td>Support services</td>
<td>Urban areas</td>
<td>Linking Enterprises</td>
</tr>
<tr>
<td>D. Business Environment</td>
<td>Transport</td>
<td>Province</td>
<td>Linking Enterprises</td>
</tr>
<tr>
<td></td>
<td>Education</td>
<td>Province</td>
<td>Educational Future</td>
</tr>
<tr>
<td></td>
<td>Information</td>
<td>Province</td>
<td>Minerals, Petroleum, Coastal</td>
</tr>
<tr>
<td></td>
<td>Investment climate</td>
<td>Province</td>
<td>Linking Enterprises</td>
</tr>
</tbody>
</table>
2.1 TAPPING MINERAL DEPOSITS

2.8 In spite of globally rising mineral prices, Balochistan has not yet been able to exploit adequately its geological potential. According to the estimates of the Geological Survey of Pakistan Balochistan has more than half of the national prospective geology for minerals, yet it contributes just over one-fifth to national mining GDP, and leads only in the production of coals. To date, enterprises exploit only 39 out of the 50 minerals under some 1,080 licenses, only nine of which account for over 95 percent of the total volume. The mining sector is held back by low funds and low productivity. Overcoming these deficiencies requires Balochistan to respond to an array of complex issues facing mineral industries, including improving the regulatory environment, creating sound institutions that respect the rule of mining law, and establishing a stable, transparent process in which local affected communities have a voice in resource decisions (PMR 2.26). They require a recognition that exploration for minerals is high risk and high reward — for example, only about one in every hundred metallic mineral prospects explored proceeds to production — and therefore higher returns are needed to justify investment in exploration. With these reforms, Balochistan has a potential to accelerate up the exploration curve to levels comparable with Argentina and thereafter climb the mineral production curve to match producer states such as Mexico (Figure 2.2). Based on the historical trend, significant increase in mineral production would be expected five-to-ten years after the beginning of reforms (PMR 2.34).

2.9 The objective for the sector is to create jobs, stimulate spin-off industries, contribute to local infrastructure development in mining areas, as well as to provide substantial tax and royalty revenues to central and local governments. Harnessing the potential of the mining sector requires a number of initiatives (PMR 2.52 and 2.53).
- **Investment**: Promote scientific and geological investigation into the nature and extent of Balochistan's mineral resources and to make such information available to potential investors.
- **Innovation**: create administrative capacity to manage well provincial stakes in large-scale mining projects.
- **Integration**: Promote the need for better understanding of the distribution of impacts and benefits of the mining sector on local populations and the implementation of policies and programs for the sustainable management of mineral resources.
- **Institutions**:
  - Incentives: harmonize the legal and fiscal framework with international practices;
  - Capacity: improve transparency and efficiency of public mining institutions, including cadastre services, mines inspection, health and safety issues, environmental matters, commodity certification and quality control, and laboratory services.

**Figure 2.2: Balochistan’s mining sector has a long way to go.**

![Diagram showing the trends in mining sector reform in the 1990s](image)

**Source**: World Bank

### 2.2 REVITALIZING PETROLEUM

2.10 As Balochistan’s minerals sector is gearing up, its natural gas sector is wearing down. In 1994/95, Balochistan produced 355 billion cubic feet (bcf) and accounted for nearly 56 percent of Pakistan’s total output. A decade later, the province produced 336 bcf and contributed only 25 percent to national output (Figure 2.3). As Balochistan’s gas supplies are exhausting, Pakistan is also running out of usable energy. About half of its energy needs are covered by natural gas reserves, which will decline in the absence of new discoveries. The supply shortage results in expensive imports of petroleum and petroleum products, worsening Pakistan’s trade deficit. This chapter argues that Balochistan’s downward trend in gas production is not the result of a deterioration in the perceived prospectivity. Instead, it is a direct consequence of lack of investment in exploration and development due to security concerns. Companies prefer to invest in the Sindh portion of the Indus basin, just east of Balochistan’s major production fields in Loti, Pirkoh and Sui (PMR 2.56 to 2.59).
2.11 While petroleum and natural gas are a responsibility of the federal government, the provincial government has an important role as facilitator. Increasing exploration and exploitation will require coordinated actions at both levels (PMR 2.69 to 2.72).

- **Integration:** Increase transparency in the sharing of the benefits from the use of the hydrocarbons with the local population; for example, the government could prepare for the public an annual report on the production of hydrocarbons and the distribution of oil and gas rents, including taxes; the report could lay out the funding from oil and gas companies as well as the public sector allocated to programs in areas where exploration and exploitation activities take place.

- **Institutions (Capacity):** Deepen the provincial oil and gas expertise and provide facilitation for private investors; the Balochistan government has taken the welcome step of setting up an Oil and Gas Cell in the Minerals Department; in collaboration with the federal Directorate General of Petroleum Concessions, this cell can help to provide information to oil and gas companies and support the provision of security from the Home Department; such dialogue would help the provincial government to actively address concerns on security, infrastructure, and other issues inhibiting the exploration and production activities of companies.

### 2.3 GWADAR’S POTENTIAL

2.12 While Balochistan’s natural resources are valuable assets of national importance, its coastline presents a window to the rest of the world. Most of the discussion on Gwadar has focused on transshipment and on transit trade with Central Asia. This chapter argues that the medium to long term potential rests primarily with national exports and imports. If Pakistan’s trade volumes continue to grow at a healthy rate over the next ten to fifteen years, then the capacity constraints at Karachi and Qasim will generate substantial business for Gwadar (Figure 2.4). Even under conservative assumptions, the shortfall relative to today’s combined capacity at Karachi and Qasim by 2026 could be over 100 percent for container traffic and close to 60 percent for dry cargo. Furthermore, Gwadar is located near the entrance of the Straits of Hormuz in the Persian Gulf, which holds close to three-fifth of the world’s crude oil reserves and almost half of the world’s proven gas reserves (PMR 2.85 to 2.87). Additional economic activity may well arise through transit energy trade with China as well as industrial development (PMR 2.81), but these prospects are less certain.
Figure 2.4: The projected port traffic is likely to exceed the available capacity at Karachi and Qasim within the next decade.

Source: World Bank

2.13 In order to prepare Gwadar to make the most of emerging opportunities, considerable investments in hardware and software are needed. Gwadar port’s current capacity is only approximately 3.5 million tons of traffic compared to Karachi port’s capacity of 40 million tons, and faces a tough competition from other national and regional ports. While much of the investments in infrastructure will need to be borne by the federal government, given that ports are a federal responsibility, the provincial government will remain an important stakeholder in ensuring that the policy and regulatory environment is attractive to investors (PMR 2.91 to 2.97).

- **Investment:** Make substantial investments in port facilities as well as electricity and water; the total amount required in port infrastructure over the next two decades or so would be in the order of US$1.2 billion, or about five times the sum invested to date; these investments would have to phased in line with the emerging traffic flows, and financed in partnership with the private port operator.

- **Innovation:** Follow through with landport model which grants Port of Singapore Authority a share in port revenues in return for the management of port operations and marine services as well as substantial investments.

- **Integration:** Prioritize the road connection to the National Trade corridor through the extension of the N-85 in view of the importance of export-import traffic for Gwadar port; in addition, link N-40 and N-85, possibly from Dalbandin to Basima, to connect Gwadar to the mineral areas.

- **Institutions (Capacity):** Enable Gwadar Port Authority to be an effective regulator of the private port operator by strengthening its capacity of development planning, finance, tariff and rates management, marketing, and performance monitoring; improve coordination among the several federal and provincial agencies involved in coastal development generally, and Gwadar port and city development specifically—the Gwadar Port Authority, the Gwadar Port Implementation Authority, the Gwadar Development Authority, the Balochistan Development Authority, the Balochistan Coastal Development Authority, and the district government of Gwadar.
2.4 BEYOND GWADAR: COASTAL DEVELOPMENT

2.14 Balochistan covers 790 km of the 1,100 km national coastline and contains rich fishing grounds for tuna and mackerel, sardines and herrings, catfish and croakers, and shrimps, squid and crab. Yet, its coastal and marine resources remain largely untapped, as Balochistan contributes no more than one sixth of the national fisheries value added (Figure 2.5). The principal reason for the weak performance is low productivity along the entire value chain (PMR 2.104 to 2.109). Fishermen operate small and dilapidated vessels unable to reach many fishing grounds and yielding only a low catch; harbors and auction halls are congested and fail international health and safety standards; and processing units lack modern preservation and packaging techniques. Since fish is a highly perishable commodity, any weakness in one of these elements lowers the value of the final product.

Figure 2.5: Production and exports of fishery products has stagnated.

Sources: Marine and Fisheries Department, and Federal Bureau of Statistics

2.15 The principal thrust of the government’s strategy should be on using scarce public resource to encourage much-needed private sector investment (PMR 2.110 to 2.123).

- **Investment**: Modernize the existing harbor facilities at Gwadar and Pasni; improve the fishing capacity of local fishermen through provision of echo-sounders to locate fish and investing in on-board refrigerated fish-holds; conduct a fish stock assessment to generate and disseminate the information on fishing potential to encourage private investment, including in shrimp farming.

- **Innovation**: Encourage, through the provision of concessional land, the clustering of ice plants, cold storage facilities, and processing and packaging units at Gwadar.

- **Integration**: Construct new harbors in some of the other fishing settlements, such as Jiwani, Ormara, and Sonmiani.

- **Institutions (Capacity)**: improve capacity for monitoring and coordination in concerned departments to enforce fishing licenses and compliance with hygiene standards.

2.5 LINKING ENTERPRISES

2.16 Balochistan’s private sector has not been able to make good the vast opportunities offered by its natural resources and coastline. A small population dispersed over a very large, poorly connected land surface leads to highly segmented factor and output markets, a preponderance of small enterprises, and
limited business opportunities (PMR 2.125 and 2.126). Balochistan accounts for just 2 percent of Pakistan’s enterprise population; more than 98 percent of the enterprises are own-account businesses; and out of the 2.1 jobs per enterprise, one half is taken up by the enterprise owner, another quarter by unpaid family workers, leaving only 0.56 jobs for paid employees (Figure 2.6). Business regulations affect directly the productivity of investment and economic activity of micro to large enterprises. A worldwide comparison points to six areas of concern where Quetta ranks in the bottom 30 percent of the global distribution: dealing with licenses, registering property, trading across borders, paying taxes, employing workers, and enforcing contracts (PMR 2.128 to 2.134). Balochistan’s past experience with industrial estates has also been mixed due to problems of lack of infrastructure, high cost of land, and poor location with lack of easy access to skilled manpower, raw materials and markets. The province’s present concentration of industrial estates in the district of Lasbela is more promising due to its close proximity to Pakistan’s leading commercial hub of Karachi, and improved management under the Lasbela Industrial Estate Development Authority (PMR 2.135 and 2.136).

Figure 2.6: Balochistan’s enterprises are few in-between, as Quetta’s ranks 114th among 194 cities worldwide in cost of doing business, much worse than other cities in Pakistan

![Graph showing enterprise population and cost of doing business in Balochistan](image)


2.17 The experience of Pakistan as well as of other countries shows that subsidy packages to pull industries up in remote areas rarely work well. Instead, a strategy for private sector growth should comprise these broad elements (PMR 2.155 to 2.161):

- **Investment**: Facilitate activities around Balochistan’s economic and locational assets, such as minerals, gas, fisheries and coastal development, trade, livestock, and crops through improvements in the regulatory environment, in particular the licensing and property registration regime, and support to industrial estates with utilities and one-window business services.

- **Innovation**: Promote cross-border trade with Iran and Afghanistan through investments in physical transport infrastructure, trade facilitation through streamlining the rebate system and reducing corruption, and addressing security concerns.

- **Integration**: Upgrade Balochistan’s road network to mitigate the disadvantages associated with remoteness and segmentation; specifically, develop a medium-term plan for upgrading national highways in Balochistan to proper 2-lane international design standards; improve provincial roads through prioritizing completion of ongoing projects, initiating a substantially enhanced rolling periodic maintenance program, and capacity building of the Community and Works Department; and reduce rural remoteness through extending motorized access to unserved communities by limiting the growth of paved roads to a core district network, constructing earthen and gravel roads to the more remote locations, supporting transport connectivity through
modifications in transport service regulation by allowing buses and wagons to ply on multiple routes, exploring packaging of sparsely population routes with high demand routes to enhance commercial viability, and providing well targeted subsidies for rural transport services.

- **Institutions:**
  - Capacity: Resolve law and order situation as security problems in a few districts create perceptions of security concerns for the entire province;
  - Incentives: Provide an environment where private enterprises are able to conduct their business at low costs.

### 2.6 The Rural Economy

2.18 Bringing prosperity to Balochistan’s villages is both essential and difficult. It is essential for three reasons. Four-fifths of the population resides in rural areas, their living standards lag far behind those of the one-fifth in urban areas; and livestock rearing and crop farming are two important sectors of Balochistan’s economy. It is difficult for principally one reason. In the water-stressed country of Pakistan, Balochistan stands out as the most water-scarce province. Building rural livelihoods means foremost raising the efficiency of water use. The rural economy is still recovering from the impact of a drought lasting from 1998 to 2005, where annual rainfall was some 56 percent below the pre-drought level (Figure 2.7).

Household consumption in 2004/05 was still some 14 percent below the level in 1998/99 (PMR 2.163 to 2.165). The drought has also affected the composition of agriculture. Since the early 2000s, the contribution of minor crops to agricultural GDP increased, while the contribution of livestock declined as the animal flocks are being rebuilt after the drought. In 2004/05, the leading sector was minor crops (40 percent), including horticulture, followed by livestock (33 percent), major crops (23 percent), such as wheat, rice and cotton, and fisheries and forestry (4 percent). As the population adopted livelihood systems closely tied to local environmental systems, there is a large variation in economic activities across agro-ecological zones. While crop and fruit farming as well as livestock rearing as the major occupations in the province, over one third of Balochistan’s rural population as well as rural poor population rely on activities outside the field and rangeland as their main source of income (PMR 2.167 to 2.171).

**Figure 2.7:** Balochistan is still recovering from a long drought, which contributed to a shift from livestock to minor crops

![Annual Areal Rainfall in Balochistan during the Drought (billion cubic meter), 1997 to 2005](image)

![Composition of Balochistan’s Agricultural GDP (1990/91 to 2004/05, Percent)](image)

Source: World Bank

2.19 In order to reverse the decline in rural livelihoods, Balochistan needs a coherent rural development policy that promotes growth in the farm and non-farm sectors. The subsequent sections discuss in detail the
livestock, crop and water sectors. For the rural non-farm economy, the agenda comprises improvements in infrastructure, the rural investment climate, and access to finance (PMR 2.172 to 2.175).

- **Investment:** Continue to pursue alternative energy sources for rural electrification, building upon the present initiative under the Roshan Pakistan Program in which 300 villages in the province are being supplied with solar-powered electricity, with the aim of eventually expanding to 7000 villages.

- **Institutions:**
  - Capacity: Improve land titling and registration to increase access to credit through learning from Punjab’s efforts in computerizing land records;
  - Incentives: Promote programs of bank loans to rural and small town entrepreneurs through the use of alternative forms of collateral that are acceptable to banks and more flexible loan repayment schedules.

### 2.7 LIVESTOCK AND RANGELANDS

2.20 Some two in three rural households engage at least part time in animal husbandry, as large parts of the province are arid and unsuited for intensive arable agriculture. Higher living standards and urbanization have boosted its commercial potential. For example, Pakistan’s demand for milk production could rise from around 30 million tons in 2003 to 100 million tons in 2020, while Pakistan’s supply is projected to increase only from just under 30 million tons to over 40 million tons (PMR 2.176). Yet, the bulk of the production systems remain subsistence-oriented. For centuries, migration across micro-climatic zones (transhumance) and common property grazing developed as response against localized droughts. But the impact of the prolonged drought, growing human and livestock populations, influx of refugees, the tragedy of the commons (PMR 2.177 to 2.184), and changes in land-use patterns due to urbanization have reduced the common property resources across the rangelands (Figure 2.8).

![Figure 2.8: Drought and overgrazing lead to a degradation of rangeland](image)

Sources: NFRAA 2004 and Food and Agriculture Organization 1999

2.21 Overall, there are three key obstacles to improving conditions on the rangelands: low land productivity which is a consequence of both natural and anthropogenic factors, poor integration into global and national markets and inadequate support and extension services. These problems have emerged over several decades of overgrazing and underinvestment, so instant solutions and quick-wins will remain elusive (PMR 2.193 to 2.200).

- **Investment:** Increase flexibility in responses through community-based systems that facilitate rapid and financially viable de-stocking to meet grazing capacity in case of droughts, provide
non-excessive fiscal incentives that help such adjustments without leading to over-stocking during good years.

- **Innovation:** Engage communities in sustainable rangeland management and set up public-private milk collection and marketing systems.
- **Integration:** Promote integration into global and national markets through better access conditions and establishment of agro-livestock centers at key locations such as Rakni, Quetta, Chamman, Dalbandin and Lasbela.
- **Institutions:**
  - Capacity: Improve information systems for pasture management;
  - Incentives: Promote grading systems that reward quality of produce.

### 2.8 CROPS AND FRUITS

2.22 The drought had also a detrimental impact on fruit and crop farming. Production volumes declined by about 7 percent annually between 1998/99 and 2002/03 (Figure 2.9). With the exception of rice, the production of the major crops and fruits is still below pre-drought levels. Beyond the fluctuating availability of water, inefficient use of water, lack of infrastructure, lack of certified and pure seeds, and the slow adoption of technology all contribute to low yields compared to other provinces and countries (PMR 2.204 to 2.212). These factors lead to a small agricultural enterprise sector. According to the 2001/03 Economic Census, out of Pakistan’s 46,378 agricultural companies, only 305 resided in Balochistan, and only 80 in rural Balochistan.

**Figure 2.9: Balochistan’s crop production and yields are low after the drought**

2.23 Raising agricultural productivity in a way that is consistent with water availability and environmental conditions is crucial for lowering rural poverty. While the government has already liberalized agricultural markets, key policy reforms are needed in the areas of water resources, research and extension, market development, and human capital (PMR 2.213 to 2.217).

- **Investment:** Increase funding of green-revolution technology and agricultural research on water-efficient crops, and expand vocational training centers at strategic locations.
- **Innovation:** Establish public-private partnerships for one-window agro-service centers.
- **Institutions (Capacity):** Improve capacity to meet food safety and animal and plant health measures of importing countries.
2.9 The Water Crisis

2.24 Water is the single most important constraint to developing rural Balochistan. In the past, expansions in irrigated agriculture through increases in canal-commanded areas and the spread of tubewells dominated Balochistan’s agricultural development. While this strategy has achieved notable successes, such as the growth of high value horticulture and increased yields, it favored one small part of the province over the rest, and is no longer sustainable. While some 87 percent of Pakistan’s total available water is found in the river system of the Indus basin, only 5 percent of Balochistan’s landmass is connected to the Indus basin, and the remaining 95 percent rely on non-perennial sources (Figure 2.10) (PMR 2.220 to 2.223). Excessive mining of groundwater has reduced the water table, as farmers are now pumping commonly beyond the depth of 250m. This has resulted in water deficits in some of the major basins with severe environmental consequences (PMR 2.224 to 2.226).

Figure 2.10: Balochistan utilizes only two-fifth of its water resources, and the growth in subsidized electric tubewells depletes the groundwater.

2.25 Balochistan is in urgent need for a new water strategy. Since 97 percent of Balochistan’s water use is by agriculture, any strategy to deal with the water shortage has to put this sector center stage. Balochistan’s water strategy should (PMR 2.234 to 2.248):

- **Investment:** Phase out tubewell subsidy, promote sailaba agriculture, high-efficiency irrigation systems, and construct storage dams to capture the presently unutilized floodwater;
- **Innovation:** Initiate pilot schemes for micro-irrigation techniques and encourage farmers to switch to water-efficient crops;
- **Integration:** Promote structural change and urbanization to shift water use away from agriculture;
- **Institutions:**
  - Capacity: Launch integrated water resource management through a sound watershed management plan with the medium-term objective of setting-up a Water Resource Management Authority;
  - Incentives: Increase abiana assessments and cost recovery, establish water entitlements for the 13 large basins.

Sources: Balochistan Irrigation & Power Department, and Agricultural Statistics of Pakistan
<table>
<thead>
<tr>
<th>Investment</th>
<th>Innovation</th>
<th>Integration</th>
<th>Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>Disseminate Geological Survey of Pakistan to attract private investment</td>
<td>Manage well provincial stake in mining companies</td>
<td>Encourage benefit sharing and industry clusters</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>Make use of gas rent transparent</td>
<td>Make use of gas rent transparent</td>
<td>Promote security and engage provincial-level oil and gas cell</td>
</tr>
<tr>
<td>Gwadar</td>
<td>Turn Gwadar into fully-fledged port</td>
<td>Pursue landport model</td>
<td>Leverage national export and import</td>
</tr>
<tr>
<td>Coastal Development</td>
<td>Invest in value chain and conduct fish stock assessment to encourage private investments; Launch shrimp farming as public-private partnership</td>
<td>Set up fish-processing city at Gwadar</td>
<td>Develop new fishing ports</td>
</tr>
<tr>
<td>Linking Enterprises</td>
<td>Promote sectors with comparative advantage</td>
<td>Promote cross-border trade with Afghanistan and Iran</td>
<td>Consolidate national highway network; Improve provincial roads through 3-point agenda and expand transport &amp; trade infrastructure</td>
</tr>
<tr>
<td>Rural Economy</td>
<td>Promote off-farm income generation and basic motorized access to underserved communities</td>
<td>Promote market integration through agro-livestock centers</td>
<td>Promote grading systems that reward quality of produce; Improve information systems for pasture management</td>
</tr>
<tr>
<td>Livestock</td>
<td>Provide practical fiscal incentives to adjust stock size to meet grazing capacity in case of droughts</td>
<td>Engage communities in sustainable rangeland management; Set up public-private milk collection and marketing systems</td>
<td>Promote market integration through agro-livestock centers</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Increase funding of green-revolution technology and agricultural research on water-efficient crops; Expand vocational training centers at strategic locations</td>
<td>Establish public-private partnerships for one-window agro-service centers</td>
<td>Improve capacity to meet sanitary and phyto-sanitary standards of importing countries</td>
</tr>
<tr>
<td>Water</td>
<td>Phase out tubewell subsidy; Invest in salamba agriculture and high-efficiency irrigation systems; Invest in floodwater storage dams for drought mitigation</td>
<td>Initiate pilot schemes for micro-irrigation techniques; Encourage farmers to switch to water-efficient crops</td>
<td>Increase structural urbanization and use of irrigation water away from agriculture</td>
</tr>
</tbody>
</table>

23
PART 3: DELIVERING SERVICES

3.1 Service delivery is at the center of Balochistan’s development agenda. Ensuring access to quality basic services improves living standards and makes sure the population is well-prepared for economic opportunities. It will involve greater transfers of resources for service delivery by government, donors, and communities alike. While it is difficult to calculate the required funding levels, it is certain that policy and institutional reforms are needed to ensure that the money is well spent. In many villages and communities around Balochistan, the government is falling short on its obligations in ensuring basic education and health outcomes, especially to poor people. This includes children who remain illiterate because they do not have a functioning school in their village. It also includes the expectant mother who does not receive prenatal care because she cannot afford the time or the fare to reach the nearest health center or because she considers it a waste of time based on the quality of services she receives. To meet this responsibility, governments and citizens need to make education, health, water, sanitation, energy, transport work for poor people (Table 3.1).

3.2 This chapter is organized as follows. The next section analyzes cross-cutting issues that limit the ability of Balochistan’s public administration to deliver good services, and the steps required to make the state an effective and accountable service provider. We then turn attention to education, and outline a strategy for improving educational outcomes through constructing more public schools, expanding private schools, improving school infrastructure and teacher qualifications, encouraging enrolment of girls, and boosting school accountability to parents and children. The fourth section looks at the health of Balochistan’s population, especially of children and mothers, and argues that sustained improvements in health outcomes will require addressing the low utilization of public health services, the lack of resources, the low coverage of essential services in remote areas, the lack of skilled women, weak governance, and incomplete devolution. Water supply and sanitation are also critical for family and environmental health, which requires resolving the present institutional confusion over service provision, and the piloting of alternative service delivery models and innovative community-based systems. Finally, social assistance programs can help households in Balochistan to deal with poverty through improved coverage, targeting, and administration.

3.1 TOWARDS AN EFFECTIVE AND ACCOUNTABLE STATE

3.3 In 2004/05, provincial user satisfaction with public services was worst in Balochistan in six out of seven services, and second-worst in the seventh. A number of cross-cutting issues limit the ability of Balochistan’s public administration to deliver good services, including the size and structure of the bureaucracy, the extent of merit-based recruitment, the quality of career management, the degree of administrative devolution, political fragmentation and tribal identity (PMR 3.9 to 3.17). For example, some 28 percent of the sanctioned posts in 2005 were of basic pay scale 1, indicative of the low skill-level of the bureaucracy, and the tenure of many secretaries is far below the recommended 3 years, suggesting a high degree of politicization of the civil service (Figure 3.1).
3.4 The Government of Balochistan can take some practical steps to make the state an effective and accountable service provider (PMR 3.29 to 3.36).

- **Innovation**: Publicize service utilization, quality, and satisfaction indicators to increase the incentives of policy-makers for better public goods provision, and vest post and transfer authority to high-ranking committee as pilot basis in education department.
- **Integration**: Provide monetary and career incentives to serve in remote districts.
- **Institutions**:
  - Capacity: Enhance capacity of key line departments through policy cells; improve human resource management through HRMIS;
  - Incentives: Institutionalize merit-based recruitment; devolve APT powers for grade 1 to 15/16; install deputation system for grade 17 or higher.

3.5 Balochistan’s education system is failing when some 700,000 out of 1,100,000 primary-school age children are not getting a chance to learn how to read and write. Children from rural areas make up only 70 percent of the children aged 5 to 9 attending school, but 87 percent of those not attending school. This low enrolment reflects low access in disadvantaged backgrounds, as well as the small number of private schools (PMR 3.42 and 3.43). Only 2 percent of households in cities commuted more than 30 minutes to get to the nearest school, similar to the share in other provinces. By contrast, in villages, it was one in five households in Balochistan, compared to less than one in ten in Punjab or NWFP. And almost one in ten rural households in Balochistan commuted for more than one hour (Figure 3.2). While the private sector enrolled in 2004/05 from 12 percent to 20 percent of the 5 to 9 year-old in the other provinces, it accounted for only 3 percent in Balochistan.
Figure 3.2: Balochistan’s private primary schools are few in-between and distance to schools is far in rural areas

Sources: PIHS 1998 and 2001/02, and PSLM 2004/05

3.6 The principle challenge for the province is to enhance the quality of education, while at the same time making sure that all children complete primary school. The strategy involves multiple responses, many of which are also relevant for post-primary education (PMR 3.61 to 3.71):

- **Investment**: Provide missing facilities to existing schools and open new schools according to specified criteria such as the population in the catchment area and the distance to the nearest facility;
- **Innovation**: Provide strong legal framework, competitive selection of implementation partners, and well-specified performance indicators for Balochistan Education Foundation, and pilot monthly stipends for girls enrolled in schools drawing on, for example, the successful model of the Punjab;
- **Integration**: Encourage coeducational schooling to improve the utilization of the limited school infrastructure, provide financial incentives and secure housing for female teacher recruitment from outside the communities;
- **Institutions**:  
  - Capacity: Improve human resource management through BEMIS, and upgrade teacher training;
  - Incentives: Make teacher appointments school-specific and merit-based, as for example in the contract teacher recruitment policies of Punjab and Sindh; institute a monitoring system of teacher performance.

3.3 **Making Health Services Reach Poor People**

3.7 While data weaknesses make an accurate assessment difficult, there is no doubt that Balochistan’s health and population outcomes are poor and improved at best slightly since the 1990s. For example, the 2003/04 infant and under-five mortality rates were 158 and 104 per 1,000 live births, similar to the levels of the mid-1990s. They also lag behind Pakistan’s, which in turn is among the worst performers in South Asia. While Balochistan’s health outcomes are unsatisfactory, increases in the coverage of essential health services from 2001/02 to 2006/07 suggest that improvements might be in the making (PMR 3.78 to 3.83). In particular, the full immunization rate of children aged 12 to 23 months increased from 24 percent in 2001/02 to 54 percent in 2006/07, and the share of pregnant women receiving pre-natal consultations increased from 21 percent to 31 percent. In addition, the gap between urban and rural areas declined (Figure
3.3). Higher funding supported this performance. Federal expenditure in the province in 2006/07 was twice as high as in 2001/02, and remained adequately focused on the programmatic interventions. However, the other provinces have seen similar improvements, and Balochistan’s health outcomes and service coverage still lack behind the rest of country, let alone the targets of the Millennium Development Goals (PMR 3.84).

Figure 3.3: Balochistan’s child and mother service indicators have improved since the late 1990s, but vacanyces and absenteeism remain high in rural areas

3.8 Sustained improvements in health outcomes will require addressing a long list of structural weaknesses, including the low utilization of public health services, the lack of resources, the low coverage of essential services in remote areas, the lack of skilled women, weak governance, and incomplete devolution (PMR 3.101 to 3.107).

- **Investment:** Define basic benefit package available across all health centers.
- **Innovation:** Pilot innovative modes of service delivery in remote districts such as the use of mobile units to deliver services; or a hub-and-spoke system with rural health centers serving as a hub for four to five basic health units that are managed by paramedical staff with regular supervision by physicians stationed at the hub; build public-private partnerships for health care delivery in areas such as provision of obstetrical services in remote districts, improving tuberculosis and acute respiratory infection case management, and contracting out hospital management to the private sector.
- **Integration:** Expand President's health initiative to underperforming districts.
- **Institutions** (Incentives): Strengthen merit-based recruitment along the lines of the NWFP model, and increase decision making powers of district managers.

3.4 SECURING HEALTH THROUGH IMPROVED WATER SOURCES

3.9 Water supply and sanitation play a crucial role in family and environmental health. Balochistan’s access to improved drinking water sources and sanitation has increased since the late 1990s. The share of households with drinking water from pipes and pumps rose from 33 percent in 1998/99 to 46 percent in 2006/07, and with flush toilets increased from 10 percent in 1998/99 to 25 percent in 2006/07. The modest advances have not come cheaply (PMR 3.111). For the last six years, Balochistan outspent the other provinces on water supply and sanitation, as might be expected in view of the higher cost of service delivery due to remoteness and arid terrain. Whatever the progress, Balochistan lags far behind the other provinces in the access to and quality of improved water sources, and there are large gap in coverage between urban and rural areas, and non-poor and poor households (Figure 3.4). Problems of low quality in water and
sanitation services are compounded by the poor management of these scarce resources due to weak accountability between citizens, policy-makers, and service delivery staff (PMR 3.113 to 3.119).

Figure 3.4: Balochistan’s improved water access lags far behind the other provinces, and TMAs, with the legal responsibility for municipal services, are grossly under-funded.

Table 3.4: Improved Source of Drinking Water and Sanitation

<table>
<thead>
<tr>
<th>Province</th>
<th>Top water and pump</th>
<th>Handpump</th>
<th>Borewell</th>
<th>UNFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balochistan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: PSLM 2006/07 and Budget 2006/07

3.10 The provincial government needs to establish clear institutional arrangements for water supply and sanitation services, and could consider piloting alternative service delivery models and innovative community-based systems for water and sanitation services (PMR 3.120 to 3.123).

- **Innovation**: Pilot community-based service delivery models, along the lines of the Lodhran Pilot Project in which communities and local governments are jointly involved in the planning and design of schemes, and share the responsibilities for operation and maintenance.

- **Institutions (Capacity)**: Establish clear institutional arrangements for delivery of water supply and sanitation by ideally transferring this responsibility to TMAs, in accordance with the provisions of the Local Government Ordinance; set up a management information system for the sector, drawing on the existing systems for education and health.

### 3.5 ASSISTING POOR PEOPLE THROUGH CASH TRANSFERS

3.11 Some groups are excluded from the benefits of economic developments. For example, children, the disabled, and ethnic minorities are often found to be vulnerable as economic, social, cultural and institutional barriers result in low living standards. Social assistance programs make some contribution in helping households in Balochistan to deal with poverty, but their impact is diminished due to low coverage, poor targeting and poor implementation. For example, only some 8 percent of households benefited from Zakat or Bait-ul Mal according to a 2004/05 World Bank Social Safety Net Survey (Figure 3.5), even though more than one quarter of Balochistan’s households are poor (PMR 3.125 to 3.127).
Figure 3.5: Poverty among Balochistan’s children increased more than among Balochistan’s adults, yet social assistance remains small in reach.


3.12 Social assistance programs, which complement other pro-poor policies such as health, education, micro finance, and rural infrastructure, can help making growth more sustainable and more equitable. Priority reforms include the following (PMR 3.128 to 3.130):

- **Innovation**: Evaluate, and scale-up in case of success, Bait-ul Mal’s cash transfer pilot which provides additional support to existing food support program beneficiaries conditional on their children regularly attending school;

- **Institutions**:
  - Capacity: Improve administrative efficiency through setting up of a management information system tracking applicants, beneficiaries, and payments;
  - Incentives: Pilot improvements of targeting through proxy means testing.
<table>
<thead>
<tr>
<th>Tabte 3.1: Instruments for Delivering Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment</strong></td>
</tr>
<tr>
<td><strong>Effective and Accountable State</strong></td>
</tr>
<tr>
<td><strong>Education</strong></td>
</tr>
<tr>
<td><strong>Health</strong></td>
</tr>
<tr>
<td><strong>Water and Sanitation</strong></td>
</tr>
<tr>
<td><strong>Social Assistance</strong></td>
</tr>
</tbody>
</table>

30
PART 4: FINANCING DEVELOPMENT

4.1 Development is far more than resources, but there is no development without resources. Part 2 and Part 3 have highlighted large financing needs in the economic, rural, and social areas. This section looks the capacity of Balochistan's public sector to mobilize the funding and execute the programs to meet these needs. Since the beginning of this decade, public spending increased strongly, and budgetary resources are now in excess of the levels during the 1990s (PMR 4.7 and 4.8). Compared to the trough of 1996/97, Balochistan's per capita expenditures increased by 40 percent in real terms to Rs. 5,100 per capita in 2005/06 (Figure 4.1). Development spending also rose sharply, especially once federal development spending is taken into account. Public spending rose in all provinces, but Balochistan's expenditure premium in per capita terms compared to the rest of the country remained. As part of this spending increase was based on expensive borrowing, Balochistan is now undergoing a difficult fiscal consolidation to lower the costs of debt servicing (PMR 4.13 to 4.15).

Figure 4.1: Balochistan's public expenditures have increased in the last few years, but some of the rise was debt-financed.

4.2 There are four challenges in terms of leveraging Balochistan's resources for economic development (Table 4.1). The province has already made good progress in a number of these areas. The first area is public expenditure management (PMR 4.16 to 4.18). While higher revenues funded a part of the spending increases, Balochistan has run fiscal deficits since 2002/03 as the rise in expenditures exceeded the rise in revenues. The province failed to reign in spending as federal transfers declined due lower gas-related payments. Balochistan covered the shortfall mostly through expensive borrowing from the State Bank of Pakistan, which in turn compromised its public debt management strategy by increasing debt servicing costs. Fortunately, the province began in 2006/07 to take a number of bold steps to exit the fiscal crisis, such as introducing no new schemes in the public sector development program and capping non-essential expenditures. The immediate priority remains to continue on this path. In addition, part of the fiscal strategy is to prioritize expenditures carefully. This involves looking at the sectoral allocation. Sectors like education, health and rural development, which are at the center of improving living standards for the bulk of the population, have benefited far less from the expenditure spree than sectors like transport and irrigation. Ensuring a close alignment of spending allocations with development priority is an important
priority going forward. Furthermore, the rise in budget envelopes brings to the fore structural weaknesses in budget processes and public sector capacity that undermine the effectiveness of public spending. They include an oversized development portfolio with many new schemes and a large throwforward, low expenditures on operations and maintenance (PMR 4.32 to 4.34).

- **Investment**: Review the size and composition of provincial PSDP, limit the number of new schemes, rationalize the tubewell and wheat subsidy, and continue to replace expensive Cash Development Loans with relatively inexpensive foreign loans;
- **Innovation**: Leverage public-private partnership to alleviate scarce public resources and improve efficiency;
- **Institutions** (Incentives): Improve systems for output and outcome monitoring and evaluation; all projects above a certain threshold size (e.g. Rs.10 million) be evaluated prior to implementation by external agencies, with funding for this evaluation earmarked in the project plan.

4.3 Second, weaknesses in public expenditures are compounded by deficiencies in public financial management and procurement, often linked to poor infrastructure (PMR 4.19 to 4.23). For example, only one of Balochistan’s 29 districts has a district account office. With donor assistance, the government has begun to implement reforms in the core areas of the budget process as well as in the oversight areas of external audit and legislative scrutiny (PMR 4.35).

- **Institutions** (Capacity): Set-up district account offices in all districts as well as the public procurement regulatory agency, and encourage public accounts committee to review audit reports on the basis of last-in-first-out.

4.4 Third, Pakistan’s fiscal devolution was launched with objective of improving service delivery through greater accountability of policymakers (PMR 4.24 to 4.29). Local governments encounter significant difficulties due to incomplete fiscal devolution, leading to sometimes visible tensions between district leaders and provincial politician. Much of the agenda for completing fiscal devolution rests with the provincial government. Balochistan has already announced, as Pakistan’s first province, a three-year Provincial Finance Commission Award, and launched an innovative performance grants scheme to districts and tehsil municipal administrations. The province should build on these initiatives to expand the fiscal space of local governments for meeting local development priorities (PMR 4.36 and 4.37).

- **Investment**: Give single-line transfers to districts, TMAs and unions;
- **Innovation**: Scale up performance grants to ensure alignment of local spending with provincial and national priorities;
- **Institutions** (Incentives): Devolve development budget under the PFC Award.

4.5 Fourth, careful expenditure management is one side of the coin. The other side is to increase provincial revenues. Transfers from the federal level have increased already through the 2006 amendment of the 1997 National Finance Award, as well as the rise in federal tax collection on the back of Pakistan’s economic growth. In addition, as Balochistan’s private sector expands with the ongoing uplift initiatives, the province has to continue improving its own-source collection. This will help to diversify Balochistan’s revenue base and send a strong signal about its prudent fiscal policies (PMR 4.38 and 4.39).

- **Investment**: Mobilize revenues from four main provincial taxes (AIT, UIPT, MVT and stamp duties);
- **Innovation**: Encourage peer learning about UIPT and stamp duties from Sindh and Punjab and MVT from NWFP.
### Table 4.1: Instruments for Financing Development

<table>
<thead>
<tr>
<th>Investments</th>
<th>Innovation</th>
<th>Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review size and composition of provincial PSDP; Limit number of new schemes; Rationalize tubewell and wheat subsidy; Replace expensive with inexpensive loans</td>
<td>Leverage public-private partnerships</td>
<td>Improve output and outcome monitoring and evaluation</td>
</tr>
<tr>
<td>Public Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pursue public financial management and procurement reform, including: set-up district account offices in all districts; set-up public procurement regulatory agency; and encourage public accounts committee to review audit reports on the basis of last-in-first-out</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Give single-line transfers to districts, TMAs and unions</td>
<td>Scale up performance grants to ensure alignment of local spending with provincial and national priorities</td>
<td>Devolve development budget under the PFC Award</td>
</tr>
<tr>
<td>Fiscal Devolution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobilize revenues from four main provincial taxes (AIT, UIPT, MVT and stamp duties)</td>
<td>Encourage peer learning on UIPT and stamp duties from Sindh and Punjab and MVT from NWFP</td>
<td></td>
</tr>
<tr>
<td>Own-Source Revenues</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.6 In conclusion, there are good reasons to be optimistic for Balochistan’s development. While much remains to be done, the province is already transforming for the better, and these changes will bring about tomorrows improvements in the lives of the population. The crucial challenge now is to learn from the successes and failures of the past decades, draw clear lessons, and improve policies to move Balochistan once and for all from the periphery to the core of economic development to the benefit of its people.
LIST OF BACKGROUND NOTES PREPARED FOR THE BALOCHISTAN ECONOMIC REPORT

1. Ahmad, Anjum and Madiha Ahmed. “Private Sector Development.”
11. Hasnain, Zahid. “Governance and Decentralization.”